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

FORM 20-F

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, 2022

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

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

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)

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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:

None.
(Title of Class)

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

<u>Title of each class</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	N/A*

* On January 23, 2023, the Company filed a Form 25 to delist its American Depositary Shares from the New York Stock Exchange. The delisting became effective on February 3, 2023, and the American Depositary Receipt program was terminated on March 6, 2023.

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

None.
(Title of Class)

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: 13,476,895,402 A Shares of par value RMB1.00 per share and 4,643,997,308 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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. Yes No

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). 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, or the Exchange Act. 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 66.52% interest in our Company as of March 31, 2023.

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”, “USD”, “\$” 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 = RMB6.9646, 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 30, 2022. 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.

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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
“Finance Company”	China 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, 2022. The selected consolidated income statement data (other than ADS data) for the three-year period ended December 31, 2020, 2021 and 2022 and selected consolidated statement of financial position data as of December 31, 2021 and 2022 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, 2018 and 2019 and selected consolidated statement of financial position data as of December 31, 2018, 2019 and 2020 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.

	2022 US\$	Year ended December 31,				
		2022 RMB	2021 RMB	2020 RMB	2019 RMB	2018 RMB
Consolidated Income Statement Data						
Operating revenue	12,500	87,059	101,644	92,561	154,322	143,623
Operating expenses	(16,550)	(115,262)	(116,340)	(109,111)	(148,608)	(140,242)
Operating (loss)/profit	(3,237)	(22,542)	(9,929)	(11,864)	10,838	8,819
(Loss)/profit before income tax	(4,530)	(31,550)	(13,910)	(15,195)	4,055	4,364
(Loss)/profit for the year	(4,841)	(33,716)	(11,016)	(11,827)	3,084	3,364

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(Loss)/profit attributable to:						
Equity shareholders of our Company	(4,695)	(32,699)	(12,106)	(10,847)	2,640	2,895
Non-controlling interests	(146)	(1,017)	1,090	(980)	444	469
Basic and diluted (loss)/earnings per share	(0.27)	(1.90)	(0.75)	(0.77)	0.22	0.27
Basic and diluted (loss)/earnings per ADS (1)	(13.64)	(95.03)	(37.36)	(38.58)	10.76	13.50
Other Financial Data						
Cash dividends declared per share	-	-	-	-	-	0.05

- (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.

	2022 US\$	2022 RMB	As of December 31,			
			2021 RMB	2020 RMB	2019 RMB	2018 RMB
Consolidated Statement of Financial Position Data:						
<i>(in million, except per share and per ADS data)</i>						
Cash and cash equivalents	2,856	19,889	21,456	25,419	1,849	6,928
Total current assets, excluding cash and cash equivalents	1,948	13,565	16,410	13,566	14,889	17,144
Property, plant and equipment, net	12,997	90,517	91,186	86,146	84,788	170,692
Right-of-use assets	18,946	131,954	138,439	151,065	153,211	-
Total assets	44,833	312,246	323,211	326,383	306,928	246,949
Current borrowings	12,253	85,336	57,913	40,099	37,543	38,741
Current portion of obligations under finance leases	-	-	-	-	-	9,555
Non-current borrowings	4,946	34,444	38,354	38,134	13,637	15,676
Obligations under finance leases, excluding current portion	-	-	-	-	-	62,666
Lease liabilities	13,606	94,762	102,749	121,213	134,074	-
Total equity	7,949	55,359	84,508	85,131	77,329	78,469
Number of shares (in million)	18,121	18,121	16,948	15,329	12,267	12,267

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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,				
	2022	2021	2020	2019	2018
Capacity					
ASK (million)	153,845	213,922	214,722	344,062	314,421
ATK (million)	26,222	33,518	33,892	46,434	42,728
Kilometers flown (thousand)	994,380	1,317,850	1,304,667	1,875,520	1,762,920
Hours flown (thousand)	1,557	2,110	2,077	2,951	2,773
Number of landing and take-offs	601,540	843,320	822,459	1,117,880	1,069,430
Traffic					
RPK (million)	102,078	152,426	153,440	284,921	259,194
RTK (million)	16,384	21,209	20,805	32,625	30,334
Passengers carried (thousand)	62,636	98,505	96,856	151,632	139,885
Cargo and mail carried (tons)	1,326,640	1,141,950	1,460,825	1,763,560	1,732,280
Load Factors					
Passenger load factor (RPK/ASK) (%)	66.4	71.3	71.5	82.8	82.4
Overall load factor (RTK/ATK) (%)	62.5	63.3	61.4	70.3	71.0
Yield					
Yield per RPK (RMB)	0.59	0.49	0.46	0.49	0.49
Yield per RFTK (RMB)	2.83	2.58	2.27	1.27	1.33
Yield per RTK (RMB)	4.94	4.49	4.18	4.54	4.55
Fleet					
- Boeing	466	469	469	467	460
- Airbus	402	391	383	375	354
- Others	26	18	15	20	26
Total aircraft in service at period end	894	878	867	862	840
Average daily utilization rate (hours per day)	5.04	6.96	7.02	9.96	9.73

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Summary of Risk Factors

Below please find a summary of the principal risks we face, organized under relevant headings.

Risks Relating to the PRC

- The enactment of the Holding Foreign Companies Accountable Act and identification of the Company by the SEC will result in enhanced disclosure requirements for us.
- 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.

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- Uncertainties with respect to the PRC legal system may cause significant uncertainties to our operations.
- Any actions by the Chinese government may cause us to make material changes to our operations and could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Risks Relating to our Business

- The outbreak and global spread of the COVID-19 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.
- 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.
- Any disruption of the provision of services by CSAH or its affiliates could affect our operations and financial condition.
- 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 results of our operations are also significantly exposed to fluctuations in foreign exchange rates.
- We have significant committed capital expenditures in the next three years, and may face challenges and difficulties in maintaining our liquidity.
- Unfavorable economic conditions, in China and globally, could affect the demand for air travel.
- Lack of adequate documentation for land use rights and ownership of buildings may subject us to challenges and claims by third parties.
- The travel industry continues to face on-going security concerns and cost burdens.
- We may suffer losses in the event of an accident involving our aircraft or the aircraft of any other airline.
- The mandatory grounding of our Boeing 737 Max fleet may have a material adverse effect on our business, operating results and financial condition.
- We are subject to stringent laws and contractual obligations related to data privacy and cybersecurity, and we may be exposed to risks related to our management of personal information and other data.
- Evolving data security and cybersecurity 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.

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- We may be unable to retain our senior management team or other key employees.
- Our results of operations may be negatively impacted by any jet fuel shortages or any fluctuation in domestic prices for jet fuel.
- Our profit for the year may suffer from unexpected volatility caused by any fluctuation in the level of fuel surcharges.

Risks Relating to the Chinese Commercial Aviation Industry

- Our business is subject to extensive government regulations.
- Our results of operations tend to be volatile and fluctuate due to seasonality.
- Our operations may be adversely affected by insufficient aviation infrastructure in the Chinese commercial aviation industry.
- We face increasingly intense competition in both domestic and international markets.
- We expect to face substantial competition from alternative means of transportation, especially as a result of the rapid development of the Chinese rail network.
- Limitations on foreign ownership of Chinese airlines may affect our access to funding in the international equity capital markets.
- The commercial aviation industry is subject to risks associated with climate change, including the increasingly stringent environmental regulation to protest against emissions. Failure to comply with existing or future environmental regulations or to otherwise manage the risks of climate change effectively could have a material adverse effect on our business.
- We may utilize fuel hedging arrangements which may result in losses.

Risks Relating to the PRC

The enactment of the Holding Foreign Companies Accountable Act and identification of the Company by the SEC will result in enhanced disclosure requirements for us.

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 required to file reports under section 13 or 15(d) of the Exchange Act 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 Public Company Accounting Oversight Board, or 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 Commission-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 a Commission-Identified Issuer for three consecutive “non-inspection” years, it will be delisted from U.S. exchanges and its securities will be prohibited from trading in the United States. Commission-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.

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On March 24, 2021, the SEC adopted interim final amendments to implement the disclosure and submission requirements of the HFCAA. On December 2, 2021, the SEC adopted amendments to finalize its rules implementing the HFCAA.

On December 16, 2021, the PCAOB issued a report on its determinations that it was unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong because of positions taken by PRC authorities in those jurisdictions (“PCAOB-Identified Firm”).

Our auditor is an independent public accounting firm registered with the PCAOB that is headquartered in mainland China, and was therefore a PCAOB-Identified Firm under the PCAOB 2021 determinations. On May 26, 2022, we were identified in the conclusive list of issuers under the HFCAA as our auditor was a PCAOB-Identified Firm, and we will be required to comply with the submission and disclosure requirements in the annual report for each year in which we are identified.

On August 26, 2022, the PCAOB, the CSRC and the Ministry of Finance of the PRC signed a Statement of Protocol governing inspections and investigations of audit firms based in mainland China and Hong Kong, which established a framework to make possible complete inspections and investigations by the PCAOB of audit firms headquartered in mainland China and Hong Kong.

On December 15, 2022, the PCAOB determined that it was able to inspect and investigate completely registered public accounting firms headquartered in mainland China and Hong Kong in 2022, and vacated its previous 2021 determinations to the contrary. However, whether the PCAOB will continue to be able to conduct complete inspections and investigations of registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainties and depends on a number of factors out of our control. The PCAOB has indicated that it will act immediately to issue new determinations pursuant to the HFCAA if needed.

On December 29, 2022, the President signed the Consolidated Appropriations Act, 2023, which, among other things, amended the HFCAA to reduce the number of consecutive years, from three years to two years, an issuer can be identified as a Commission-Identified Issuer before the SEC must impose an initial trading prohibition on the issuer’s securities. Therefore, once an issuer is identified as a Commission-Identified Issuer for two consecutive years, the SEC is required under the HFCAA to prohibit the trading of the issuer’s securities on a national securities exchange and in the over-the-counter market.

Based on the latest PCAOB determination in 2022, our auditor is no longer a PCAOB-Identified Firm and we do not expect to be identified by the SEC under the HFCAA in 2023 after filing of this annual report. In addition, we have voluntarily delisted our ADSs from the NYSE, which has become effective from February 3, 2023, and have terminated our ADS program, which has become effective from March 6, 2023. We also intend to file Form 15F to deregister our ADSs and the underlying H Shares and terminate our reporting obligations under the Exchange Act once the criteria for deregistration have been satisfied. Therefore, we do not expect to be subject to the submission and disclosure requirements in the annual report for the year of 2023, even if we have not filed a Form 15F before April 30, 2024 and are still required to file the annual report for the year of 2023, or to be subject to the trading prohibitions under the HFCAA as our ADSs are already no longer traded in U.S. from March 6, 2023. However, we cannot guarantee you that the SEC will not continue to identify us under the HFCAA or that Form 15F to be filed will not be delayed, withdrawn or denied. If, before the deregistration of our ADS and underlying H Shares become effective, the PCAOB issues new determination to re-identify our auditor as the PCAOB-Identified Firm or the SEC continues to identify us under the HFCAA in the future, we may still be subject to the submission and disclosure requirements for the annual report for each year in which we are so identified.

Whether our investors in the U.S. who rely on our auditor’s audit reports will have the benefit of PCAOB oversight in the future is subject to uncertainty.

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 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 has at times identified deficiencies in the audit procedures and quality control procedures of accounting firms during its inspections of these firms. Such deficiencies may be addressed in those accounting firms’ future inspection process to improve their audit quality. However, in the past, the PCAOB was 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 was located in China. Accordingly, our independent registered public accounting firm’s audit of our operations in China was not subject to PCAOB inspection.

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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 deregistration from the SEC.

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.

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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 with respect to the PRC legal system 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. As these laws, regulations and legal requirements are relatively recent and the PRC legal system continues to evolve quickly, these laws, regulations and legal requirements, like other laws, regulations and legal requirements in China (including with respect to the commercial aviation industry), can change quickly and their interpretation and enforcement involve significant uncertainties.

Any actions by the Chinese government, including any decision to influence our operations or to exert more oversight and control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to our operations and could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

The Chinese government has exercised and continues to exercise significant oversight and regulation over almost every sector of the Chinese economy, including the commercial aviation industry, and has discretion over many aspects in which it exercises such authority. Our operations are subject to various regulatory requirements. The Chinese government, including various political and regulatory entities, may also impose new and stricter regulations or impose new interpretations of existing regulations and take other actions that may influence our operations, and may seek to exert more oversight and control over any offering of securities conducted overseas and/or foreign investment in China-based issuers such as ourselves. These government actions, including changes in laws and regulations, particularly those relating to aviation, overseas listing, taxation, land use rights and foreign investment, may result in a material change in our operations and the value of our securities. See also Item 5. “- Key Factors Affecting Results of Operations - Political and economic conditions and regulations”.

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.

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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 need 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.

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.

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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 under 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 geopolitical 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 a 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, sanctions, 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 geopolitical 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.

Risks Relating to our Business

The outbreak and global spread of the COVID-19 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. Beginning from 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 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 has decreased 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 January 2020, the central and local governments of China gave top priority to protecting people's life and health and implemented corresponding COVID-19 control policies and measures including traveling restrictions and "stay at home" instructions and advisories. As a result, the demand for domestic air travel declined at a rapid pace in China, which is our primary market. See "Item 4. Information on the Company - Business Overview - Route Network" and "Item 5. Operating and Financial Review and Prospects - Operating Results" for additional discussion.

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Following the onset of the COVID-19 pandemic, governments around the world implemented various measures, including enhanced screenings, vaccination requirements, 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. Due to these measures, the international travel demand reduced significantly, 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 in 2022 were materially adversely affected. The Group's RTK for the year ended December 31, 2022 decreased by 22.75% as compared to 2021. In 2022, total passenger capacity (measured by ASK) and RPK of the Company decreased by 28.08% and 33.03%, respectively, as compared to 2021. Passenger capacity and RPK for international routes decreased by 3.02% and increased by 21.32%, respectively, as compared to 2021. Revenue per seat kilometer reduced. As a result, the Company recorded a loss in the operating results for the year of 2022.

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

In response to the adverse changes in operational environment caused by the outbreak and duration 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. Beginning in 2020, we implemented various measures to adjust our operational capacity. In addition, we intensified our efforts to fully implement precautionary measures. Those precautionary measures increased our operational cost. The mitigation and cost-saving measures that we implemented since 2020 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.

- ***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 December 2022, the Chinese government has modified its COVID-19 control policy, and most of the travel restrictions and quarantine requirements have been lifted. On January 8, 2023, CAAC removed the restrictions on international flights from and to China and limitations on the number of international routes and flights each airline in China could operate. We have seen our recovery from the impact of the COVID-19 pandemic for both domestic and international markets, but we are not able to predict the pace of such recovery. The impact of COVID-19 pandemic on us in the future will depend on future developments which are highly unpredictable and beyond our control, such as the frequency, duration and severity of the resurgence of COVID-19 and the emergence of new variants, as well as the measures that may be taken by governments around the world in response to these developments, the impact of the pandemic on the global economy and the measures taken by governments to stimulate the general economy. Therefore, we cannot guarantee that the pandemic will not continue to have an adverse effect on our business and results of operations in the future, which may be material.

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. A permanent change in customer's behavior and perception of travel could have a material impact on our business.

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As discussed above, the extent of the impact of the COVID-19 pandemic on our future 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 66.52% of our equity stake as of March 31, 2023. The ownership interest 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 shareholders, 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 August 10, 2022, a total number of 368,852,459 of H Shares were issued at HK\$4.88 per share to Nan Lung, a wholly-owned subsidiary of CSAH, and on November 24, 2022, a total number of 803,571,428 A Shares were issued at RMB5.60 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 64.20% to 66.52%.

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 a certain amount of demand deposits with Finance Company, a PRC authorized financial institution controlled by CSAH. We have taken certain measures to monitor the fund flows between us and Finance Company and the placement of funds by Finance Company. Such monitoring measures may help to keep our deposits with Finance Company 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 Finance Company were secure and that Finance Company would continue to operate in strict compliance with the relevant rules and regulations. However, the deposits may be exposed to risks associated with Finance Company's business over which we do not have control. As of December 31, 2021 and 2022, we had deposits of RMB12,621 million and RMB14,118 million, respectively, with Finance Company.

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.

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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. A net exchange loss of RMB3,619 million was recorded in 2022, as compared with a net exchange gain of RMB1,575 million in 2021. The net exchange loss in 2022 was primarily attributable to the exchange difference arising from the translation of lease liabilities denominated in USD resulting from the depreciation 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, 2022, our current liabilities exceeded our current assets by RMB108,004 million. The Group generated net cash inflow from operating activities of RMB7,688 million for the year ended December 31, 2021 and recorded net cash outflow of RMB2,450 million from operating activities for the year ended December 31, 2022. 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 2022 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, 2022, we had committed banking facilities with several PRC commercial banks and other financial institutions for providing loan financing up to approximately RMB320,530 million, of which approximately RMB223,729 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.

In addition, certain of our Group's banking facilities are subject to the fulfilment of covenants relating to certain financial ratios, as are commonly found in lending arrangements with financial institutions. If our Group was to breach the covenants, the drawn down facilities would become payable on demand. We regularly monitor our compliance with these covenants. In 2021, our Group complied with all the financial covenants attached to certain of our borrowings. As at December 31, 2022, for short-term borrowings with an aggregate amount of RMB27,400 million, the loan covenants relating to certain financial ratios were breached. Our Group has obtained waiver from the respective financial institution, pursuant to which, such financial institution will not require us to repay the borrowings until the due dates and will maintain the credit facilities granted to us. However, there can be no assurance that we can always obtain such waiver if our Group was to breach the covenants in the future, and our liquidity and operations would be materially and adversely affected if we have to repay the borrowings on demand upon any potential breach of such covenants.

Further, our US dollar-denominated lease liabilities mainly 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 to mitigate our interest rate risk. We also had entered into cross currency swaps previously, which were all terminated in 2021. 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.

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On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates the process of establishing LIBOR), or FCA, announced that the sustainability of LIBOR cannot be guaranteed. The ICE Benchmark Administration (the current administrator of LIBOR), or IBA, announced on March 5, 2021 that it will permanently cease to publish most LIBOR settings beginning on January 1, 2022 and cease to publish the overnight, one-month, three-month, six-month and 12-month U.S. dollar LIBOR settings on July 1, 2023. Accordingly, the FCA has stated that it does not intend to persuade or compel banks to submit to LIBOR after such respective dates. Until such time, however, FCA panel banks have agreed to continue to support LIBOR.

Significant recommendations as to alternative rates and as to protocols have been advanced, and continue to be advanced, by various regulators and market participants, including the Alternative Reference Rates Committee of the United States Federal Reserve (“ARRC”), the International Swaps and Derivatives Association (“ISDA”), the FCA and the U.S. Congress, and legislative action by the State of New York, but there can be no assurance that the various recommendations or legislative action will be effective at preventing or mitigating disruption as a result of the transition. In particular, for U.S. dollar LIBOR, the ARRC has selected the Secured Overnight Financing Rate (“SOFR”) as its preferred replacement benchmark and has formally recommended, in limited cases, a term rate based on SOFR; both ARRC and ISDA have taken significant steps toward implementing various fallback provisions and protocols. However, the market transition away from LIBOR to alternative reference rates, including SOFR, is complex and could result in disruptions, among other things, due to differences between LIBOR (an unsecured forward-looking term rate) and alternative rates that are based on historical measures of overnight secured rates; due to failure of market participants to fully accept such alternative rates; or due to difficulties in amending legacy LIBOR contracts or implementing processes for determining new alternative rates.

SOFR is a broad Treasury repo financing rate that represents overnight secured funding transactions and is not the economic equivalent of U.S. dollar LIBOR. While SOFR is a secured rate, U.S. dollar LIBOR is an unsecured rate. And, while SOFR is currently only an overnight rate, U.S. dollar LIBOR is a forward-looking rate that represents interbank funding for a specified term. As a result, there can be no assurance that SOFR will perform in the same way as U.S. dollar LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, bank credit risk, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. For the same reasons, SOFR is not expected to be a comparable replacement for U.S. dollar LIBOR.

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 are 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. The discontinuance of LIBOR may result in uncertainty or differences in the calculation of the applicable interest rate or payment amount on certain assets or liabilities we hold whose value is tied to LIBOR, and adversely affect their value. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of such assets or liabilities. See also the discussion of interest rate risk in Part I, Item 11. Quantitative and Qualitative Disclosures About Market Risk – “Interest Rate Risk.”

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. Although the Chinese economy grew by 3.0% in 2022 (8.4% in 2021 and 2.2% in 2020), the rate of growth was significantly lower than in previous years, and we can not assure you that growth will not continue to slow in the future. In particular, the outbreak of the COVID-19 pandemic in January 2020 and its continuing duration has adversely affected the economic conditions in China and globally and disrupted air travel. See “Item 3. Key Information - Risk Factors - The outbreak and global spread of the COVID-19 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”. Since December 2022, the Chinese government has modified its COVID-19 control policy, and most of the travel restrictions and quarantine requirements have been lifted. While we expect that these actions will reduce the impact of COVID-19 on the growth of Chinese economy, it remains uncertain as to the growth rate of the Chinese economy in the future. 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.

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The global macroeconomic environment is also facing challenges. The outbreak of COVID-19 pandemic has 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. UK formally withdrew from the EU on January 31, 2020, and the transition period ended 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, 2021 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 that 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 cannot 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.

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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, a significant increase in security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and a 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 the 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 a material adverse effect on 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 adversely affect the public perception generally of the airline industry, reduce demand for air travel and/or lead to further regulation and costs imposed on the airline industry generally, 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, 2022, 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, Mexico and China. In December 2021, CAAC put forward instructions regarding the Boeing 737 Max aircraft that paved the way for the Boeing 737 Max's return to service in China. As of the date of this Annual Report, we have completed all the preparation work for the Boeing 737 Max's return to service as required by CAAC. We determine the number of the Boeing 737 Max aircraft returned to service based on our operational needs. 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.

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In 2021, based on further negotiation between two parties, Boeing Company agreed to provide consideration in connection with the disruption of our Boeing 737 Max fleet. However, as of the date of this Annual Report, it remains uncertain whether such consideration can be fully provided by Boeing Company. If we are not able 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 are subject to stringent laws and contractual obligations related to data privacy and cybersecurity, and we may be exposed to risks related to our management of personal information and other data.

The regulatory environment in China and elsewhere as it relates to the collection, use, transfer, and other processing of data, “important data,” and personal data and other types of information is rapidly evolving and is likely to remain uncertain for the foreseeable future. Regulatory authorities in China have implemented a number of new laws and administrative measures that could impose significant obligations on us, adversely impact our operations or impede our ability to transfer or share information with foreign regulators and others inside and outside of China. For more information on such laws and measures, see “- Chinese Data Privacy and Cybersecurity Laws.”

We routinely receive, collect, store, process, transmit and maintain personal information along with other sensitive data. We may also receive, store, process, generate, control, or otherwise have access to “important data” in our businesses. As such, we are subject to the relevant PRC data security, cyber-security, and personal data protection privacy laws, regulations, and standards that apply to the collection, generation, use, retention, protection, disclosure, transfer and other processing of personal information and “important data”. Based on the size of our Company, the industry sectors in which we operate, and the fact that we are also listed abroad, we expect to be subject to heightened scrutiny and obligations with regard to cybersecurity, data security, and the protection of personal information once all the relevant regulations and rules have been promulgated. Under certain circumstances, we could become subject to cybersecurity review or data security review by the Cyberspace Administration of China, or the CAC, or other related governmental regulatory authorities. We are also subject to contractual obligations regarding the processing of personal information. Legal requirements regarding data protection and privacy continue to evolve and may result in ever-increasing public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance.

Due to, among other things, our Company’s size and importance in the aviation sector, our involvement in transportation infrastructure, and the fact that we routinely collect and transfer passenger data that may be considered personal information, we expect that we will become subject to a cybersecurity review or data security review in the normal course of regulatory oversight by the CAC or other authorities. However, as of the date of this report, there remains uncertainty about how and when such reviews will take place in practice, as the practical implementation of detailed requirements, procedures and standards of the cybersecurity review or data security review remain unclear and their interpretation and enforcement involve uncertainties. We will continue to assess the impact of cybersecurity and personal information protection laws on our business. We are not aware of any significant difficulties in obtaining relevant permits from the CAC or other related governmental regulatory authorities, including the government security assessment under the Measures for the Security Assessment of Cross-border Data Transmission, or MSACDT. If we become subject to a cybersecurity review or data security review, we may be required to suspend cross-border data transfer or take other preventative and risk-mitigating measures during the review process, which may affect our daily operations; moreover, we cannot guarantee that we will be able to obtain relevant permits, the government security assessment under the MSACDT, in a timely manner or at all. If we are subject to a cybersecurity review or data security review (including the government security assessment under the MSACDT), and are not able to obtain relevant permits in a timely manner or at all, this could significantly limit our ability to use and transfer personal, important and other information, and could also restrict or completely hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or become worthless. Furthermore, cybersecurity review and/or data security review processes could also result in negative publicity with respect to the Company and diversion of our managerial and financial resources, which could materially and adversely affect our business, financial condition, and results of operations.

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In addition, failure to comply with any of these laws, or failure or delay in the completion of the cybersecurity review or data security review procedures, could result in enforcement action against us, including investigations, civil, administrative, and criminal enforcement action, fines, administrative penalties, suspension of business, website closure, revocation of prerequisite licenses, imprisonment of company officers and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse effect on our business, financial condition and results of operations.

We have established procedures to protect the confidentiality of the personal information and “important data” we receive, store, process, generate, or otherwise have access to or control over. While we have adopted security policies and measures to protect our proprietary data, important data, and data subjects’ privacy, personal information or important information could be subject to leaks caused by hacking activities, human error, employee misconduct or negligence or system breakdown. We also cooperate with third parties including collaboration partners, airports, ground service agents, aviation sales agents and other third-party contractors and consultants for our operations. Any leakage or abuse of personal data or important data by our third-party partners may be perceived by relevant regulators or the data subjects to have resulted from a failure by us. Furthermore, any change in applicable laws and regulations or the enforcement thereof could affect our ability to use data we process as part of our operations and subject us to liability for the use of such data for previously permitted purposes. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of information security that results in the unauthorized release or transfer of personally identifiable information, important data, or other data, could cause our customers or regulators to lose trust in us and could expose us to legal claims or other sanctions. See “- Evolving data security and privacy cybersecurity 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.”

As of March 31, 2023, we had not been involved in any reviews or investigations relating to cybersecurity or data security initiated by the CAC or related governmental regulatory authorities, and we had not received any inquiry, notice, warning, or sanction in such respect. We believe that we are currently in compliance with the regulations and policies that have been issued by the CAC governing the data privacy and cybersecurity.

The PRC Data Security Law, or the DSL, and the PRC Personal Information Protection Law, or the PIPL, also contain provisions restricting our ability to share personal, important, and other information with foreign regulatory or judicial authorities. These provisions could affect our ability to respond to requests or demands for information from such authorities, including the border control authorities of the country of destination, the SEC, or in judicial proceedings.

Evolving data security and cybersecurity 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. We were the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

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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 information, important data 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.

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 schedules, 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.

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 2022. 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.

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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 our 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.

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 prices for jet fuel have experienced fluctuations in the past few years and may continue to fluctuate in the future due to various factors. In March 2022, due to a number of factors including geopolitical conflicts, reduction of crude oil production and recovery of the economy, international oil prices climbed to the highest point since 2008. As a result, the international crude oil prices for the entire year of 2022 were at a relatively high level as compared to recent years. In 2022, our jet fuel cost accounted for 63.76% of our flight operation expenses, and such increase in the fuel price negatively affected our financial performance due to our sensitivity to fuel prices. For more information on jet fuel prices, please see “Item 4. Information on the Company - Business Overview - Jet Fuel” section below for further discussion.

In 2022, 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 RMB3,267 million. Accordingly, even if the jet fuel supply remains stable, increases in jet fuel prices will nevertheless adversely impact our financial results.

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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 in 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 a 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 adjusted the fuel surcharges for domestic routes from November 5, 2021 (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 and 800 kilometers, and RMB20 for domestic flight segments (including domestic segments of international routes) above 800 kilometers. We cannot guarantee that fuel surcharges will not be adjusted further in the future or adjusted in our favor. If fuel surcharges are not adjusted in relation to the increase in jet fuel costs, our profit for the year may be materially adversely affected.

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. From 2020 to 2022, in order to stem the spread of the COVID-19 pandemic, the 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, the 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. On January 8, 2023, CAAC removed the restrictions on international flights from and to China and limitations on the number of international routes and flights each airline in China could operate. 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, the 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 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 has become less notable during the period from 2020 to 2022 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 increasing 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 move 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 a longer commute time is therefore required between the airport and the city, we had to implement certain promotion activities, including but not limited to lowering ticket prices and distributing discount coupons for ground transportation, to attract passengers to take our flights from the Daxing Airport. We expect to continue implementing such promotion activities for an extended period of time. These measures may have an adverse effect on our operating revenue and profits if we have to continue offering lower prices 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 a relaxation of certain regulations by the CAAC and increase in the capacity, routes and flights of Chinese airlines, as well as other factors. Beginning from 2020, the COVID-19 pandemic has intensified such competition in the domestic market as a significant amount of international routes capacity was transferred to domestic routes and led to an 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.

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 2022 reached about 4,100 kilometers. As of December 31, 2022, China's railway traffic mileage reached 155,000 kilometers, of which about 42,000 kilometers were covered by high-speed railway, ranking first around the world in terms of total high-speed railway traffic mileage. According to the latest development goal of China Railway, China's railway traffic mileage will reach 200,000 kilometers by 2035, of 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) have been adversely affected, and we expect the continued development of the high speed rail network will continue to adversely affect our operating results 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 March 31, 2023, we estimate that no more than 11.01% of our total outstanding ordinary shares were held by non-PRC, Hong Kong, Macau and Taiwan residents. Through the Provisions on Domestic Investment in Civil Aviation Industry, effective on January 19, 2018, the 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 commercial aviation industry is subject to risks associated with climate change, including the increasingly stringent environmental regulation to protest against emissions. Failure to comply with existing or future environmental regulations or to otherwise manage the risks of climate change effectively could have a material adverse effect on our business.

As the climate change challenges remain a key focus area globally, the environmental regulation development and implementation have been constantly evolving and changing over the past decade. Our operations are subject to extensive and increasingly stringent national, local and international laws governing environment protection. Compliance with existing and future environmental laws and regulations could increase our operational costs, and violations of such laws and regulations could result in significant fines and penalties as well as reputational harm. Such regulation could also result in tax, regulatory or permitting requirements from multiple jurisdictions for the same operations and costs for the aviation industry, including us. In addition to direct costs, such regulation may increase fuel costs passed through from fuel suppliers regulated by any such regulations. For more details, see “Item 4. Information on the Company - Business overview - Regulation - Environment”.

For example, the European Emissions Trading Scheme may increase our operational cost. Starting on January 1, 2012, the 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 a few flights between airports within the EU since 2012, and expect to continue to operate a 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. 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. For the year 2019-2020 compliance cycle, our Company had been in compliance with the requirements of relevant PRC laws and the ETS. In 2021, we also participated in the UK ETS in addition to the EU ETS. The compliance work for 2022 is ongoing and will be carried out pursuant to relevant requirements. During the reporting period, the Company continued to implement environmental protection measures. For more details, see “Item 4. Information on the Company - Business Overview - Environment”. However, there can be no assurance that the ETS will not have negative impact on our financial condition and result of operations.

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While the specific nature of future actions relate to climate change is hard to predict, it is likely that they could impose significant additional costs on our operations and affect our business.

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. We entered into fuel hedging contracts in March and April 2020, and we have not entered into any fuel hedging transactions since the fourth quarter of 2020. 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 you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

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.

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.

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 effected 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.

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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 representing H Shares 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%.

On January 23, 2023, we filed a Form 25 to delist our ADSs from the New York Stock Exchange. The delisting became effective on February 3, 2023, and our ADR program was terminated on March 6, 2023.

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 were 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.

Bonus Shares Issuance by Conversion of Share Premium

On June 25, 2008, our shareholders approved the issuance of bonus shares by way of conversion of the 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 10 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 April 26, 2017, we entered into an aircraft purchase agreement with Airbus S.A.S to purchase 20 A350-900 series aircraft. The catalogue price of one A350 series aircraft is approximately US\$299 million. The aggregate consideration for the purchase 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 us in 2019 and two A350-900 series aircraft were delivered to our Company in 2020. In 2021, four A350-900 series aircraft were delivered to us. In 2022, four A350-900 series aircraft were delivered to us. The remaining four A350-900 aircraft were scheduled to be delivered to our Company during 2023.

On October 20, 2017, we entered into an aircraft purchase 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 approximately US\$318 million and US\$104 million, respectively. The aggregate consideration for the purchase will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The 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 a supplemental Boeing aircraft purchase agreement with Boeing to amend the terms of the aforesaid aircraft purchase 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 us on schedule in 2020. None of Boeing 737-8 series aircraft was delivered to our Company from 2019 and 2021. As of the date of this Annual Report, the delivery schedule of the remaining Boeing 737-8 series aircraft had not been determined.

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On March 21, 2018, Xiamen Airlines entered into a Boeing Aircraft purchase agreement with Boeing to purchase the 20 B737-8 aircraft and 10 B737-10 aircraft. The catalogue price of each B737-8 series aircraft and B737-10 series aircraft is approximately US\$104 million and US\$116 million, respectively. The aggregate consideration for the purchase will be partially funded by financing arrangements with banks or other institutions. The 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 but no Boeing 737-8 series aircraft was delivered to Xiamen Airlines in 2020 and 2021. 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 purchase 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 purchase 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, four ARJ21-700 aircraft were delivered in stages to our Company in 2021 and eight ARJ21-700 aircraft were delivered in stages to our Company in 2022. The remaining 20 ARJ21-700 aircraft were scheduled to be delivered to our Company during the period from 2023 to 2024.

On July 1, 2022, we entered into an aircraft purchase agreement with Airbus S.A.S to purchase 96 A320NEO family aircraft. The catalogue price of each A320NEO family aircraft is in the range between US\$105 million and US\$136 million. The aggregate consideration for this purchase will be partially funded by internal resources of the Group and partly through loans or other finance arrangement with banks or other institutions. The 96 A320NEO aircraft are scheduled to be delivered in stages to our Company during the period from 2024 to 2027, of which 30 aircraft will be delivered in 2024, 40 aircraft in 2025, 19 aircraft in 2026 and seven aircraft in 2027.

On September 22, 2022, Xiamen Airlines entered into an aircraft purchase agreement with Airbus S.A.S to purchase 40 A320NEO family aircraft. The catalogue price of each A320NEO family aircraft is in the range between US\$105 million and US\$136 million. The aggregate consideration for this purchase will be partially funded by internal resources of the Group and partly through loans or other finance arrangement with banks or other institutions. The 40 A320NEO aircraft are scheduled to be delivered in stages to Xiamen Airlines during the period from 2024 to 2027.

During the reporting period, our Group introduced 23 aircraft (including one operating leased aircraft, 12 financing leased aircraft and 10 self-purchased aircraft), and disposed of seven aircraft (including three A380 series aircraft, two B737 series aircraft and two B747 aircraft). As of the end of the reporting period, the fleet size of our Group reached 894 aircraft, an increase of 16 aircraft compared to the end of 2021.

We had also entered into a few other aircraft purchase agreements prior to 2017 and the delivery schedule of certain of the aircraft has not been determined. For more details on our previous aircraft acquisitions, please refer to the same section in the Annual Report for the fiscal year ended December 31, 2020 on the Form 20-F filed with the Securities and Exchange Commission on April 28, 2021.

Capital Expenditure

Our capital expenditures were RMB22,172 million, RMB21,760 million and RMB22,396 million in 2022, 2021 and 2020, respectively. Of such capital expenditures in 2022, RMB10,467 million was financed by leases, RMB10,390 million was financed by bank borrowings, and RMB875 million was financed by proceeds from issuance of shares and convertible bonds, while the remaining RMB431 million was financed by internal resources. The capital expenditures were primarily incurred as a result of 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, 2022, we had total capital commitments for aircraft, engines and related equipment of approximately RMB97,329 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 CAAC statistics, we are one of the largest Chinese airlines and, as of December 31, 2022, we ranked 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. The COVID-19 pandemic has had a significant impact on our operations in recent years. During the three years ended December 31, 2022, our RPKs changed from 153,440 million in 2020 to 152,426 million in 2021 and 102,078 million in 2022, while our capacity, measured in terms of ASKs, changed from 214,722 million in 2020 to 213,926 million in 2021 and 153,845 million in 2022. In 2022, our Group carried 63 million passengers and had passenger revenue of RMB60,017 million (approximately US\$8,617 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”), all incorporated in China. In 2022, the Airline Subsidiaries carried 27 million passengers and had passenger revenue of RMB24,583 million (approximately US\$3,530 million) and accounted for 43.8% and 40.96% of our passengers carried and passenger revenue, respectively.

We also provide air cargo and mail services. Since 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% as compared to 2019 to RMB16,493 million in 2020, by 20.58% as compared to 2020 to RMB19,887 million in 2021, and further increased by 5.01% to RMB20,884 million (approximately US\$2,999 million) in 2022. Our airline operations, as well as air cargo and mail services, 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, 2022, we operated 1,327 routes, of which 1,223 were domestic, 94 were international and 10 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 and Taiwan. Our international operations include scheduled services to cities in Australia, Bangladesh, Britain, Cambodia, Canada, Dutch, France, Germany, Indonesia, Italy, Japan, Kazakhstan, Kenya, Kyrgyzstan, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Thailand, Turkey, The United Arab Emirates, the United States, Uzbekistan and Vietnam.

We have striven to build the “Guangzhou-Beijing Dual Hub” to establish a new profit model and development mode, and gradually to develop a network-based airline. In 2019, we commenced the operation of CSA base simultaneously with the opening of Beijing Daxing International Airport, and successfully completed the first flight to/from Beijing Daxing and the transition of the first 13 routes in 2019. Since 2020, we have 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. In 2021, we further advanced the hub network strategy, and accelerated the construction of two comprehensive international hubs in Guangzhou and Beijing. In 2022, we continued to optimize our flight time slots at Beijing Daxing Airport and increase the number of flights departing from Beijing with a high contribution margin. Our market share at Beijing Daxing Airport reached 53.7% in 2022. We also continued to enhance our market-leading position in the Guangdong-Hong Kong-Macao Greater Bay Area and proactively pursue new time slots. We maintained a leading position in terms of market share for flights departing from Guangzhou, Shenzhen, Zhuhai and Huizhou.

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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 2022, 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, 2022, we had a fleet of 894 aircraft, consisting primarily of Boeing 737, 777, 787 series, Airbus 320, 330, 350, 380 series, EMB 190 series and ARJ 21 series. The average age of our registered aircraft was 8.7 years as of December 31, 2022.

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 has significantly affected our entire route network since March 2020. As a result, our business and results of operations in 2020, 2021 and 2022 were materially adversely affected.

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During the reporting period, we implemented the responsibilities for pandemic prevention and control, and continued to improve pandemic prevention and control working mechanism. With reference to the national pandemic prevention and control policies, we updated and improved the Company's pandemic prevention system and measures in a timely manner; we put a premium on the prevention of imported pandemic from overseas, advanced pandemic prevention check points, adopted pandemic prevention management and control measures for inbound tourists and formulated guidelines for the whole-process pandemic prevention for international flight crew; and we actively coordinated with national pandemic prevention and control measures, and promoted full coverage of vaccination and 100% completion of booster injection for international flight crew and personnel in high-risk positions.

Route Network

Overview

We operate the most extensive route network among all Chinese airlines. As of December 31, 2022, we operated 1,327 routes consisting of 1,223 domestic routes, 10 regional routes and 94 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. Beginning in 2020, due to the COVID-19 pandemic and its negative impact on the air travel demand in domestic and international markets, as well as the various travel restrictions and border 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. Both of our international and domestic routes were significantly affected in 2022 and have been gradually recovering since the beginning of 2023.

In order to expand our route network, we have entered into code-sharing agreements with several international airlines, including Air France, American Airlines, Asiana Airlines, Inc., China Airlines/Mandarin Airlines, Czech Airlines, Delta Air Lines, Emirates, Etihad Airways, Finnair, ITA Airways, Japan Airlines, KLM Royal Dutch Airlines, Korean Air, Malaysia Airlines Berhad, Pakistan International Airlines, PT. Garuda Indonesia (Persero) Tbk., Qantas Airways Limited, Qatar Airways, Saudi Arabian Airlines, Vietnam Airlines and WestJet. 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 the CZ code. The code-sharing agreements help increase the number of our international sales outlets. We continued the implementation of code-sharing during the reporting period.

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 (%)
2020	96.86	(36.12)	1,461	(17.17)	20,805	(36.23)
2021	98.50	1.7	1,442	(1.29)	21,209	1.94
2022	62.64	(36.41)	1,327	(7.98)	16,384	(22.75)

Route Bases

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

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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 2022, our most frequent domestic routes were: Shanghai Hongqiao-Shenzhen, Guangzhou-Hangzhou, Guangzhou-Beijing Daxing, Guangzhou-Shanghai Hongqiao, Beijing Daxing-Shenzhen, Shenzhen-Hangzhou, Chengdu-Beijing Daxing, Guangzhou-Chengdu, Guangzhou-Kunming and Guangzhou-Nanjing.

Regional Routes

We offer scheduled service between Hong Kong and Shenyang, Wuhan; and between Taipei and Shanghai. In 2022, we conducted a total of 1,838 flights on our regional routes.

Previously, direct flights between Mainland China and Taiwan were only available during certain festivals. Other than that, travelers between Mainland China and Taiwan had to make use of intermediate stops in Hong Kong or elsewhere. Since July 2008, however, the ban on direct flights was liberalized to allow direct charter flights on weekends. We were the first Chinese carrier to fly nonstop to Taiwan. On November 4, 2008, Mainland China and Taiwan agreed to have regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, 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 reduced to one (Shanghai Pudong-Taipei) due to CAAC's requirements in response to the COVID-19 pandemic. As of December 31, 2022, 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.

Our international operations include scheduled services to cities in Australia, Bangladesh, Britain, Cambodia, Canada, Dutch, France, Germany, Indonesia, Italy, Japan, Kazakhstan, Kenya, Kyrgyzstan, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Thailand, Turkey, The United Arab Emirates, United States of American (USA), Uzbekistan and Vietnam.

In 2022, our most frequent international routes were: Guangzhou-Auckland, Guangzhou-Los Angeles, Guangzhou-Sydney, Wuhan-Islamabad, Guangzhou-Tokyo, Guangzhou-Seoul, Shenzhen-Jakarta and Guangzhou-Seoul. Beginning 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 the COVID-19 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".

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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, 2022, we operated a fleet of 894 aircraft with an average age of 8.7 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 a list of our aircraft in terms of respective passenger capacity.

Model	Number of Aircraft	Passenger Capacity
Airbus 380 series	2	506
Airbus 350 series	16	314
Airbus 330 series	40	218/258/259/260/278/283/284/286
Airbus 320 series	344	94/130/138/152/160/166/179/189/195/200/208
Boeing 787 series	39	237/266/276/287/297
Boeing 777 series	15	361
Boeing 737 series	397	128/134/159/161/164/169/170/172/178/184
EMB190	6	98
ARJ21 Series	20	90
Boeing 777 series Freighter	15	N/A
Total	894	N/A

In 2022, we continued to expand and modernize our aircraft fleet. During 2022, we (i) took scheduled delivery of one B777F aircraft under purchase agreements; (ii) took scheduled delivery of 12 aircraft under finance lease, including four A350 aircraft and eight ARJ21-700 aircraft; (iii) took scheduled delivery of no aircraft under operating leases; (iv) returned one B-5113 aircraft under operating leases upon expiry; and (v) disposed of two B747F aircrafts, three A380 aircraft and one B737-800 aircraft.

In 2022, Xiamen Airlines (i) took scheduled delivery of one A321NEO aircraft under operating leases; (ii) took scheduled delivery of no aircraft under financing leases; and (iii) took scheduled delivery of no aircraft purchased with its own funds.

Aircraft Financing Arrangements

Overview

As of December 31, 2022, 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, 2022, of our Group's 894 aircraft, 578 aircraft were operated under leases and 316 were either owned aircraft financed by long-term loans, or acquired either with cash or acquired by exercising the purchase options upon expiry of the relevant leases. Our planned acquisition of aircraft in the foreseeable future is generally expected to be made through acquisition financed 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, 2022, the number of aircraft operated by our Group pursuant to leases and the average remaining lease terms.

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Model	Financing Lease Number of Aircraft	Operating Lease Number of Aircraft	Average Remaining Lease Term Year
Boeing 787 series	25	10	4.16
Boeing 777 series	14	0	3.24
Boeing 737 series	68	191	1.46
Airbus 380 series	0	0	0
Airbus 350 series	10	0	7.96
Airbus 330 series	27	7	1.84
Airbus 320 series	81	124	2.23
EMB190	0	0	0
ARJ21	14	0	7.09
Boeing 777 series Freighter	7	0	2.22
Total	246	332	2.75

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.

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. International Aviation Engines Corporation and Honeywell International Inc. We had 164 and 131 spare jet engines for our fleet as of December 31, 2022 and 2021, 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 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 2022, 33.05% of the repair and maintenances 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 the United States, Germany, Korea, Singapore, France, Malaysia, United Kingdom and Poland.

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The amounts incurred by our Group for comprehensive maintenance services provided by GAMECO and Zhuhai MTU were RMB3,833 million, RMB4,598 million and RMB4,104 million for the years ended December 31, 2022, 2021 and 2020, 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, 0.0047 and 0 in 2022, 2021 and 2020, respectively. In comparison, CAAC’s published maximum acceptable airline’s Air Transportation Incidents Per Ten Thousands Hours Ratio was 0.6, 0.6 and 0.6 in 2022, 2021 and 2020, 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, 2022, our continuous safe flight span was 27.863 million hours.

Jet Fuel

Jet fuel costs typically represent a major component of an airline’s operating expenses. Our jet fuel costs accounted for 28.3%, 21.9% and 17.2% of our operating expenses for the years ended December 31, 2022, 2021 and 2020, 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 a 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 March 2022, due to a number of factors including geopolitical conflicts, reduction of crude oil production and recovery of the economy, international oil prices climbed to the highest point since 2008. As a result, the international crude oil prices for the entire year of 2022 were at a relatively high level as compared to recent years.

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 12.90% and 9.33% of our total jet fuel consumption in 2022 and 2021, respectively.

Our jet fuel costs increased from RMB25,505 million in 2021 to RMB32,669 million in 2022, as a result of the increase in jet fuel prices in 2022.

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Fuel Surcharge

Our profit for any given year may be affected by 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 RMB0.0002566 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. The NDRC adjusted the rate of fuel surcharge to RMB0.00002748 per kilometer, starting from April 1, 2021 and further adjusted the rate of fuel surcharge to RMB0.00002731 per kilometer, starting from December 5, 2022. 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 to RMB0.00002731 per kilometer for the flight distance.

Our profit for the year may suffer from any unexpected change in the fuel surcharge collection policies and other factors beyond our control.

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 the majority of 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.

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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 we 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, 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-owned 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 and other 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.

Cargo and Mail

We also provide air cargo and mail services. A significant portion of these services are combined with passenger flights services. In 2022, we had 15 Boeing 777 freighters, mainly servicing 19 international cargo routes with an average of 61 flights in total per week, including:

Guangzhou - Chongqing - Amsterdam - Guangzhou, Guangzhou - Amsterdam - Guangzhou, Guangzhou - London - Frankfurt - Guangzhou, Guangzhou - London - Guangzhou, Guangzhou - London - Shenzhen, Guangzhou - Chongqing - Frankfurt - Guangzhou, Guangzhou - Frankfurt - Guangzhou, Guangzhou - Anchorage - Los Angeles - Guangzhou, Guangzhou - HoChiMinhCity - Hanoi - Guangzhou, ShanghaiPudong - Amsterdam - Chongqing - ShanghaiPudong, ShanghaiPudong - Amsterdam - ShanghaiPudong, ShanghaiPudong - Frankfurt - ShanghaiPudong, ShanghaiPudong - Anchorage - Chicago - ShanghaiPudong, ShanghaiPudong - Anchorage - Chicago - Shenzhen, ShanghaiPudong - Los Angeles - ShanghaiPudong, Shenzhen - Frankfurt - Shenzhen, Shenzhen-Frankfurt - Guangzhou, Shenzhen - Frankfurt - ShanghaiPudong and Shenzhen - Anchorage - Chicago - Shenzhen.

From 2020, following the onset of the COVID-19 pandemic, the demand for freight significantly increased. In 2022, we continued to take active measures to increase freight revenue, including improving the utilization rate of freighters, and organized 9,098 flight shifts by freighters converted from passenger aircraft, and achieved positive operating results. Cargo and mail revenue was RMB 20,884 million in 2022, representing an increase of 5.01% compared to 2021. We conduct our cargo business primarily through our cargo hubs in Guangzhou and Shanghai.

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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 many cities in all continents except for South America, including but not limited to Almaty, Amsterdam, Auckland, Bangkok, Busan, Chicago, Dubai (Sharjah), Frankfurt, Hanoi, Ho Chi Minh City, Islamabad, Istanbul, Kuala Lumpur, London, Los Angeles, Manila, Mexico City, Moscow, New York, Nairobi, Paris, Roma, Seoul, Singapore, Sydney, Toronto, Tokyo, Vancouver and Vientiane.

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 2022, over 55% 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 these sales agents, we pay commissions based on the value of tickets sold. In 2022, sales by independent sales agents accounted for less than 45% 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. Our 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.

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 2022, we were not required to pay cargo agents commission for domestic and international services in the Pearl River Delta region.

Promotional and Marketing Activities

We engage in regular promotional and marketing activities. Our promotional and marketing activities for domestic routes emphasize safety, passenger comfort and the frequency of our flights. Our promotional and marketing activities with respect to 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 in China to launch premium economy class seats. In addition, we also promote and market our regional and international routes on the basis of price competitiveness.

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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 offer transfer and baggage “through-handling” services to passengers connecting to other airlines, including passengers connecting in Hong Kong for flights to Taiwan. We have 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 for 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 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 21 international and regional airlines in 258 routes (including trunk routes and beyond routes). These arrangements enlarge our sales channels and flight route network.

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.

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Environment

Our operations are subject to extensive and increasingly stringent national, local and international laws governing the protection of the environment. In recent years, a number of directives and other regulations have been issued by regulatory authorities in China and other countries to address, among other things, aircraft noise and carbon emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. For example, China has introduced energy intensity and carbon emissions-related targets for the aviation segment in the 14th Five-Year Plan, paving the way for the inclusion of a key transportation sector in the country's carbon market. These requirements impose high compliance costs on airlines.

Existing laws and future regulatory action concerning climate change and aircraft emissions could have an impact on the aviation industry. For example, with an aim to achieve carbon neutral growth on a global scale, the ICAO formally adopted, in the 39th Session of the ICAO Assembly, a global market-based management scheme in the form of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which obliges airlines to monitor and report their emissions from international aviation from 2019 and to purchase emission reduction units to cover any growth in CO₂ emissions above 2020 levels from 2021. Certain CORSIA program implementation details remain unclear and thus the impact of CORSIA cannot be fully predicted at this time. However, CORSIA is expected to increase carbon emission management costs for airlines that operate internationally.

The European Union has set a binding target of achieving climate neutrality by 2050 and the intermediate step towards climate neutrality was to reduce emissions by at least 55% by 2030 as compared to that of 1990s. Therefore, the European Commission further introduced a set of proposals of "Fit for 55 Package" on July 14, 2021 and subsequently reached provisional agreements on the revision of ETS rules in December 2022. As part of the "Fit for 55 Package", the free ETS quotas allocated to airlines will be phased out by 2026, which will further increase operating costs for airlines.

In accordance with the regulatory requirements on carbon emissions management issued by the relevant national and Guangzhou regulatory authorities, we are required to submit the monitoring plans and carbon emission reports, accept inspection for carbon emission, fulfil obligations of quota clearance as scheduled and improve our comprehensive capabilities of carbon emission management and trading.

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 that the passenger load factor on a 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.

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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 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 since 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 certain 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. Pursuant to the notice a PRC airline may only operate one route for flying to and from each foreign country, and no more than one flight can be operated 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. On January 8, 2023, CAAC removed the restrictions on international flights from and to China and limitations on the number of international routes and flights each airline in China could operate. We are in the process of restoring our international routes.

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. A market-oriented pricing policy was introduced and the 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 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 benchmark 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 expand further the scope of the routes with the market-oriented pricing policy: airfares for routes less than 800 kilometers or the routes more than 800 kilometers and in 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 number of routes with the market-oriented pricing policy. In principle, such number may 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 also be allowed for each travel season.

For each airline, the total number of the routes which the airline can decide their own price may be no less than 10 and can generally not exceed 15% of the total number of routes with market-oriented pricing operated by such airline in one flight season. On April 13, 2018, the 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.

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On November 26, 2020, the 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 Macao routes are determined by the CAAC and the relevant civil aviation authorities in Hong Kong or Macao. Published air fares of Chinese airlines for Taiwan routes must be filed with CAAC and report to the relevant civil aviation authorities in Taiwan. Airlines may offer discounts on flights on their Hong Kong, Macao 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. For Korea routes, air fares must be approved by the relevant civil aviation authorities in Korea, and the highest fare for each class may not exceed the relevant maximum rate as determined by the relevant civil aviation authorities in Korea.

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, 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.

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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.

Chinese Data Privacy and Cybersecurity Laws

The regulatory environment in China and elsewhere as it relates to the collection, use, transfer, and other processing of data, “important data,” and personal data and other types of information is rapidly evolving and is likely to remain uncertain for the foreseeable future.

The PRC Cyber Security Law, or the CSL, became effective in June 2017 and created China’s first national-level data protection for different types of “network operators,” which may include all organizations in China that provide services over the internet or another information network. The DSL, which took effect in September 2021, provides for a cybersecurity review procedure for “data processors” when their data activities may affect national security and the protection scheme of “important data.” “Data processors” may include all organizations in China that collect, store, use, process, transfer, provide, disclose any data in electronic or other form. The DSL also sets up a framework that classifies and categorizes data collected and stored in China and regulates its storage and transfer based on the degree of importance of data in economic and social development, as well as the extent of damage caused to national security, public interests or the legitimate rights and interests of individuals and organizations once data are tampered with, destroyed, leaked or illegally obtained or illegally used. Certain categories of network operators and data processors processing certain types of data will also be subject to data localization requirements. The PIPL, which took effect from November 2021, provides a comprehensive set of data privacy and protection requirements that apply to the processing of personal information. The PIPL also clarifies the definition of personal information and sensitive personal information, the legal basis of personal information processing, the basic requirements of notice and consent and the restrictions of data cross-border transfer.

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Numerous regulations, guidelines and other administrative measures have been or are expected to be adopted under China's three-pillar data protection regime framework made up of the CSL, the DSL and the PIPL. On December 28, 2021, the Cyberspace Administration of China, or the CAC, together with 12 other government departments of the PRC, jointly promulgated the revised Cybersecurity Review Measures, which became effective on February 15, 2022. The Cybersecurity Review Measures provide that certain network operators that intend to purchase network products and services and network platform operators engaging in data processing activities must be subject to cybersecurity review by a Cybersecurity Review Office, or the CRO, an administrative body within the CAC, if national security will or may be affected. The Cybersecurity Review Measures further require that if a network operator who possesses personal information of more than one million users plans to be listed in foreign countries, it must apply for cybersecurity review from the CRO. The Cybersecurity Review Measures also grant the CRO the discretion to start a cybersecurity review against any entity, if the CAC or any of 12 other government departments consider relevant products and services or data processing activities will or may affect national security. In respect of data cross-border transfer, on July 7, 2022, the CAC released the Measures on Outbound Data Transfer Security Assessments, or the Measures, which took effect on September 1, 2022. The Measures require large personal information controllers (those process over one million individuals' personal information), data processor that transfers "important data" and other data processors to undergo a government security assessment before transferring data out of China. Any cross-border data transfer activities conducted in violation of the MSACDT before the effectiveness of these measures are required to be rectified by March 1, 2023. Though these measures have already taken effect, substantial uncertainties still exist with respect to the interpretation and implementation of these measures in practice and how they will affect our business operation.

In addition, certain industry-specific laws and regulations affect the collection and transfer of personal data in China. For example, the Order of the PRC Ministry of Transport regarding Provisions on the Administration of Passenger Services in Public Air Transport, which became effective and implemented on September 1, 2021, stipulates that carriers, airports, ground service agents, aviation sales agents, aviation sales network platform operators, and aviation information enterprises shall abide by the laws and regulations on the personal information protection, and shall not divulge, sell, illegally use or provide the personal information of passengers to others.

We routinely receive, collect, store, process, transmit and maintain personal information along with other sensitive data. We may also receive, store, process, generate, control, or otherwise have access to "important data" in our businesses. As such, we are subject to the relevant PRC data security, cyber-security, and personal data protection privacy laws, regulations, and standards that apply to the collection, generation, use, retention, protection, disclosure, transfer and other processing of personal information and "important data". Based on the size of our company and the industry sections in which we operate, we expect to be subject to heightened scrutiny and obligations with regard to cybersecurity, data security, and the protection of personal information once all the relevant regulations and rules have been promulgated. Under certain circumstances, we could become subject to cybersecurity review or data security review by the Cyberspace Administration of China, or the CAC, or other related governmental regulatory authorities. Though some laws, regulations, and standards have already taken effect, substantial uncertainties still exist with respect to the interpretation and implementation of these measures in practice and how they will affect our business operation.

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 major airlines are our Group, Air China and China Eastern Airlines Corporation Limited (the "China Eastern Airlines"). In 2022, these three airlines together controlled approximately 56.94% 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 have increased 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, the quality of service, including ticketing and reservations, in-flight services, flight scheduling and timeliness. 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.

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We also face competition from the increased use of high-speed railways. We expect that improvements in high-speed railways will continue to have an impact on the domestic aviation market. First, the “eight horizontal and eight vertical” high-speed railway corridors are gradually being developed. 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 become faster, 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. As of December 31, 2022, China’s railway traffic mileage reached 155,000 kilometers, among which about 42,000 kilometers were covered by high-speed railway. According to the latest development goal of the China Railway, China’s railway traffic mileage is expected to reach 200,000 kilometers by 2035, among which 70,000 kilometers will be covered by high-speed railway. 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. We expect that 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.

We believe that our Company possesses certain competitive advantages as compared to other Chinese airlines. We have extensive route network and we are one of the Chinese airlines with the largest number of regional route bases, which we believe places us in a favorable position in the route allocation process. We also had the largest aircraft fleet among all Chinese airlines as of December 31, 2022, 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 an international service brand, and continuously improved service quality. Our brand influence has continued to increase in China and abroad. In 2020, we were positioned to offer “affinity and refinement” service, broke down barriers between various systems and departments and 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, which we believe 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. Many key indicators, such as the number of APP activations and the number of the social media followers, continue to lead in the industry. In 2021, by providing “humanized, digitalized, refined, personalized and convenient” air travel quality service, we realized “people enjoying travelling, goods delivered smoothly”. In 2022, we set up self-help luggage service platform and developed 125 types of “home flavor” in-flight meals. The flight on-time performance rate of the Company has maintained a leading position in the industry for seven consecutive years.

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)
	2018	611.7	22.9	7,385	23.5	120.7
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
2021	440.6	22.4	7,318	19.7	85.7	24.7
2022	251.7	24.9	6,076	21.8	59.93	27.3

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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 10 busiest airports in China in 2022 according to passenger volume data from the CAAC statistics briefing.

<u>Airport</u>	<u>Passengers Carried (% of total)</u>	<u>Cargo and Mail Carried (% of total)</u>	<u>Departing Flight (% of total)</u>
Guangzhou	47.27	26.95	45.19
Chongqing	24.02	15.09	23.57
Shenzhen	31.08	11.57	26.12
Kunming	12.87	10.78	11.09
Hangzhou	32.67	8.77	26.04
Chengdu Shuangliu	15.26	6.97	12.84
Shanghai Hongqiao	13.44	16.47	13.14
Shanghai Pudong	14.85	7.62	9.92
Xi'an	17.21	12.14	15.21
Chengdu Tianfu	5.17	5.13	4.64

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 2022 according to passenger volume data from the CAAC statistics briefing.

<u>Airport</u>	<u>Passengers Carried (% of total)</u>	<u>Cargo and Mail Carried (% of total)</u>	<u>Departing Flight (% of total)</u>
Changsha	34.92	19.91	34.68
Wuhan	39.68	15.54	37.49
Haikou	23.66	27.76	22.35
Sanya	27.51	32.26	28.31
Zhengzhou	34.10	3.64	29.27
Nanning	25.99	13.05	22.38
Zhuhai	37.05	37.08	36.20
Jieyang	37.46	38.62	36.52

Regional Routes

In 2022, we conducted a total of 1,838 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.

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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. In the United States routes, our competitors mainly include Air China, China Eastern Airlines, Cathay Pacific 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, 2022, our Company owned a 55% or 60% equity interest in each of our Airline Subsidiaries.

As of December 31, 2022, Xiamen Airlines operated under the “MF” code with a fleet of 209 aircraft. In 2022, Xiamen Airlines carried a total of about 18.12 million passengers, or approximately 28.9% of the passengers carried by our Group in that year, and had RMB17,879 million in traffic revenue.

As of December 31, 2022, Shantou Airlines operated under “CZ” code with a fleet of 16 aircraft. In 2022, under the centralized allocation of flight routes of our Group, Shantou Airlines carried a total of about 1.53 million passengers, or 2.4% of the passengers carried by our Group in that year. Total traffic revenue of Shantou Airlines for the year ended December 31, 2022 was RMB1,081 million.

As of December 31, 2022, Zhuhai Airlines operated under the “CZ” code with a fleet of 16 aircraft. In 2022, under the centralized allocation of flight routes of our Group, Zhuhai Airlines carried a total of about 1.27 million passengers, or approximately 2.0% 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, 2022 was RMB963 million.

As of December 31, 2022, Guizhou Airlines operated under the “CZ” code with a fleet of 20 aircraft. In 2022, under the centralized allocation of flight routes of our Group, Guizhou Airlines carried a total of about 1.81 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 RMB1,274 million for the year ended December 31, 2022.

As of December 31, 2022, Chongqing Airlines operated under the “OQ” code with a fleet of 30 aircraft. In 2022, under the centralized allocation of flight routes of our Group, Chongqing Airlines carried a total of about 2.56 million passengers, or 4.1% 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, 2022 was RMB1,809 million.

As of December 31, 2022, Henan Airlines operated under the “CZ” code with a fleet of 30 aircraft. In 2022, under the centralized allocation of flight routes of our Group, Henan Airlines carried a total of about 2.20 million passengers, or approximately 3.5% of the total number of passengers carried by our Group in that year. Total traffic revenue of Henan Airlines was approximately RMB1,577 million for the year ended December 31, 2021.

Southern Air Logistic Subsidiary

China Southern Air Logistics Co., Ltd., or Logistics Company, was established in June 2018 with registered capital of RMB1.8 billion. It mainly conducts logistics operations. In December 2020, the Company, Logistic Company and certain third party 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 Logistic Company. After the capital contribution, the Company’s equity interests in the Southern Air Logistic Company decreased from 100% to 55%.

In 2022, Logistic Company had an operating revenue of RMB 21,538 million and a net profit of RMB 4,654 million, representing an increase of 9.56% and a decrease of 18.25%, respectively, from 2021. As at December 31, 2022, Logistic Company’s total assets amounted to RMB16,873 million and net assets amounted to RMB 13,288 million.

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On November 30, 2022, Logistics Company submitted an application to the Guangdong Regulatory Bureau of the CSRC for pre-listing tutoring for its planned listing on a stock exchange in the PRC. As at the date of this Annual Report, Logistics Company has not submitted any official application for listing to any relevant regulatory authorities in the PRC.

Environment

During the reporting period, the Company continued to push forward its Green Flight initiatives, advocated the concept of low carbon travel and sought to reduce environmental pollution by the use of market mechanisms.

1. Green Flight

During the reporting period, the Company continued to promote fuel saving, with a focus on improving single-engine sliding and fuel-efficient launching, retracting flap height, and replacing Auxiliary Power Units with bridge-mounted equipment. The Company pressed ahead meal-saving activities themed by “Green Flight” to encourage passengers to dine according to needs and avoid meals on voluntary basis.

2. Research on “Dual Carbon”

During the reporting period, the Company continued to carry out research on carbon peak and carbon neutrality and monitored ground carbon to get a clear picture of its emissions, and developed energy-saving and emission-reduction projects to manage carbon assets.

3. Reduce Impact of Carbon Emission on Climate Change by Market Mechanisms

The Company has been supporting and actively participating in Chinese government’s various projects on market mechanisms of carbon trading. During the reporting period, in accordance with the requirements of the CAAC, the Company fulfilled its performance for 2020 under the European Union carbon trading scheme in May 2021 and fulfilled its performance for 2020 under the Guangdong carbon trading scheme in June 2021. We fully completed the carbon dioxide emission report and verification of civil aviation flight activities in 2020 by using the self-developed flight carbon emission data monitoring, reporting and verification system (MRV system).

4. Establish and Improve Information System of Environmental Protection and Management

During the reporting period, the Company continued the building of an information management system to implement online reporting and processing of data and information regarding energy consumption and pollutant discharge, and online monitoring of environmental pollution sources, risk points, and prevention and control measures.

5. Establish and Improve the Emergency Management System for Environmental Contingencies

During the reporting period, the Company focused on emergency plans for environmental contingencies, which were supplemented by special management and plans for environmental impact assessment reports, environmental contingencies, fires, hazardous aviation chemicals, and hazardous wastes, and supported by emergency plans of each secondary unit, so as to establish a complete emergency management system for environmental contingencies.

6. Develop Passenger Carbon Account and Launch the Passenger Flight Carbon Calculator

In 2021, the Company opened carbon accounts for passengers, which will record the reduced carbon emission behaviors such as cancelling meals, and use of electronic check-in, and launched the passenger flight carbon calculator, which seeks to involve passengers in the reduction of flight carbon emissions.

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7. Control Plastic Pollution

During the reporting period, the Company prepared the overall plan for the treatment of plastic pollution, formulated the replacement standards for disposable non-degradable plastic products, implemented the standards of management and control in the production and procurement links, and carried out separate recycling and disposal.

8. Initiate the Prevention and Control Work for Voice Pollution

The Law of the People's Republic of China on the Prevention and Control of Noise Pollution was published in December 2021 in the PRC and has been implemented since June 2022. During the reporting period, the Company initiated prevention and control work for voice pollution and studied countermeasures on voice reduction during taking off and landing of aircraft.

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 and spares "war and allied perils" policy, aviation war, hijacking and other perils excess liability insurance policy, all of which we believe 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\$57,433) 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 2022, 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 2022 and 2021, our Company did not operate air services to and from Iran. 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 did not operate flights within Iran in 2022.

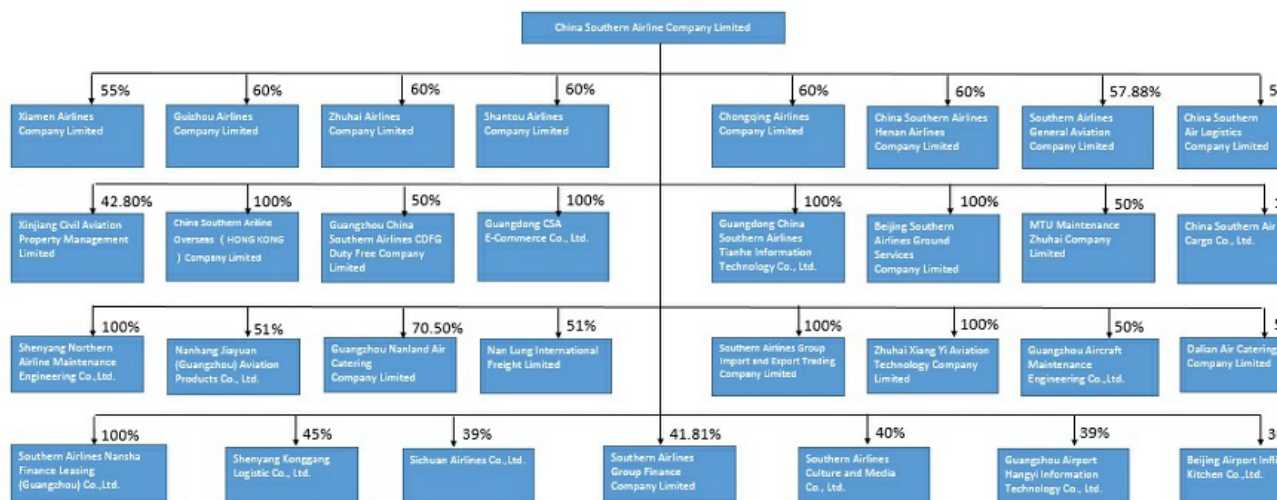
Our Company’s international route rights, as well as the corresponding landing rights, are derived from air service agreements negotiated between the Chinese government, through the CAAC, and the governments of the relevant foreign countries. With respect to the Iran Route, our Company’s international 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, 2022, the amount of assets of Iran office and revenue generated in connection with the air services to Iran was minimal. Therefore, our Company believes that our operations in Iran for the year ended December 31, 2022 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, 2022 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, 2022 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%
China Southern Air Logistics Co., Ltd.	PRC June 8, 2018	55%

The particulars of our principal associates and joint ventures as of December 31, 2022 are as follows:

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Name of Company	Place and Date of Establishment/Operation	Group Effective Interest	Proportion of Ownership Interest Held by	
			Our Company	Subsidiaries
Guangzhou Aircraft Maintenance Engineering Co., Ltd.	PRC October 28, 1989	50%	50%	-
China 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 2,063,073 square meters of land and a total gross floor area of approximately 1,118,375 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.

	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Guangzhou	1,961,288	101,785	1,005,615	112,760
Shenzhen	56,995	-	117,111	29,512
Zhuhai	29,942	-	38,895	-
Changsha	252,965	-	67,341	1,203
Haikou	348,536	-	66,394	-
Wuhan	277,638	38,082	80,869	23,783
Nanyang	-	1,855,907	13,353	33,635
Sanya	96,343	-	41,410	-
Shenyang	250,048	22,959	164,054	42,373
Dalian	-	158,240	47,787	38,496
Jilin	134,488	46,056	103,737	7,168
Harbin	30,969	174,537	68,960	24,079
Xinjiang	18,246	526,900	167,199	15,300
Guangxi	120,602	-	141,595	-
Beijing	756,404	-	976,467	-
Shanghai	42,292	7,898	94,043	11,816
Chengdu	-	-	1,786	4,020
Qingdao	-	-	767	-
Hefei	-	-	976	-
Sydney	-	-	1,151	-
Amsterdam	-	-	455	-
Xi'an	54,277	-	4,364	-
Yunnan	-	-	1,967	-
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.

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	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Xiamen Airlines	1,051,000	-	1,063,200	17,396
Shantou Airlines	262,324	-	86,262	-
Zhuhai Airlines	120,006	-	75,023	762
Guizhou Airlines	254,790	-	65,238	-
Chongqing Airlines	82,449	-	68,681	-
Henan Airlines	388,210	-	63,142	-
Zhuhai Xiang Yi Aviation Technology Co., Ltd.	132,088	-	68,902	-

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 Estimates

We prepare our consolidated financial statements in accordance with IFRS, as issued by the IASB. In doing so, we need to make estimates and assumptions. Our critical accounting estimates are those estimates that involve a significant level of uncertainty at the time the estimate was made, and changes in them have had or are reasonably likely to have a material effect on our financial condition or results of operations. Accordingly, actual results could differ materially from our estimates. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis.

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Impairment of long-lived assets (other than goodwill)

As discussed in Note 2(l)(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 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 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 expected future mileage redemption patterns, which are associated with changes in the terms of mileage programs and customer behavior. Different estimates could significantly affect the estimated contract liabilities and the results of operations.

Income tax

Deferred tax assets associated with tax losses are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. In determining the forecast of future taxable profits, significant judgements are required on the accounting estimates which are based on the assumptions relating to traffic revenue growth rates and related operating costs growth rates, among which, operating costs consist of jet fuel costs, landing and navigation fees, maintenance expenses, payroll and welfare. Different estimates could significantly affect the recognition of deferred tax assets associated with tax losses.

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.

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Provision for major overhauls

As disclosed in Note 2(k) and Note 2(aa) 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 both domestic and international air travel since 2020, which in turn has 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, delaying the delivery of new aircraft, seizing market opportunities to adopt various measures to increase passenger and freight revenue, and implementing expense management to better align our cost with our reduced schedule. Despite these steps, the cost-saving measures we implemented since 2020 have not entirely offset 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 RMB22,542 million for the year 2022.

Since December 2022, the Chinese government has modified its COVID-19 control policy, and most of the travel restrictions and quarantine requirements have been lifted. On January 8, 2023, CAAC removed the restrictions on international flights from and to China and limitations on the number of international routes and flights each airline in China could operate. We have seen our recovery from the impact of the COVID-19 pandemic for both domestic and international markets, but we are not able to predict the pace of such recovery. The impact of COVID-19 pandemic on us in the future will depend on future developments which are highly unpredictable and beyond our control, such as the frequency, duration and severity of the resurgence of COVID-19 and the emergence of new variants, as well as the measures that may be taken by governments around the world in response to these developments, the impact of the pandemic on the global economy and the measures taken by governments to stimulate the general economy. Therefore, we cannot guarantee that the pandemic will not continue to have an adverse effect on our business and results of operations in the future, which may be material. See Item 3. Key Information - D. Risk Factors - "The outbreak and global spread of the COVID-19 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.

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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 with 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 decrease in our yields or load factors could have a material adverse effect on our results of operations. In addition, certain of these expenses, primarily financing costs and labor costs and depreciations do not vary proportionally with 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. A net exchange loss of RMB3,619 million was recorded in 2022, primarily attributable to the translation of balances of lease liabilities which are denominated in USD.

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 have been disrupted during the period from 2020 to 2022 due to the significantly reduced travel demand resulting from the COVID-19 pandemic. In 2022, our airline revenue was higher in the second half of the year than in the first half of the year as there have been more outbreaks of COVID-19 which resulted in restriction on travel during the first half of the year. 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, 2022, 2021 and 2020.

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	Year ended December 31,			2022 vs.	2021 vs.
	2022	2021	2020	2021% increase (decrease)	2020% increase (decrease)
Traffic					
RPK (million)					
Domestic	96,988.77	148,223.63	140,135.20	(34.57)	5.77
Regional	175.05	152.48	239.14	14.80	(36.24)
International	4,913.87	4,050.18	13,065.78	21.32	(69.00)
Total	102,077.70	152,426.29	153,440.11	(33.03)	(0.66)
RTK (million)					
Domestic	9,593.64	14,389.54	13,720.92	(33.33)	4.87
Regional	22.86	25.48	30.19	(10.30)	(15.60)
International	6,767.24	6,793.68	7,053.76	(0.39)	(3.69)
Total	16,383.74	21,208.71	20,804.88	(22.75)	1.94
Passengers carried (thousand)					
Domestic	61,666.22	97,717.02	93,911.34	(36.89)	4.05
Regional	157.23	147.75	213.22	6.42	(30.71)
International	812.62	639.89	2,731.48	26.99	(76.57)
Total	62,636.06	98,504.66	96,856.04	(36.41)	1.70
Cargo and mail carried (thousand tons)					
Domestic	633.61	765.34	817.51	(17.21)	(6.38)
Regional	6.87	12.19	9.12	(43.68)	33.66
International	686.17	664.42	634.19	3.27	4.77
Total	1,326.64	1,441.95	1,460.83	(8.00)	(1.29)
Capacity					
ASK (million)					
Domestic	145,655.54	205,437.17	193,935.93	(29.10)	5.93
Regional	410.36	463.01	550.91	(11.37)	(15.96)
International	7,779.24	8,021.64	20,235.13	(3.02)	(60.36)
Total	153,845.14	213,921.82	214,721.97	(28.08)	(0.37)
ATK (million)					
Domestic	16,139.92	23,431.06	22,182.70	(31.12)	5.63
Regional	55.49	61.20	70.71	(9.33)	(13.46)
International	10,026.34	10,025.45	11,638.87	0.01	(13.86)
Total	26,221.74	33,517.70	33,892.28	(21.77)	(1.11)

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					2022 vs. 2021 increase (decrease) Percentage points	2021 vs. 2020 increase (decrease) Percentage points
Load Factors						
Passenger load factor (RPK/ASK) (%)						
Domestic	66.59	72.15	72.26	(5.56)	(0.11)	
Regional	42.66	32.93	43.41	9.72	(10.47)	
International	63.17	50.49	64.57	12.68	(14.08)	
Average	66.35	71.25	71.46	(4.90)	(0.21)	
Overall load factor (RTK/ATK) (%)						
Domestic	59.44	61.41	61.85	(1.97)	(0.44)	
Regional	41.20	41.64	42.70	(0.44)	(1.06)	
International	67.49	67.76	60.61	(0.27)	7.16	
Average	62.48	63.28	61.39	(0.79)	1.89	
Yield						
Yield per RPK (RMB)						
Domestic	0.51	0.46	0.41	10.87	12.20	
Regional	2.66	1.46	1.05	82.19	39.05	
International	2.00	1.61	0.96	24.22	67.71	
Average	0.59	0.49	0.46	20.41	6.52	
Yield per RTK (RMB)						
Domestic	5.33	4.88	4.34	9.22	12.44	
Regional	24.23	15.23	11.06	59.09	37.70	
International	4.32	3.64	3.84	18.68	(5.21)	
Average	4.94	4.49	4.18	10.02	7.42	
Financial						
Passenger revenue (RMB million)						
Domestic	49,723	68,656	57,793	(27.58)	18.80	
Regional	466	223	251	108.97	(11.16)	
International	9,828	6,513	12,490	50.90	(47.85)	
Total	60,017	75,392	70,534	(20.39)	6.89	
Cargo and mail revenue (RMB million)						
	20,884	19,887	16,493	5.01	20.58	

A. OPERATING RESULTS

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

2022 compared with 2021

Net loss attributable to equity shareholders of the Company of RMB32,699 million was recorded in 2022 as compared to net loss attributable to equity shareholders of the Company of RMB12,106 million in 2021. The Group's total operating revenue decreased by RMB14,585 million or 14.35% from RMB101,644 million in 2021 to RMB87,059 million in 2022. Passenger load factor decreased by 4.90 percentage point from 71.25% in 2021 to 66.35% in 2022. Yield per RPK increased by 20.41% from RMB0.49 in 2021 to RMB0.59 in 2022. Yield per RTK increased by 10.02% from RMB4.49 in 2021 to RMB4.94 in 2022. Operating expenses decreased by RMB1,078 million or 0.93% from RMB116,340 million in 2021 to RMB115,262 million in 2022. As a result of multiple adverse factors, including the impact of the COVID-19 pandemic on the aviation industry, an operating loss of RMB22,542 million was recorded in 2022 as compared to an operating loss of RMB9,929 million recorded in 2021.

Operating Revenue

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

	2022		2021		Changes in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	80,901	92.93	95,279	93.74	(15.09)
Including: Passenger revenue	60,017		75,392		(20.39)
- Domestic	49,723		68,656		(27.58)
- Hong Kong, Macau and Taiwan	466		223		108.97
- International	9,828		6,513		50.90
Cargo and mail revenue	20,884		19,887		5.01
Other operating revenue	6,158	7.07	6,365	6.26	(3.25)
Mainly including:					
Commission income	2,073		2,677		(22.56)
Cargo handling income	1,123		864		29.98
Ground services income	282		326		(13.50)
General aviation income	431		572		(24.65)
Hotel and tour operation income	497		538		(7.62)
Total operating revenue	87,059	100.00	101,644	100.00	(14.35)

	2022		2021		Changes in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger revenue	60,017	74.19	75,392	79.13	(20.39)
Cargo and mail revenue	20,884	25.81	19,887	20.87	5.01
Traffic revenue	80,901	100.00	95,279	100.00	(15.09)

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	2022		2021		Changes in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	49,723	82.85	68,656	91.07	(27.58)
Hong Kong, Macau and Taiwan	466	0.78	223	0.30	108.97
International	9,828	16.38	6,513	8.63	50.90
Total	60,017	100.00	75,392	100.00	(20.39)

Substantially all of the Group's operating revenue is attributable to airlines transport operations. Traffic revenue accounted for 93.74% and 92.93% of the total operating revenue in 2021 and 2022, respectively. Passenger revenue and cargo and mail revenue accounted for 74.19% and 25.81%, respectively, of the total traffic revenue in 2022. During the reporting period, the Group's total traffic revenue was RMB80,901 million, representing a decrease of RMB14,378 million or 15.09% from prior year, mainly because of the decrease in passenger revenue. The other operating revenue of the Group is mainly derived from commission income, cargo handling income, ground services income, general aviation income and hotel and tour operation income.

The decrease in operating revenue was primarily due to a decrease in passenger revenue by 20.39% from RMB 75,392 million in 2021 to RMB60,017 million in 2022. The total number of passengers carried decreased by 36.41% from 98.50 million passengers in 2021 to 62.64 million passengers in 2022. RPKs decreased by 33.03% from 152,426 million in 2021 to 102,078 million in 2022, mainly due to the impact of the travel restrictions.

Domestic passenger revenue, which accounted for 82.85% of the total passenger revenue in 2022, decreased by 27.58% from RMB 68,656 million in 2021 to RMB49,723 million in 2022 mainly due to the decreased demand for domestic air travel resulting from COVID-19 prevention policies in the PRC and the number of passengers carried by domestic flight decreased by 36.89% as compared to 2021. Domestic passenger traffic in RPKs decreased by 34.57%, while passenger capacity in ASKs decreased by 29.10%, resulting in a decrease in passenger load factor by 5.56 percentage points from 72.15% in 2021 to 66.59% in 2022. Yield per RPK increased by 10.87% from RMB0.46 in 2021 to RMB0.51 in 2022.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 0.78% of total passenger revenue, increased by 108.97% from RMB 223 million in 2021 to RMB466 million in 2022, primarily due to the travel restrictions resulting from the COVID-19 pandemic. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs increased by 14.80%, while passenger capacity in ASKs decreased by 11.37%, resulting in an increase in passenger load factor by 9.72 percentage points from 32.93% in 2021 to 42.66% in 2022. Passenger yield per RPK increased by 82.19% from RMB 1.46 in 2021 to RMB2.66 in 2022.

International passenger revenue, which accounted for 16.38% of total passenger revenue, increased by 50.90% from RMB6,513 million in 2021 to RMB9,828 million in 2022, primarily due to the increase in number of passengers carried. For international flights, passenger traffic in RPKs increased by 21.32%, while passenger capacity in ASKs decreased by 3.02%, resulting in an increase in passenger load factor by 12.68 percentage points from 50.49% in 2021 to 63.17% in 2022. Passenger yield per RPK increased by 24.22% from RMB1.61 in 2021 to RMB2.00 in 2022.

Cargo and mail revenue, which accounted for 25.81% of the Group's total traffic revenue and 23.99% of total operating revenue, increased by 5.01% from RMB19,887 million in 2021 to RMB20,884 million in 2022. The increase was mainly attributable to the increase in demand for freight, especially international freight.

Other operating revenue decreased by 3.25% from RMB6,365 million in 2021 to RMB6,158 million in 2022, remaining at generally the same level as compared to 2021.

Operating Expenses

Total operating expenses in 2022 amounted to RMB115,262 million, representing a decrease of RMB1,078 million or 0.93% compared to that of 2021. Total operating expenses as a percentage of total operating revenue increased from 114.46% in 2021 to 132.40% in 2022.

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

	2022		2021		Changes in Operating expenses %
	Operating expenses RMB million	Percentage %	Operating expenses RMB	Percentage %	
Flight operation expenses	51,241	44.46	45,569	39.17	12.45
Mainly including:					
Jet fuel costs	32,669		25,505		28.09
Aircraft operating lease charges	791		920		(14.02)
Flight personnel payroll and welfare	10,602		10,763		(1.5)
Maintenance expenses	11,224	9.74	12,162	10.45	(7.71)
Aircraft and transportation service expenses	17,506	15.19	21,147	18.18	(17.22)
Promotion and selling expenses	4,355	3.78	4,705	4.04	(7.44)
General and administrative expenses	3,511	3.05	3,663	3.15	(4.15)
Depreciation and amortization	24,266	21.05	24,241	20.84	0.10
Impairment losses on property, plant and equipment and right-of-use assets	449	0.39	2,597	2.23	(82.71)
Hotel and tour operation expenses	418	0.36	423	0.36	(1.18)
External air catering service expenses	343	0.30	368	0.32	(6.79)
Financial institution charges	72	0.06	74	0.06	(2.7)
Cargo handling expenses	537	0.46	398	0.34	34.92
Others	1,340	1.16	993	0.86	34.94
Total operating expenses	115,262	100.00	116,340	100.00	(0.93)

Flight operation expenses, which accounted for 44.46% of total operating expenses, increased by 12.45% from RMB45,569 million in 2021 to RMB 51,241 million in 2022, mainly resulting from the increase of jet fuel cost, which increased by 28.09% from RMB25,505 million in 2021 to RMB 32,669 million in 2022. The increase in jet fuel cost was caused by the increase in jet fuel price in 2022.

Maintenance expenses, which accounted for 9.74% of total operating expenses, decreased by 7.71% from RMB12,162 million in 2021 to RMB11,224 million in 2022, due to the decrease of flight volume.

Aircraft and transportation service expenses, which accounted for 15.19% of total operating expenses, decreased by 17.22% from RMB21,147 million in 2021 to RMB17,506 million in 2022. The decrease was primarily due to a decrease in the amounts of take-off and landing and navigation fees.

Promotion and selling expenses, which accounted for 3.78% of total operating expenses, decreased by 7.44% from RMB4,705 million in 2021 to RMB4,355 million in 2022.

General and administrative expenses, which accounted for 3.05% of the total operating expenses, remained at generally the same level as compared to 2021.

Depreciation and amortization, which accounted for 21.05% of the total operating expenses, remained at generally the same level as compared to 2021.

Impairment losses on property, plant and equipment, right-of-use assets and other assets, which accounted for 0.39% of the total operating expenses, decreased by 82.71% from RMB2,597 million in 2021 to RMB449 million in 2022, mainly due to the decrease of impairment provision for aircraft and related equipment.

Operating Loss

Operating loss of RMB22,542 million was recorded in 2022 as compared to an operating loss of RMB9,929 million in 2021.

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Other Net Income

Other net income increased by RMB894 million from RMB4,767 million in 2021 to RMB5,661 million in 2022, mainly due to an increase in government subsidies.

Interest Expense and Net Exchange Gain/(Loss)

Interest expense decreased by RMB196 million from RMB 6,202 million in 2021 to RMB6,006 million in 2022, mainly due to the decrease in interest expense on lease liabilities.

Net exchange loss of RMB3,619 million was recorded in 2022, as compared with a net exchange gain of RMB1,575 million in 2021. Net exchange loss was primarily attributable to exchange differences arising from the lease liabilities denominated in USD, along with the depreciation of Renminbi against the U.S. dollar.

Income Tax

Income tax expense of RMB2,166 million was recorded in 2022 as compared to an income tax credit of RMB2,894 million in 2021, mainly due to the increase in accumulated tax losses not recognized as deferred tax assets. The effective tax rate in 2022 was 6.87% as compared to 20.81% in 2021.

2021 compared with 2020

For a discussion of the comparison of our results of operation between 2020 and 2021, 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, 2021 on the Form 20-F filed with the Securities and Exchange Commission on April 28, 2022.

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, 2022, we had banking facilities with several PRC commercial banks for providing loan financing of up to approximately RMB320,530 million to our Group. As of December 31, 2022, approximately RMB223,729 million was unutilized. As of December 31, 2022 and 2021, our cash and cash equivalents were RMB19,889million and RMB21,456 million, respectively.

Net cash outflow from operating activities in 2022 amounted to RMB2,450 million. Net cash generated from operating activities in 2021 and 2020 amounted to RMB7,688 million and RMB2,698 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 are primarily related to the recurring operating expenses, including flight operation, maintenance, aircraft and transportation services, and others. The Group recorded a net cash outflow of RMB2,450 million from operating activities in 2022 while the Group recorded a net cash inflow of RMB7,688 million in 2021, primarily due to the decline in passenger volume and the increase in fuel costs in the reporting period.

Net cash used in investing activities in 2022, 2021 and 2020 were RMB5,851 million, RMB15,820 million and RMB8,049 million, respectively. Cash capital expenditures in 2022, 2021 and 2020 were RMB11,696 million, RMB17,137 million and RMB11,061 million, respectively. Net cash used in investing activities decreased from RMB15,820 million in 2021 to RMB5,851 million in 2022, primarily representing the decrease in the purchase of aircrafts and the increase in the proceeds from disposal of long-term assets.

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Net cash generated from financing activities were RMB6,658 million in 2022, as compared to net cash generated from financing activities of RMB4,186 million in 2021. Net cash inflow from borrowings and repayments of borrowings amounted to RMB23,370 million in 2022, while net cash inflow from borrowings and repayments of borrowings amounted to RMB25,324 million in 2021. The borrowings were used for capital expenditures and general working capital. Capital element of lease rentals paid was RMB21,960 million in 2022 and RMB21,613 million in 2021, respectively.

Net cash generated in financing activities amounted to RMB RMB28,945 million in 2020. Net cash inflow from borrowings and repayments of borrowings amounted to RMB30,085 million in 2020. The borrowings were used for capital expenditures and general working capital. Repayment of capital leases amounted to RMB RMB20,670 million in 2020, 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 the 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 fully 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. On February 22, 2022, we fully settled the principal and interest of the first tranche of 2019 corporate bonds. On May 17, 2022, we fully settled the principal and interest of the second tranche of 2019 corporate bonds. 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 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 are not 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). With effect from November 28, 2022, the conversion price was adjusted to RMB6.17 per share. As of December 31, 2022, a total of 101,035,990 bonds had been converted into 1,619,166,428 A Shares. The use of proceeds utilized was consistent with the intended use of proceeds as previously disclosed.

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Gross proceeds from the A Shares Issuance (RMB)	Intended use of the proceeds as previously disclosed	Utilized proceeds as of December 31, 2022 (RMB)	Unutilized proceeds as of December 31, 2022 (RMB)	Expected timeline for the use of unutilized proceeds
16,000,000,000.00	Purchasing aircraft and aviation equipment and maintenance projects	7,451,330,906.36	3,092,044,501.64	On or before December 31, 2023
	Introduction of spare engines	636,228,511.72	-	Not applicable
	Supplementing working capital	4,800,000,000.00	-	Not applicable

Note: The total amounts of funds raised from 2020 public issuance of A Share Convertible Bonds were RMB16,000,000,000.00. After deducting the underwriting expenses of RMB17,691,726.00 (including VAT), the net cash subscription amount actually received was RMB15,982,308,274.00. After deducting other issuance expenses of RMB2,704,354.28 (including VAT) paid by the Company from the net cash subscription amounts, the actual net proceeds raised was RMB15,979,603,919.72.

On April 15, 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 October 30, 2019 entered into between the Company and Nan Lung. The net price of each new H Share issued under this H Shares issuance was HK\$5.74 per H Share. The gross proceeds and the net proceeds raised from this H Shares issuance was HK\$3,499,999,999 and RMB3,175,094,454.53, respectively. As at December 31, 2022, all proceeds raised from this H Shares issuance have been utilized. The use of proceeds utilized was consistent with the intended use of proceeds as previously disclosed.

On June 18, 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 October 30, 2019 entered into between the Company and CSAH. The net price of each new A Share issued under this A Shares issuance was RMB5.21 per A Share. The use of proceeds utilized was consistent with the intended use of proceeds as previously disclosed.

Gross proceeds and the use of proceeds from A Shares issuance:

Gross proceeds from the A Shares Issuance (RMB)	Intended use of the proceeds as previously disclosed	Utilized proceeds as of December 31, 2022 (RMB)	Unutilized proceeds as of December 31, 2022 (RMB)	Expected timeline for the use of unutilized proceeds
12,782,393,520.97	Procurement of aircraft	8,070,415,000.31	1,205,670,313.11	On or before December 31, 2024
	Repayment of the Company's borrowings	3,500,000,000.00	-	Not applicable

Note: The total amount of funds raised from 2020 non-public issuance of A Shares was RMB12,782,393,520.97. After deducting the underwriting expenses of RMB2,000,000.00 (including VAT), the net cash subscription amount actually received was RMB12,780,393,520.97. After deducting other issuance expenses of RMB4,308,207.55 (including VAT) paid by the Company from the net cash subscription amounts, the actual net proceeds raised was RMB12,776,085,313.42.

On August 10, 2022, the Company issued 368,852,459 H Shares in total to Nan Lung at the issue price of HK\$4.88 per H Share pursuant to the subscription agreement dated October, 29 2021 entered into between the Company and Nan Lung. The net price of each new H Share issued under this H Shares issuance was HK\$4.88 per H Share. The gross proceeds and the net proceeds raised from this H Shares issuance were HK\$1,799,999,999.92 and HKD1,548,883,622.02, respectively. As at December 31, 2022, all proceeds raised from this H Shares issuance have been fully utilized. The use of proceeds utilized was consistent with the intended use of proceeds as previously disclosed.

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On November 24, 2022, the Company issued 803,571,428 A Shares in total to Nan Lung at the issue price of RMB5.60 per A Share pursuant to the subscription agreement dated October 29, 2021 entered into between the Company and Nan Lung. The net price of each new A Share issued under this A Shares issuance was RMB5.60 per A Share. The gross proceeds and the net proceeds raised from the 2022 A Share Issuance was RMB4,499,999,996.80 and RMB4,496,003,317.09, respectively. As at 31 December 2022, all proceeds raised from the 2022 A Share Issuance have been fully utilized. The use of proceeds utilized was consistent with the intended use of proceeds as previously disclosed.

As of December 31, 2022, our aggregate long-term borrowings and lease liabilities (including borrowings and lease liabilities due within one year) were RMB148,332 million, among which RMB40,925 million, RMB31,579 million, RMB26,551 million, RMB17,086 million and RMB32,191 million, respectively, is due in 2023, 2024, 2025, 2026 and thereafter. Lease liabilities are 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, 2022, our short-term bank loans amounted to RMB53,674million, and our weighted average interest rate on short-term bank loans was 2.16% per annum. As of December 31, 2022, our outstanding ultra-short-term financing bills were RMB12,536million. 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, 2022, the amounts of our lease liabilities were RMB 94,762million, predominately for aircraft, out of which RMB21,799million, RMB17,412million, RMB14,456million, RMB11,717million and RMB29,378million, respectively, is due in 2023, 2024, 2025, 2026 and thereafter.

As of December 31, 2022, we had a working capital deficit of RMB108,004 million, as compared to a working capital deficit of RMB73,124 million as of December 31, 2021. 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 2021, 2022 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, 2022, we had banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB320,530 million, of which approximately RMB223,729 million was unutilized, whereas in 2021, we received loan financing up to approximately RMB295,683 million, of which RMB204,051 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. Certain of our Group's banking facilities are subject to the fulfilment of covenants relating to our Group's certain financial ratios, as are commonly found in lending arrangements with financial institutions. If our Group was to breach the covenants, the drawn down facilities would become payable on demand. We regularly monitor its compliance with these covenants. In 2021, our Group complied with all financial covenants attached to certain of our borrowings. As at December 31, 2022, for short-term borrowings with an aggregate amount of RMB27,400 million, the loan covenants relating to certain financial ratios were breached. Our Group has obtained waiver from the respective financial institution, pursuant to which, the financial institution will not require us to repay the borrowings until the due dates, and will maintain the credit facilities granted to us. In addition, 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, 2022, we had capital commitments as follows:

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	2023	2024	2025	2026	2027 and onwards	Total
	RMB	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million	million
Acquisition of aircraft and related equipment	33,968	23,795	21,306	16,289	1,971	97,329
Others	3,718	2,560	1,271	1,171	595	9,315
Total capital commitments	37,686	26,355	22,577	17,460	2,566	106,644

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

As of December 31, 2022, our cash and cash equivalents amounted to RMB19,889million, and 10.18% 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 RMB223,729 million, we believe that our sources of liquidity are sufficient to meet our cash requirements for at least the next 12 months. However, additional cash may be required due to changing business conditions or other future developments, including any investments or acquisitions that we may decide to pursue.

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, 2022 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. CRITICAL ACCOUNTING ESTIMATES

Not applicable.

ITEM DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.

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 March 31, 2023, details of which are set forth below.

Name	Position	Gender	Age
Ma Xulun	Chairman of the Board and Executive Director	Male	58
Han Wensheng	Vice Chairman of the Board, Executive Director and President	Male	56

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Luo Lajun	Executive Director	Male	51
Liu Changle	Independent Non-executive Director	Male	71
Gu Huizhong	Independent Non-executive Director	Male	66
Guo Wei	Independent Non-executive Director	Male	60
Cai Hongping	Independent Non-executive Director	Male	68
Ren Jidong	Chairman of the Supervisory Committee, Supervisor	Male	58
Lin Xiaochun	Supervisor	Male	51
Yang Bin	Supervisor	Male	54
Wu Yingxiang	Executive Vice President	Female	49
Yao Yong	Executive Vice President, Chief Accountant and Chief Financial Officer	Male	53
Gao Fei	Executive Vice President	Male	46
Wu Rongxin (1)	Executive Vice President	Male	51
Chen Weihua	Chief Legal Adviser, Joint Company Secretary and Secretary to the Board	Male	56
Liu Wei	Joint Company Secretary	Male	65
Li Shaobin	Chief Training Officer	Male	58
Xie Bing (2)	Chief Economist	Male	49
Wang Renjie	Chief Pilot	Male	58
Zhu Hailong	Chief Operation Officer	Male	59
Li Zhigang	Chief Engineer	Male	54
Li Ye	Chief Operation Officer (Flight Safety)	Male	50

(1) Wu Rongxin ceased to be Chief Engineer since August 30, 2022.

(2) Xie Bing ceased to be Company Secretary and Secretary to the Board since September 22, 2022.

Directors

Ma Xulun, male, born in July 1964 (aged 58), 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 and a member of the Chinese Communist Party. He started his career in August 1984. 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. Since December 2020, he has served as the President and Party Secretary of CSAH and Chairman and President of the Company. Currently, he also acts as the vice chairman of China Chamber of International Commerce, member of China Council for the Promotion of International Trade and director of the board of International Air Transport Association.

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Han Wensheng, male, born in January 1967 (aged 56), graduated from the Management Department of Tianjin University, majoring in engineering management, with qualification of a master's degree, a member of the Chinese Communist Party. He obtained a master's degree of Engineering and is an economist. He began his career in August 1987. 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 Labor 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. Since January 2019, he has served as a Director and Deputy Party Secretary of CSAH. Since May 2019, he has served as a Director of the Company. Since June 2021, he has served as the President and Vice Chairman of the Company. Since July 2021, he has served as the President of CSAH. Currently, he also acts as the deputy to the 14th National People's Congress.

Luo Laijun, male, born in October 1971 (aged 51), 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 and is a member of the Chinese Communist Party. He began his career in July 1993. 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. He has acted as a member of the party committee, Chief Financial Officer and manager of Finance Department of Guizhou Airlines 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; Deputy Party Secretary of CSAH, and Executive Vice President of the Company in September 2022; the Deputy Party Secretary of CSAH in November 2022; and a Director and the Deputy Party Secretary of CSAH and the Executive Director of the Company in December 2022. Currently, he also serves as a Non-executive Director of TravelSky Technology Limited, Vice President of the fifth Council of China Air Transport Association, Vice Chairman of the seventh Council of China Communications and Transportation Association, President of the Party School of CSAH, and the standing committee member of the 13th session of Guangdong Provincial Committee of Chinese People's Political Consultative Conference, or the PCC (Deputy Director of the Foreign and Overseas Chinese Affairs Committee).

Liu Changle, male, born in November 1951 (aged 71), graduated from the Communication University of China with Bachelor's degree. He was conferred an honorary doctoral degree in literature by the City University of Hong Kong and an honorary doctoral degree in management sciences by the University of South China. Liu Chang Le founded Phoenix Satellite Television in 1996. He had been the Executive Director, Chairman and Chief Executive Officer of Phoenix Media Investment (Holdings) Limited. Liu Chang Le was a member of the PCC and a member of the Tenth and Eleventh National Committee of the PCC. He served as the Vice Chairman of the Subcommittee on Education, Science, Culture, Health and Sport of the Eleventh National Committee of the PCC, and served as a member of Standing Committee of the Twelfth National Committee of the PCC and a member of the Standing Committee of the Thirteenth National Committee. Liu Chang Le was an Independent Non-executive Director of the Company from December 2011 to December 2017. Mr. Liu Chang Le has been serving as an Independent Non-executive Director of the Company since April 2021.

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Gu Huizhong, male, born in November 1956 (aged 66), graduated from Zhengzhou University of Aeronautics and holds a Master's degree. He graduated with a Master's degree from Beihang University majoring in International Finance and is a senior accountant at a professor level. Gu is a Chinese Communist Party member and began his career in 1974. He served as the Deputy Chief and Chief of the General Office of Financial Division of Aviation Industry Department, the Director of International Affairs Financial Division of Aviation Industry Corporation of China, the General Manager of Zhongzhen Accounting Consultative Corporation, the Vice Director-General of Financial Department of Aviation Industry Corporation of China and the 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 Party Leadership Group and the Vice President of NO.1 Aviation Industry Corporation of China. From February 2005 to August 2008, he acted as a member of the Party Leadership Group, the Vice President and the Chief Accountant of No.1 Aviation Industry Corporation of China. From August 2008 to January 2017, he acted as a member of Party Leadership Group, the Vice President and the Chief Accountant of Aviation Industry Corporation of China. He acted as the Chairman of AVIC I International Leasing the Chairman of AVIC I Financial Co., Ltd., the Chairman of CATIC International Holdings Limited, the Chairman of AVIC Capital Co., and the Chairman of AVIC International Vanke Company Limited. Currently, he is serving as an external director of Ansteel Group and the Vice Chairman of the Accounting Society of China. He has been serving as an Independent Non-executive Director of the Company since December 2017.

Guo Wei, male, born in February 1963 (aged 60), holds a Master's degree. He graduated from the University of Science and Technology of China. Mr. Guo is a senior engineer and a Chinese Communist Party member. He began his career in 1988. Mr. Guo served as Executive Director and the Senior Vice President of the Lenovo Group. Currently, he is the Executive Director, Chairman of the Board of Directors and Chief Executive Officer of Digital China Holdings Limited, the Chairman of Digital China Group Co., Ltd and the Chairman of Digital China Information Service Co., Ltd. In addition, Mr. Guo also served in a number of positions, such as a member of the Eleventh and Twelfth National Committee of the PCC, a member of the Fourth Committee of the Advisory Committee for State Informatization, the first President of China Strategic Alliance of Smart City Industrial and Technology Innovation, the Vice President of Digital China Industry Alliance and the Vice President of the Society of Management Science of China. Mr. Guo was an Independent Non-executive Director of the Company from June 2015 to December 2017. He has been serving as an Independent Non-executive Director of the Company since April 2021.

Cai Hong Ping, male, born in December 1954 (aged 68), graduated from Fudan University with a bachelor's degree in journalism. He served as the Office Director of Sinopec Shanghai Petrochemical Company Limited, a member of the Steering Group for Overseas Listing of Chinese Enterprises under the State Commission for Restructuring the Economic System of the State Council and Chairman of the Joint Meeting of Secretaries of the Boards of Directors of Chinese H-share Companies, Managing Director of Peregrine Investment Bank, Chairman of SBC (Asia), and Chairman of Deutsche Bank (Asia). He is currently the Chairman of Asia-Germany Industrial Promotion Capital, and the independent Director of China Eastern Airlines Corporation Limited, Shanghai Pudong Development Bank Co., LTD., and BYD Company Limited, as well as a supervisor of China Merchants Bank Company Limited. Mr. Cai served as an independent non-executive director of the Company since 28 December 2022.

Supervisors

Ren Jidong, male, born in January 1965 (aged 58), 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 and a member of the Chinese Communist Party. Mr. Ren began his career in August 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, the Executive Vice President of the Company from July 2018, and the Chairman of the Labor Union of CSAH and the Company since August 2021; He served as the employees' representative director of CSAH since November 2021 and Chairman of the Supervisory Committee of the Company since December 2021. Currently, he also acts as Vice Director General of Guangdong Lingnan Fund.

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Lin Xiaochun, male, born in May 1971 (aged 51), 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, and is a member of the Chinese Communist Party. He began his career in July 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.

Yang Bin, male, born in September 1968 (aged 54), Master of Business Administration. He is a qualified senior accountant and a member of the Chinese Communist Party. He began his career in November 1991. He had been the Deputy General Manager and the General Manager of the Finance Department of the Company, the General Manager of the Finance Department in CSAH, the General Manager of Hunan Branch of the Company. He served as the General Manager of Audit Department in the CSAH and the Company from August 2021. He served as Supervisor of the Company since November 2021. Currently he also serves as a Supervisor of Xiamen Airlines, the Deputy Director of the Financial Audit Committee of China Air Transport Association, a member of China Association of Internal Audit, and the Vice Chairman of Guangzhou Internal Audit Association.

Senior Management

Wu Yingxiang, female, born in November 1973 (aged 49), 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 qualified senior accountant, a certified public accountant, a Chartered Global Management Accountant and a member of the Chinese Communist Party. Ms. Wu began her career in July 1994. She served as Assistant Director of Finance Department of China Southern Airlines (Group) Company in March 2001; vice director of Finance Department of CSAH in September 2005; director of Finance Department of CSAH in September 2012; the head of Performance Appraisal Management Department of CSAH in February 2017; the General Manager of Comprehensive Performance Appraisal Department of CSAH and the Company in April 2017; the General Manager and Deputy Party Secretary of Shantou Airlines in September 2018; Party Secretary and Deputy Director General of the Marketing Management Committee of the Company in October 2019; Party Member of CSAH in May 2020; the Executive Vice President and Party Member of CSAH as well as the Executive Vice President of the Company in June 2020. Currently, she also serves as vice chairman of China National Aviation Corporation (Hong Kong) Limited.

Yao Yong, male, born in November 1969 (aged 53), graduated from National Economics and Management College of Sichuan University with a bachelor's degree in economics, majoring in National Economic Management. He holds a Master of Business Administration degree from University of Electronic Science and Technology of China - Webster University. He is a qualified senior accountant, senior auditor, Chartered Certified Accountant of ACCA and a member of the Chinese Communist Party. He began his career in July 1991. He acted as a member of the Capital Construction Audit Department of Sichuan Provincial Audit Department, a deputy chief member and chief member of the Fixed Assets Investment Audit Department of Sichuan Provincial Audit Department. He acted as the Director of Financial Management Department of Ertan Hydropower Development Co Ltd. in March 2003. He served as the deputy chief accountant and director of the Finance Department of Ertan Hydropower Development Co Ltd in July 2007, and the chief accountant and director of the Finance Department of Ertan Hydropower Development Co Ltd in October 2010. He served as the chief accountant of Yalong Hydro in November 2012, the Director of Finance Department of State Development and Investment Corporation (renamed as State Development & Investment Corp., Ltd. in December 2017) in June 2017. He has served as the Party Member of CSAH since March 2021, the Executive Vice President, chief accountant and Chief Financial Officer of the Company since April 2021, and the chief accountant and the Party Member of CSAH since May 2022. Currently, he also serves as Director of China Southern Airlines Overseas (Hong Kong) Co. Ltd. and Chairman of Finance Company.

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Gao Fei, male, born in August 1976 (aged 46), graduated from the Flight School of Beijing Aeronautical and Space University with a bachelor's degree in Flight Technology. He obtained a Master of Business Administration in Lingnan College, Sun Yat-sen University, and a Master of Science in Management Studies, Massachusetts Institute of Technology. Mr. Gao is a member of the Chinese Communist Party. Mr. Gao began his career in July 1998. He was the deputy General Manager of the Flight Management Division of the Company, the Vice President and a member of the Party Committee of Shenzhen Branch of the Company, and the deputy General Manager of Department of Security Supervision of CSAH, and the deputy General Manager of Department of Security Supervision of the Company. From October 2018, he has been the General Manager of Department of Security Supervision of CSAH, the General Manager of Department of Security Supervision of the Company. From December 2020, he has been the head of Chief Flight Corps Team and Deputy Party Secretary of the Company. In January 2023, he has been the Deputy General Manager and a Party Member of CSAH, and the head of Chief Flight Corps Team and Deputy Party Secretary of the Company. From February 2023, he served as the Deputy General Manager and the Party Member of CSAH and Deputy General Manager of the Company.

Wu Rongxin, male, born in January 1972 (aged 51), graduated from the China Civil Aviation Institute with a bachelor's degree, majoring in thermal power machinery and equipment. He also obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a member of the Chinese Communist Party. He began his career in July 1994. He served as Manager of Finance Department of Aircraft Engineering Department of the Company. In June 2008, he served as the Chief Financial Officer and Party Member of Guangzhou Aircraft Maintenance Engineering Co., Ltd., and Executive Vice President and Deputy Party Secretary of Guangzhou Aircraft Maintenance Engineering Co., Ltd. in April 2011. He served as Director of Planning and Investment Department of CSAH in November 2016, General Manager of Strategic Planning & Investment Division of CSAH and the Company in April 2017, General Manager and Deputy Party Secretary of Aircraft Engineering Department of the Company in March 2021, and General Manager and Deputy Party Secretary of Engineering Technology Branch (Aircraft Engineering Department) of the Company in September 2021. He has served as Chief Engineer of the Company since January 2022. From August 2022, he served as Assistant to the General Manager of CSAH, and Deputy General Manager of the Company. Currently, he also acts as Director of China Aviation Supplies Co., Ltd., Chairman of Guangzhou Aircraft Maintenance Engineering Co., Ltd., Chairman of MTU Maintenance Zhuhai Co., Ltd., and the Head of Civil Aviation Maintenance Association of China.

Chen Weihua, male, born in October 1966 (aged 56), 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. He is an economist, a qualified lawyer in the PRC, a qualified corporate legal counselor and a member of the Chinese Communist Party. Mr. Chen began his career in July 1988. 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. Mr. Chen has been the Chief Legal Adviser and Secretary to the Board of the Company, in September 2022; He has served as Chief Compliance Officer of CSAH, Chief Legal Adviser and Secretary to the Board of the Company since December 2022. From March 2023 he served as Chief Compliance Officer, General Counsel and Secretary of the Board of Directors of CSAH, General Counsel and Secretary of the Board of directors of the Company. Currently, he also acts as Director of the Board of Xiamen Airlines, Vice President of Company Law Research Association of Guangzhou Law Society, and a member representative of the standing board of China Association for Public Companies.

Liu Wei, male, aged 65, graduated from the Northwest University of China, the China University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law and a Ph.D. in Law, respectively. Dr. Liu also completed his Common Professional Examination (CPE) with the Manchester University in England, as well as the Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Dr. Liu has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong and in England. Dr. Liu is currently a partner of Jingtian & Gongcheng LLP and has extensive experience in providing effective and commercially-valuable legal services for market-leading enterprises relating to corporate finance, listing, regulatory and compliance matters. During the period from 26 November 2007 to 20 July 2015, Dr. Liu acted as a Joint Company Secretary.

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Li Shaobin, male, born in April 1964 (aged 58), 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 Communist Party of China majoring in economics and management. He is an expert of political science and a member of the Chinese Communist Party. He began his career in July 1984. 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 49), 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 a MBA, an Executive Master of Business Administration (EMBA) degree from Tsinghua University, respectively. Mr. Xie is a Senior Economist. Mr. Xie 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 is a fellow member and FCS of The Hong Kong Chartered Governance Institute and a member of the Chinese Communist Party. Mr. Xie began his career in July 1995. He served as the Assistant of the Secretary to the Board of the Company. Mr. Xie has been the Secretary to the Board and Deputy Director of the Secretary Office of the Company from November 2007. From December 2009, Mr. Xie has been the Secretary to the Board and Director of the Secretary Office of the Company. From April 2017, he has been the Secretary to the Board of the Company, and Director of the Board Office of the Company. From September 2022, he has been the Chief Economist of the Company. For now, he also acts as the Vice Chairman, Deputy Secretary of the Party Committee and General Manager of Xiamen Airlines Co. Ltd., a Deputy to the 14th People's Congress of Fujian Province, Deputy President of Central Enterprises Overseas Students Sodality, a Council Member of The Hong Kong Chartered Governance Institute, and Vice President's representative of China Group Companies Association.

Wang Renjie, male, born in October 1964 (aged 58), graduated from the First Air Force Flight Academy of the Chinese People's Liberation Army with a bachelor's degree in Aircraft Piloting and Aeronautical Theory, and obtained a master's degree in Business Administration for Senior Executives from the School of Economics and Management of Tsinghua University. He is a first-class pilot, and a member of the Chinese Communist Party. Mr. Wang began his career in June 1983. He was the General Manager and Deputy Party Secretary of the Party Committee of Xi'an Branch of the Company, the General Manager of the Flight Management Division of CSAH and the General Manager of the Flight Management Division of the Company. He has been the Deputy Director of Operations of the Company since May 2018; and has been the Director of Operations of the Company, the Secretary of the CPC General Committee of the Laws & Standards Division of CSAH and the Secretary of the CPC General Committee of the Laws & Standards Division of the Company since September 2018. He has been the General Manager and Deputy Party Secretary of the Northern Branch of the Company since October 2019. He has been appointed as Chief Pilot of the Company since February 2023. For now, he also serves as Director and Chairman of Zhuhai Xiang Yi Aviation Technology Company Limited.

Zhu Hailong, male, born in December 1963 (aged 59), 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 and a member of the Chinese Communist Party. He began his career in January 1983. He was a pilot of the 15th Fleet of CAAC, a pilot in the Flight Department of CSA Hainan, vice-captain of the Second Squadron, leader 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 Hainan Branch of the Company. He served as deputy general manager and a member of the Party Committee of Shantou Airlines in June 2007; deputy general manager, manager of the Flight Department and a member of the Party Committee in Hubei Branch of the Company in March 2013; deputy general manager and a member of the Party Committee in Shenzhen Branch of the Company in September 2015; deputy general manager and Deputy Party Secretary of Guangzhou Flight Division of the Company in February 2018; the head of Chief Flight Corps Team and Deputy Party Secretary of the Company in May 2018. Since December 2020, he has been the Chief Operation Officer of the Company. For now, he also acts as the Vice Chairman of the fourth Council of China Airline Pilots Association.

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Li Zhigang, male, born in May 1968 (aged 54), graduated from the China Civil Aviation Institute with a master's degree, majoring in thermal power machinery and equipment. He also obtained a master's degree of Business Administration from Northeastern University and an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a member of the Chinese Communist Party. Mr. Li began his career in July 1990. He has been the Director of Aircraft Maintenance Base (Aircraft Engineering Department) in Northern Branch of CSAH. From June 2006, he has been the Deputy General Manager and a member of the Party Committee of Aircraft Engineering Department and the Director of Shenyang Maintenance Base of the Company. From February 2007, he has been the Deputy General Manager of Aircraft Engineering Department, Director and Deputy Party Secretary of Shenyang Aircraft Maintenance Base of the Company. From April 2009, he has been the Deputy General Manager and a member of the Party Committee in Shenzhen Branch of the Company. From December 2016, he has been the General Manager and Deputy Party Secretary of Aircraft Engineering Department of the Company. From March 2021, he has been the Party Secretary and Deputy General Manager of the Northern Branch of the Company. From August 2022, he has served as Chief Engineer of the Company. For now, he is also a member of the board of directors of the Aircraft Competitiveness Innovation Center.

Li Ye, male, born in March 1973 (aged 50), graduated from School of Economics and Management of Beijing Aeronautical and Space University with a master's degree in Business Administration, and a Master of Business Administration. He is a first-class pilot, and a member of the Chinese Communist Party. Mr. Li began his career in August 1995. He was the Deputy General Manager and a member of the Party Committee of Guangzhou Flight Department of the Company. From December 2017, he has been the Deputy General Manager and a member of the Party Committee of Beijing Branch of the Company. From March 2021, he has been the General Manager of Department of Security Supervision of CSAH, and the General Manager of Department of Security Supervision of the Company. From February 2023, he has been the General Manager of Department of Security Supervision of CSAH, the Chief Operation Officer (Flight Safety) and General Manager of Department of Security Supervision of the Company. Currently, he is also a member of the Security Advisory Committee of International Aviation Association.

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 March 31, 2023.

B. COMPENSATION

The aggregate compensation paid to all Directors, Supervisors and Senior Management for 2022 was RMB13.29 million. For the year ended December 31, 2022, we paid an aggregate of approximately RMB1.69 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, 2022 are set out below:

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	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors				
Ma Xulun	-	-	-	-
Han Wensheng	-	-	-	-
Luo Laijun	-	-	-	-
Independent Non-executive Directors				
Liu Changle	200	-	0	200
Gu Huizhong	200	-	0	200
Yan Yan	167	-	0	167
Guo Wei	200	-	0	200
Cai Hongping	0	-	0	0
Supervisors				
Ren Jidong	-	-	-	-
Lin Xiaochun	-	687	157	844
Yang Bin	-	687	160	847
Total	767	1,374	317	2,458

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.

Aviation Safety Committee

The Aviation Safety Committee comprises three members and is chaired by Ma Xulun, Chairman of the Board. The other two members are Han Wensheng, Vice Chairman of the Board and Guo Wei, an independent non-executive director.

The Aviation Safety Committee held two meetings in 2022, which were held in accordance with its rules and procedures, and considered a report on the safety production and operation plan of the Company in 2021 and the first quarter of 2022, the safety production and operation plan of the Company in 2022 and the safety work report of the Company in mid-2022.

Strategic and Investment Committee

The Strategic and Investment Committee comprises three members, Han Wensheng, Vice Chairman of the Board, Gu Huizhong, an independent non-executive Director and Cai Hongping, an independent non-executive Director. Han Wensheng is the Chairman of the Strategic and Investment Committee.

The Strategic and Investment Committee held two meeting in 2022 in accordance with its rules and procedures, and considered a report on the implementation of the major strategic investment matters of the Company.

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Audit and Risk Management Committee

The Audit and Risk Management Committee consists of three independent non-executive directors. The current members of the Audit and Risk Management Committee are Gu Huizhong, Guo Wei and Cai Hongping. Gu Huizhong 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 seven meetings in 2022, 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 Guo Wei with Han Wensheng, Vice Chairman of the Board, and Gu Huizhong, an independent non-executive director, 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 two meetings in 2022, which were attended by all members. The Remuneration and Assessment Committee reviewed the resolutions including the performance contract for senior management and realization of annual remuneration of senior management.

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 also responsible for assessing the performance of executive directors and approving the terms of the executive directors' service contracts. The Remuneration and Assessment Committee performed all its responsibilities under its terms of reference in 2022.

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, experience (in particular, the experience in the industry in which we operate in case of candidates of executive directors) and their contributions to the Board.

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The Nomination Committee is comprised of three members, including Gu Huizhong, an independent non-executive director, as the chairman of the committee, and Ma Xulun, the Chairman of the Board, and Liu Changle, an independent non-executive director, as members. 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 our Articles of Association, the Nomination Committee studies and determines 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.

The Nomination Committee held four meetings in 2022 and nominated Mr. Wu Rongxin as Chief Engineer and Deputy General Manager of the Company, Mr. Li Zhigang as Chief Engineer of the Company, Mr. Xie Bing as Chief Economist of the Company, Mr. Chen Weihua as Chief Legal Adviser and Secretary to the Board of the Company, Mr. Chen Weihua and Mr. Liu Wei as joint secretaries of the Company, Mr. Luo Lajun as candidates for Executive Director of the Company and Mr. Cai Hongping as candidates for independent Non-executive Director of the Company.

D. EMPLOYEES

As of December 31, 2020, 2021 and 2022, we had 100,431, 98,098 and 97,899 employees, respectively. The table below sets forth the number of our employees by activity as of December 31, 2022. During 2022, we employed 19,531 temporary employees.

Below is a breakdown of persons employed by main category of activity.

	Employees	% of Total
Flight	10,501	11%
Service	35,061	36%
Administration	6,862	7%
Navigational matters	1,395	1%
Maintenance	11,770	12%
Information	1,519	2%
Marketing	4,287	4%
Comprehensive	20,441	21%
Function	6,063	6%
total	97,899	100%

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.

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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 2022, and from 14% to 16% in 2021. 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 2022 was approximately RMB884 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 March 31, 2023.

F. DISCLOSURE OF A REGISTRANT'S ACTION TO RECOVER ERRONEOUSLY AWARDED COMPENSATION

Not applicable.

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 March 31, 2023 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	9,404,468,936	69.78%	51.90%
H Shares	HKSCC Nominees Limited	1,750,872,837	37.70%	9.66%
H Shares	CSAH (3)	2,648,836,036	57.04%	14.62%
H Shares	Nan Lung Holding Limited	2,648,836,036	57.04%	14.62%
A Shares	China National Aviation Fuel Group Corporation	261,685,354	1.94%	1.44%
A Shares	Hong Kong Securities Clearing Company Limited	683,021,828	5.07%	3.77%
H Shares	American Airlines Group Inc.(4)	270,606,272	5.83%	1.49%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC.
- (2) Percentage of A Shares and percentage of H Shares is based on 13,476,900,424 A Shares and 4,643,997,308 H Shares, respectively, issued as of March 31, 2023. Percentage of total shares is based on 18,120,897,732 shares issued as of March 31, 2023.
- (3) CSAH was deemed to be interested in an aggregate of 2,648,836,036 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 0.67% of its then total issued H Shares) and 2,617,686,036 H Shares were directly held by Nan Lung (representing approximately 56.37% 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.
- (4) American Airlines Group Inc. was deemed to be interested in 270,606,272 H Shares by virtue of its 100% control over American Airlines, Inc.

Shareholders of H Shares and A Shares enjoy the same voting rights with respect to each of the H Shares and A Shares, as applicable. 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 March 6, 2023, the date on which our ADR program was terminated, there were 49 registered holders of 916,717 American Depositary Shares in the U.S., consisting of 0.99% 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 that were 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, 2022. We also continued to carry out existing continuing transactions with CSAH and its affiliates in the year ended December 31, 2022. 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 50 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 10 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 21 December, 2020 for a term of three years commencing from January 1, 2021 to December 31, 2023 to renew lease transactions originally covered under the asset lease framework agreement dated January 26, 2018. Pursuant to such asset lease framework agreement, CSAH agreed to (i) lease certain properties, parking lots and equipment assets such as machinery equipment, transportation equipment and electronic equipment located in various cities, such as Nanyang, Wuhan, Changsha, Beijing, Urumqi, Guangzhou and Zhanjiang held by CSAH or its subsidiaries to our Company for the purposes of civil aviation and related businesses of our Company; and (ii) lease certain lands located in Nanyang, Wuhan, Guangzhou and Zhanjiang by leasing the land use rights of such lands to our Company for the purposes of civil aviation and related businesses of our Company.

The annual aggregate amount of rent payable by our Company to CSAH under the new asset lease framework agreement for each of the three years ending December 31, 2021, 2022 and 2023 is RMB346.2905 million. For the year ended December 31, 2022, the rent incurred by our Group amounted to RMB323 million pursuant to the new asset lease framework agreement.

According to IFRS 16 - “Leases”, our Group, as the lessee, shall recognize a lease as a right-of-use asset and a lease liability in the consolidated statement of financial position of our Group. The aggregate value of the right-of-use asset recognized under the proposed lease transactions contemplated under the new asset lease framework agreement is RMB935 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.

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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, 2022, the rents for property lease and land lease incurred by us under the property and land lease framework agreement amounted to RMB83 million.

According to IFRS 16 - "Leases", we, as the lessee, shall recognize a lease as a right-of-use asset and a lease liability in our consolidated statement of financial position. The aggregate value of the right-of-use asset recognized under the lease transactions under the property and land lease framework agreement is RMB259,335,413.67.

- (4) On December 28, 2022, we entered into a new property and land lease framework agreement with CSAH to renew the property and land lease framework agreement dated December 30, 2019, for a term of three years commencing from January 1, 2023 to December 31, 2025. Pursuant to such property and land lease framework agreement, CSAH has agreed to: (i) lease 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, to the Company for office use related to the development of civil aviation business; and (ii) lease to the Company the land use right of lands located in Shenyang, Chaoyang, Dalian, Changchun, Harbin and Urumqi for the purposes of civil aviation and related businesses of the Company.

The annual aggregate amount of rent payable by the Company to CSAH under the property and land lease framework agreement for each of the three years ending December 31, 2025 is RMB105.40 million.

According to IFRS 16 - "Leases", we, as the lessee, shall recognize a lease as a right-of-use asset and a lease liability in our consolidated statement of financial position. The aggregate value of the right-of-use asset recognized under the proposed lease transactions contemplated under the property and land lease framework agreement is RMB281,086,012.70.

Southern Airlines Culture and Media Co., Ltd. ("SACM"), which is 60% owned by CSAH

We entered into a media services framework agreement on December 28, 2021 with SACM, to renew the media services provided by SACM to us under the original media service framework agreement entered into by our Company and SACM with a term of three years on December 27, 2018, for a further term of three years from January 1, 2022 to December 31, 2024. Pursuant to this agreement, SACM agrees to continue to provide us with (i) agency services for collecting, editing and distribution for our Group's internal publicity media and platforms; (ii) exclusive advertising agency services for our Company and advertising agency services for our Company's wholly-owned or controlled subsidiaries; (iii) agency services for the planning, procurement and production of entertainment content in the application software of our Group's in-flight entertainment system; (iv) supply services for CSA Mall; (v) recruitment public relations services; newspaper placement services; and (vii) other media services. The service fees for media services provided by the SACM and its subsidiaries to members of our Group are determined by reference to market prices after arms-length negotiations between the parties. The market prices are determined in the following order: (a) the prices then charged by independent third parties providing similar services under normal trading conditions in or in the vicinity of the place where such services are provided; or (b) the prices then charged by independent third parties providing similar services under normal trading conditions within the PRC. Our Company will assign staff to check prices and terms offered by independent third parties for similar products or services (usually through online price comparison tools). Pursuant to the media services framework agreement, the annual caps for each of the financial years ending December 31, 2022, 2023 and 2024 were RMB240 million, RMB261 million and RMB282 million (excluding tax), respectively. For the year ended December 31, 2022, the transaction amount incurred by our Group for media services was RMB103 million.

China Southern Airlines Group Finance Company Limited (“Finance Company”), which is 51.416% owned by CSAH

- (1) On August 27, 2019, we entered into a financial services framework agreement with Finance Company 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, Finance Company provided 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 Finance Company to our Group (including the corresponding interests payable accrued thereon) for each of the three years ending December 31, 2022 did not exceed the cap which was set at RMB13.0 billion, RMB14.5 billion and RMB16.0 billion, respectively, on any given day. The deposit placed by our Group with Finance Company were RMB14,118 million on December 31, 2022 and did not exceed RMB16.0 billion on any given day during the year ending December 31, 2022.
- (2) On October 28, 2022, we entered into a new financial services framework agreement with Finance Company to renew the financial services provided by Finance Company to our Group under the original financial services framework agreement for a further term of three years from January 1, 2023 to December 31, 2025. Pursuant to this financial services framework agreement, Finance Company will provide to our Group, among other things, deposit services and loan services. The maximum daily deposit balance (including the relevant accrued interest) deposited by our Group and the maximum outstanding loan amount (including the relevant accrued interest payable) provided by the Finance Company to our Group at any particular date shall not exceed RMB20 billion, RMB21 billion and RMB22 billion for each of the three years ending December 31, 2023, 2024 and 2025, respectively.

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

On December 21, 2020, we entered into a new property management framework agreement with CSAGPMC to renew the appointment of CSAGPMC for a term of three years from January 1, 2021 to December 31, 2023 for the provision of property management and maintenance services, including (i) ensuring that our Company’s facilities in the production area, office area and living area of the old Baiyun Airport area, the China Southern Airlines building, the new Baiyun Airport and their surroundings are kept in an ideal condition and that the equipment in those areas are in normal operation; (ii) managing and carrying out maintenance in the old Baiyun Airport area, the China Southern Airlines building and their surrounding properties; (iii) managing and carrying out maintenance in the properties rented by the Company in the China Southern Airlines base and the terminal building of the new Baiyun Airport; (iv) managing and carrying out maintenance in the 110KV electrical substation in the new Baiyun Airport; (v) managing the operation of and carrying out maintenance in the high and low voltage transformer and distribution equipment in the Guangzhou freight station; and (vi) providing the water and electricity charge agency services. The annual cap for the property management framework agreement is set at RMB167 million for each of the three years ending December 31, 2023, respectively.

On February 15, 2022, CSAH completed the disposal of 95% interest in CSAGPMC to China Merchants Property Operation & Service Co., Ltd., an independent third party to the Company. Subsequent to the disposal, CSAH only holds 5% of the interest in CSAGPMC and CSAGPMC ceased to be a connected person to the Company under the HKSE Listing Rules. As such, the transactions contemplated under the Property Management Framework Agreement ceased to be a continuing connected transaction of the Company following the disposal under the HKSE Listing Rules.

During the period from January 1, 2022 to February 15, 2022, the property management and maintenance services fee incurred by our Group amounted to RMB25 million pursuant to the property management framework agreement.

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 2020-2022 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 each of 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 each of 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 (including principal and interest) and handling fee for finance lease under the finance and lease service framework agreement was RMB4,157 million for the year ended December 31, 2022. The calculated right-of-use assets by discounting the above mentioned total rental fee (including principal and interest) and the handling fee was RMB3,579 million.

The maximum annual rental fee under the operating lease service related transactions are US\$135 million, US\$255 million and US\$368 million for each of 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 each of 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 each of the three years ending December 31, 2022 under the finance and lease service framework agreement are US\$1,116 million, US\$961 million and US\$949 million, respectively.

We 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 RMB517 million for the operating lease service related transactions under the finance and lease service framework agreement for the year ended December 31, 2022. The total amount of rental fees of newly added aircraft and helicopters (leased by the Company from CSA International on an annual basis under operating leases for a period of two to twelve years) and right of use assets calculated by discounting the aforementioned rental amounts were RMB1,089 million.

- (2) We entered into a 2023-2025 finance and lease service framework agreement with CSA International on October 28, 2022 for a term of three years commencing from January 1, 2023 to December 31, 2025, pursuant to which CSA International agreed to continue 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, special equipments and engines.

The total rental amount (including principal and interest) and handling fee under the finance lease service related transactions are US\$4,133.27 million, US\$4,132.98 million and US\$3,628.68 million for each of the three years ending December 31, 2025, 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 each of the three years ending December 31, 2025 under the finance and lease service framework agreement are US\$3,361 million, US\$3,331 million and US\$2,896 million, respectively.

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The maximum annual rental expenses under the operating lease service related transactions are US\$197 million, US\$356 million and US\$486 million for each of the three years ending December 31, 2025, respectively, and the maximum total rental under the operating lease transactions are US\$1,524 million, US\$1,436 million and US\$1,119 million for the three years ending December 31, 2025, 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 each of the three years ending December 31, 2025 under the finance and lease service framework agreement are US\$1,262 million, US\$1,174 million and US\$916 million, respectively.

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

We entered into a catering services framework agreement on December 28, 2021 with SACC to renew the catering services provided by SACC to our Group under the original catering services framework agreement for a term of three years, commencing from January 1, 2022 to December 31, 2024. Pursuant to the catering services framework agreement, SACC agreed to provide to our Group the in-flight meal, in-flight supply and storage management services.

Pursuant to the catering services framework agreement, the annual caps for each of the three financial years ending December 31, 2022, 2023 and 2024 are RMB200 million, RMB230 million and RMB265 million, respectively. For the year ended December 31, 2022, the service fee incurred by our Group pursuant to the catering services framework agreement was RMB57 million.

Non-Public Subscriptions for Shares

- (1) On October 30, 2019, we entered into a subscription agreement with CSAH pursuant to which CSAH agreed to subscribe in cash for not more than 2,453,434,457 new A Shares (including 2,453,434,457 A Shares). 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). 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. 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 was 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 Shares issuance on January 6, 2020. On April 24, 2020, the Issuance Examination Committee of the CSRC reviewed the application for the A Shares Issuance and informed us that our application for the A Shares issuance was approved. On May 27, 2020, we received the written approval for the A Shares 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 was 15,329,302,395 Shares, comprised of 11,054,157,546 issued A Shares and 4,275,144,849 issued H Shares.

On October 29, 2021, we entered into a subscription agreement with CSAH pursuant to which CSAH agreed to subscribe in cash for 803,571,428 new A Shares. 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 855,028,969 new H Shares (including 855,028,969 H Shares). These subscription agreements were approved at our extraordinary general meeting on December 28, 2021.

On March 18, 2022, we announced that we received the written approval from the CSRC for the issuance of H Shares to Nan Lung. On August 10, 2022, we issued a total of 368,852,459 H Shares to Nan Lung at a price of HK\$4.88 per H Share.

On October 10, 2022, we announced that we received the written approval for the A Shares issuance from the CSRC. On November 24, 2022, we completed the issuance of 803,571,428 A Shares to CSAH at a price of RMB5.60 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 was 18,120,889,956 Shares, comprised of 13,476,892,648 issued A Shares and 4,643,997,308 issued H Shares.

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Subscription for A Share Convertible Bonds

On May 14, 2020, the Board considered and approved, among others, the issuance of convertible corporate bonds in the total amount of not exceeding 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 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 December 31, 2021, 101,034,070 A Share convertible bonds were converted to A Shares and all of the A Share convertible bonds held by CSAH were converted into A Shares on June 18, 2021.

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-use 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 March 1, 2023.

Disposal of General Aviation Limited, which was then 57.9% owned by us

We entered into an agreement with CSAH on September 22, 2022, pursuant to which our Company agreed to sell and CSAH agreed to purchase approximately 57.9% of the equity interest in General Aviation Limited for a consideration of RMB1.18 billion. Completion of the disposal took place in September 2022. Upon completion, the Company ceased to have any interest in General Aviation Limited and General Aviation Limited ceased to be a subsidiary of our Company.

Provision of Guarantees

As of December 31, 2022, we and our subsidiaries, Xiamen Airlines and Chongqing Airlines, provided guarantees to 43 SPVs that were controlled and consolidated by us, which was approved at our general meeting. The total amount of such guarantee is US\$5.37 billion.

During the reporting period, we have authorized Xiamen Airlines to provide guarantees to its subsidiaries, which are Hebei Airlines, Xiamen Airlines No. 1 (Xiamen) Aircraft Lease Company Limited to Xiamen Airlines No. 18 (Xiamen) Aircraft Lease Company Limited, or Xiamen Aircraft Lease SPVs, and Jiangxi Airlines, with an aggregate balance up to RMB9,590 million, RMB5,200 million, RMB2,600 million and RMB1,790 million or equivalent in foreign currency during the period from July 1, 2022 to June 30, 2023, respectively. As of December 31, 2022, the amount of such guarantee provided by Xiamen Airlines to Hebei Airlines, Xiamen Aircraft Lease SPVs and Jiangxi Airlines are RMB4,305 million, RMB1,703 million and RMB1,553 million, respectively.

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 2022, 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 2022. The abovementioned proposal is still subject to the approval of the 2022 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 2020 to 2022, 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;

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- 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. Until February 3, 2023, we had ADS, each representing 50 H Shares, listed for trading on the New York Stock Exchange. On January 23, 2023, the Company filed a Form 25 to delist its ADSs from the New York Stock Exchange. The delisting became effective on February 3, 2023, and the American Depositary Receipt facility was terminated on March 6, 2023. Our H Shares will continue to be traded on the Hong Kong Stock Exchange.

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

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; (14) physical examination services (15) internet retail; (16) internet life service platform (including internet travel platform, internet accommodation platform and internet retail platform); (17) concurrent-business insurance agent services: property insurance, health insurance and life insurance; (18) trade agency; (19) professional design services; (20) telecom value-added services; (21) internet advertising services; (22) other advertising services; (23) internet data services; (24) internet information services; (25) information system integration services; (26) internet of things technical services; (27) economic and business consulting services; (28) information technology consulting services; and (29) other professional consulting and investigations; all subject to approval by company registration authorities.

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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.

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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.

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- (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) reduction of its capital; (2) merging with another company that holds shares in our Company; (3) use its shares for Employee Stock Ownership Plan or as stock incentives; (4) at the request of the dissenting shareholders; (5) use its shares for conversion of convertible corporate bonds issue by the Company; (6) where the repurchase is necessary for the Company to maintain its corporate value and protect the interests of the shareholders; and (7) 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.

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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.

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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.

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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.

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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;

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- 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.

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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.

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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 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. In addition, our Company's Articles of Association require our Company to pay dividends to holders of our Company's H Shares 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 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 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.

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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. 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.

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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 10 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;

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- 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.

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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 treated as a “qualified foreign corporation” and is not treated as a PFIC during the taxable year in which the distribution is made or the preceding taxable year and certain conditions apply. A non-U.S. corporation generally will be considered to be a qualified foreign corporation if it is eligible for the benefits of a comprehensive income tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program. The Tax Treaty as currently in effect meets these requirements. The Company believes that it is currently eligible for the benefits of the Tax Treaty, but no assurance can be given that it will be so eligible at all times. Moreover, the IRS may disagree with the Company’s conclusion. Therefore, no assurance can be given that the Company will be treated as a qualified foreign corporation for these purposes and that such preferential rates of tax will apply to dividends paid on an ADS held by a U.S. Holder.

A non-U.S. corporation that is not otherwise treated as a qualified foreign corporation will be treated as a qualified foreign corporation with respect to any dividend paid in respect of stock of a non-U.S. corporation that is readily tradable on an established securities market in the United States. We have voluntarily delisted our ADSs from the NYSE, which has become effective from February 3, 2023. Following the delisting, our ADSs can no longer be regularly traded on an established market. Accordingly, this alternative for treating our dividends as qualifying dividend income is no longer available. 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.

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Our Company believes that we were not a PFIC for the taxable year 2022. 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 2023 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”. We have voluntarily delisted our ADSs from the NYSE, which has become effective from February 3, 2023. Following the delisting, our ADSs can no longer be treated as marketable. Accordingly the mark-to-market election is no longer available.

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.

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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.

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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 RMB3,267 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, 2022 amounted to USD123 million (December 31, 2021: USD190 million), and the fair value of the interest rate swaps was RMB29 million recognized in assets as of December 31, 2022 (December 31, 2021: RMB20 million recognized in liabilities).

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, 2022 and 2021:

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	As of December 31, 2022 Expected Maturity Date (RMB Equivalent in million)						As of December 31, 2021 (RMB Equivalent in million)			
	2023	2024	2025	2026	2027	Thereafter	Total recorded amount	Fair Value(2)	Total Recorded amount	Fair Value(2)
Bank and other loans										
Fixed rate bank and other loans in US\$	-	-	-	-	-	-	-	-	-	-
Average interest rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Variable rate bank and other loans in US\$	1,394	-	-	-	-	-	1,394	1,394	-	-
Average interest rate ⁽¹⁾	3.50%	N/A	N/A	N/A	N/A	N/A	3.50%	N/A	N/A	N/A
Fixed rate bank and other loans in RMB	83,818	14,045	11,844	5,245	10	-	114,962	114,962	93,192	93,192
Average interest rate	2.33%	3.00%	2.49%	6.49%	1.20%	N/A	2.62%	N/A	2.67%	N/A
Variable rate bank and other loans in RMB	124	122	250	124	126	2,678	3,424	3,424	3,075	3,075
Average interest rate ⁽¹⁾	3.00%	3.00%	2.69%	3.00%	3.00%	3.00%	2.98%	N/A	3.56%	N/A

(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, 2022 and 2021.

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.

The Group entered into forward foreign exchange and foreign exchange options contracts to mitigate its forward currency risk, and all the forward foreign exchange and foreign exchange options contracts have been settled in 2021. Forward foreign exchange contracts with the notional principal amounted to USD90 million, were entered into and settled in 2022.

As of December 31, 2022, we operated a total of 578 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, 2022 and 2021:

	As of December 31, 2022 Expected Maturity Date or Transaction Date (RMB Equivalent in million)						As of December 31, 2021 (RMB Equivalent in million)			
	2023	2024	2025	2026	2027	Thereafter	Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
Variable rate bank and other loans in US\$	1,394	-	-	-	-	-	1,394	1,394	-	-
Capital commitment in US\$	33,968	23,795	21,306	16,289	1,971	-	97,329	97,329	54,662	54,662

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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, 2022, 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

On January 23, 2023, the Company filed a Form 25 to delist its ADSs from the New York Stock Exchange. The delisting became effective on February 3, 2023, and the American Depositary Receipt facility was terminated on March 6, 2023.

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

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Fees and Payments from the Depositary to Us

From January 1, 2022 to March 6, 2023, we received from the depositary a reimbursement of US\$0 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\$85,319.13 for the standard costs associated with the administration of the ADS program from January 1, 2022 to March 6, 2023.

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, 2022.

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:

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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, 2022, 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, 2022, 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, 2022 and 2021, 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, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated April 27, 2023 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.

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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

Guangzhou, China
April 27, 2023

Changes in internal control over financial reporting

During the year ended December 31, 2022, 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. Cai Hongping qualifies as an audit and risk management committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Cai Hongping 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 Chen Weihua, 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, 2021 and 2022. 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 2021 and 2022:

	Audit Fees RMB (in million)	Audit-Related Fees RMB (in million)	Tax Fees RMB (in million)	Other Fees RMB (in million)
2021	13.7	-	1.1	-
2022	14.7	0.8	0.1	-

Audit fees (VAT tax inclusive) 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 (VAT tax inclusive) represent the fees relating to circular services.

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Tax fees (VAT tax inclusive) 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, 2021 and 2022.

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

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

For the fiscal years ended December 31, 2021 and 2022, KPMG Huazhen LLP served as our principal accountant, and issued audit reports on our consolidated financial statements.

On December 16, 2021, the PCAOB issued a report on its determinations that it was unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong because of positions taken by PRC authorities in those jurisdictions ("PCAOB-Identified Firm"). KPMG Huazhen LLP is an independent public accounting firm registered with the PCAOB that is headquartered in mainland China, and was therefore a PCAOB-Identified Firm under the PCAOB 2021 determinations. As a result, in May 2022, we were conclusively listed by the SEC as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021.

On December 15, 2022, the PCAOB determined that it was able to inspect and investigate completely registered public accounting firms headquartered in mainland China and Hong Kong in 2022, and vacated its previous 2021 determinations to the contrary. Accordingly, KPMG Huazhen LLP is no longer a PCAOB-Identified Firm under the latest PCAOB determination.

Chinese governmental entities, through their wholly-owned entity CSAH, indirectly held and exercised the rights of ownership of 66.52% of our equity stake as of March 31, 2023. Chinese governmental entities have a controlling financial interest with respect to us.

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The following list sets forth our current directors who are members of the Chinese Communist Party as of March 31, 2023.

Name	Position
Ma Xulun	Chairman of the Board
Han Wensheng	Executive Director, Vice Chairman of the Board, President
Luo Lajun	Executive Director
Gu Huizhong	Independent Non-executive Director
Guo Wei	Independent Non-executive Director

Our articles of association contains the following provisions regarding the Chinese Communist Party:

Article	Provisions
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.
163	Prior to making decisions on material issues of the Company, the Board shall first seek advice from the Party Committee of the Company.
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.
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 (《中国共产党章程》) and Regulations for the Work of the Communist Party of China (《中国共产党党委工作条例》). (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.

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ITEM FINANCIAL STATEMENTS

17.

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM FINANCIAL STATEMENTS

18.

See F-pages following Item 19.

ITEM EXHIBITS

19.

Exhibit No.	Index to Exhibits	
	Description of Exhibit	
1.1	Restated and Amended Articles of Association of China Southern Airlines Company Limited (as amended) (English translation)	
2.1	Specimen Certificate for the H Shares (1)	
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Shares evidenced by American Depositary Receipt issued thereunder, including the form of American Depositary Receipt (2)	
2.3	Description of Rights of Each Class of Securities Registered under Section 12 of the Exchange Act	
4.1	Form of Director's Service Agreement (3)	
4.2	Form of Non-executive Director's Service Agreement (4)	
4.3	Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on August 8, 2012*(5)	
4.4	Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on December 17, 2015*(6)	
4.5	Aircraft Acquisition Agreement entered into by and between our Company and Boeing on December 17, 2015 *(7)	

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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	<u>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)</u>
4.16	<u>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)</u>
4.17	<u>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)</u>
4.18	<u>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)</u>
4.19	<u>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)</u>
4.20	<u>Airbus Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S on April 26, 2017*(22)</u>
4.21	<u>English translation of Aircraft Finance Lease Framework Agreement entered into by and between our Company and CSA International on May 26, 2017(23)</u>
4.22	<u>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)</u>
4.23	<u>Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017*(25)</u>

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4.24	<u>Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017*(26)</u>
4.25	<u>Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on March 21, 2018 *(27)</u>
4.26	<u>English translation of CSA Building Asset Lease Agreement entered into by and between our Company and GSAC on January 19, 2018(28)</u>
4.27	<u>English translation of Supplemental Agreement to the Financial Services Framework Agreement entered into by and between our Company and Finance Company on April 27, 2018(29)</u>
4.28	<u>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)</u>
4.29	<u>English translation of Media Services Framework Agreement entered into by and between our Company and SACM on December 27, 2018(31)</u>
4.30	<u>English translation of Catering Services Framework Agreement entered into by and between our Company and SACC on December 27, 2018(32)</u>
4.31	<u>Form of Senior Management Services Agreement(33)</u>
4.32	<u>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)</u>
4.33	<u>English translation of Entrusted Loan Agreement entered into by and between our Company, CSAH and Finance Company on July 8, 2019(35)</u>
4.34	<u>English translation of Financial Services Framework Agreement entered into by and between our Company and Finance Company on August 27, 2019(36)</u>
4.35	<u>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)</u>
4.36	<u>English translation of Entrusted Loan Agreement entered into by and between our Company, CSAH and Finance Company on September 3, 2019(38)</u>
4.37	<u>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)</u>
4.38	<u>English translation of Subscription Agreement entered into by and between our Company and CSAH on October 30, 2019(40)</u>
4.39	<u>English translation of Subscription Agreement entered into by and between our Company and Nan Lung on October 30, 2019(41)</u>
4.40	<u>English translation of Supplemental Agreement to Media Services Framework Agreement entered into by and between our Company and SACM on November 29, 2019(42)</u>
4.41	<u>English translation of Property and Land Lease Framework Agreement entered into by and between our Company and CSAH on December 31, 2019(43)</u>
4.42	<u>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(44)</u>

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4.43	<u>English translation of Asset Lease Framework Agreement entered into by and between our Company and CSAH on December 21, 2020(45)</u>
4.44	<u>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(46)</u>
4.45	<u>English translation of Catering Services Framework Agreement entered into by and between our Company and SACC on December 28, 2021(47)</u>
4.46	<u>English translation of Entrusted Loan Contract entered into by and between our Company, CSAH and China Southern Airlines Group Finance Company Limited on June 4, 2021(48)</u>
4.47	<u>English translation of Media Services Framework Agreement entered into by and between our Company and SACM on December 28, 2021(49)</u>
4.48	<u>English translation of the Conditional Subscription Agreement relating to the Subscription of the A Shares under the Non-public Issue of A Shares of China Southern Airlines Company Limited entered into by and between our Company and CSAH on October 29, 2021(50)</u>
4.49	<u>English translation of the Conditional Subscription Agreement relating to the Subscription of the H Shares under the Non-public Issue of H Shares of China Southern Airlines Company Limited entered into by and between our Company and Nan Lung on October 29, 2021(51)</u>
4.50	<u>Airbus Aircraft Purchase Agreement entered into by and between our Company and Airbus S.A.S on July 1, 2022**</u>
4.51	<u>Airbus Aircraft Purchase Agreement entered into by and between Xiamen Airlines and Airbus S.A.S on September 22, 2022**</u>
4.52	<u>English translation of 2023-2025 Framework Agreement on Financing and Leasing Service entered into by and between our Company and CSA International on October 28, 2022</u>
4.53	<u>English translation of Financial Services Framework Agreement entered into by and between our Company and Finance Company on October 28, 2022</u>
4.54	<u>English translation of Property and Land Lease Framework Agreement entered into by and between our Company and CSAH on December 28, 2022</u>
8.1	<u>Subsidiaries of China Southern Airlines Company Limited</u>
11.1	<u>Code of Ethics (52)</u>
12.1	<u>Section 302 Certification of President</u>
12.2	<u>Section 302 Certification of Chief Financial Officer</u>
13.1	<u>Section 906 Certification of President</u>
13.2	<u>Section 906 Certification of Chief Financial Officer</u>

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101. INS	Inline XBRL Instance Document
101. SCH	Inline XBRL Taxonomy Extension Schema Document
101. CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101. DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101. LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101. PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

- * 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.
- ** Portions of this document have been omitted because they are both not material and are the type that we treat as private or confidential.
- (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.

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- (45) Incorporated by reference to the Exhibit 4.43 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2020 filed with the Securities and Exchange Commission on April 28, 2021.
- (46) Incorporated by reference to the Exhibit 4.44 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2020 filed with the Securities and Exchange Commission on April 28, 2021.
- (47) Incorporated by reference to the Exhibit 4.45 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2021 filed with the Securities and Exchange Commission on April 28, 2022.
- (48) Incorporated by reference to the Exhibit 4.46 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2021 filed with the Securities and Exchange Commission on April 28, 2022.
- (49) Incorporated by reference to the Exhibit 4.47 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2021 filed with the Securities and Exchange Commission on April 28, 2022.
- (50) Incorporated by reference to the Exhibit 4.48 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2021 filed with the Securities and Exchange Commission on April 28, 2022.
- (51) Incorporated by reference to the Exhibit 4.49 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2021 filed with the Securities and Exchange Commission on April 28, 2022.
- (52) Incorporated by reference to the Exhibit 11.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2019 filed with the Securities and Exchange Commission on April 28, 2020.

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 Executive Director

Date: April 27, 2023

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CHINA SOUTHERN AIRLINES COMPANY LIMITED
AND SUBSIDIARIES
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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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, 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, 2022, 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 27, 2023 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.

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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 recognition of deferred tax assets associated with tax losses

As discussed in Note 29 to the consolidated financial statements, the Company reported deferred tax assets associated with tax losses in the amount of RMB7,960 million as of December 31, 2022. As discussed in Note 2(y), deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The Company's forecast of future taxable profits used in the recognition of deferred tax assets associated with tax losses includes assumptions on traffic revenue growth rates and related operating costs growth rates ("forecasted growth rates").

We identified the assessment of recognition of deferred tax assets associated with tax losses as a critical audit matter. The forecast of future taxable profits involved a high degree of subjectivity and auditor judgment to evaluate the assumptions on the forecasted growth rates. The forecasted growth rates are challenging to test as minor changes to those assumptions would have a significant effect on the Company's assessment of recognition of deferred tax assets.

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 recognition of deferred tax assets. This included controls related to the development of forecasted growth rates used in the forecast of future taxable profits. We assessed the reasonableness of forecasted growth rates adopted in the Company's forecast of future taxable profits by comparing them with internally and externally derived data including the Company's future operation plans and industry 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 assumptions to assess their impact on the assessment of recognition of deferred tax assets associated with tax losses.

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 RMB192,737 million as of December 31, 2022. The Company recognized RMB449 million of impairment loss on aircraft and related equipment for the year ended December 31, 2022. As discussed in Note 2(l)(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.

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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 included 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 forecasted growth rates adopted in the Company's value in use assessment by comparing them with internally and externally derived data including the Company's future operation plans and industry 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.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Guangzhou, China

April 27, 2023

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CONSOLIDATED INCOME STATEMENTS
For the years ended December 31, 2022, 2021 and 2020

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Operating revenue	5			
Traffic revenue		80,901	95,279	87,027
Other operating revenue		6,158	6,365	5,534
Total operating revenue		<u>87,059</u>	<u>101,644</u>	<u>92,561</u>
Operating expenses				
Flight operation expenses	7	51,241	45,569	37,545
Maintenance expenses	8	11,224	12,162	13,375
Aircraft and transportation service expenses	9	17,506	21,147	18,743
Promotion and selling expenses	10	4,355	4,705	5,007
General and administrative expenses	11	3,511	3,663	4,088
Depreciation and amortization	12	24,266	24,241	24,590
Impairment losses on property, plant and equipment, right-of-use assets and other assets	19/21/30	449	2,597	3,961
Others		2,710	2,256	1,802
Total operating expenses		<u>115,262</u>	<u>116,340</u>	<u>109,111</u>
Other net income	14	<u>5,661</u>	<u>4,767</u>	<u>4,686</u>
Operating losses		<u>(22,542)</u>	<u>(9,929)</u>	<u>(11,864)</u>
Interest income		457	675	322
Interest expense	15	(6,006)	(6,202)	(6,716)
Exchange (loss)/ gain, net	37	(3,619)	1,575	3,485
Share of associates' results	24	(13)	9	(776)
Share of joint ventures' results	25	304	271	309
Changes in fair value of financial assets / liabilities	28	(388)	(309)	53
Gain/(loss) on disposal of subsidiaries	23	215	-	(8)
Gain on disposal of associates	24	42	-	-
Loss before income tax		<u>(31,550)</u>	<u>(13,910)</u>	<u>(15,195)</u>
Income tax	16	(2,166)	2,894	3,368
Loss for the year		<u>(33,716)</u>	<u>(11,016)</u>	<u>(11,827)</u>
Loss attributable to:				
Equity shareholders of the Company	18	(32,699)	(12,106)	(10,847)
Non-controlling interests		(1,017)	1,090	(980)
Loss for the year		<u>(33,716)</u>	<u>(11,016)</u>	<u>(11,827)</u>
Loss per share				
Basic and diluted (expressed in RMB per share)	18	<u>(1.90)</u>	<u>(0.75)</u>	<u>(0.77)</u>

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022, 2021 and 2020

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Loss for the year		(33,716)	(11,016)	(11,827)
Other comprehensive income:	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)		142	(236)	(250)
- Share of other comprehensive income of an associate		-	(2)	(2)
- Income tax effect of the above items		(35)	60	63
Items that are or may be reclassified subsequently to profit or loss				
- Cash flow hedge: fair value movement of derivative financial instrument		-	42	(45)
- Differences resulting from the translation of foreign currency financial statements		1	-	8
- Share of other comprehensive income of an associate		-	3	(3)
- Income tax effect of the above items		-	(10)	11
Other comprehensive income for the year		<u>108</u>	<u>(143)</u>	<u>(218)</u>
Total comprehensive income for the year		<u>(33,608)</u>	<u>(11,159)</u>	<u>(12,045)</u>
Total comprehensive income attributable to:				
Equity shareholders of the Company		(32,637)	(12,189)	(11,011)
Non-controlling interests		<u>(971)</u>	<u>1,030</u>	<u>(1,034)</u>
Total comprehensive income for the year		<u>(33,608)</u>	<u>(11,159)</u>	<u>(12,045)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
At December 31, 2022 and 2021

	Note	December 31 2022 RMB million	December 31 2021 RMB million
Non-current assets			
Property, plant and equipment, net	19	90,517	91,186
Construction in progress	20	33,300	31,847
Right-of-use assets	21	131,954	138,439
Goodwill	22	237	237
Interest in associates	24	2,588	2,637
Interest in joint ventures	25	3,618	3,341
Aircraft lease deposits		354	321
Other equity instrument investments	26	659	563
Other non-current financial assets	26	436	589
Derivative financial assets	27	27	-
Amounts due from related companies	42	357	151
Deferred tax assets	29(b)	12,471	12,823
Other assets	30	2,274	3,211
		<u>278,792</u>	<u>285,345</u>
Current assets			
Inventories	31	1,387	1,652
Trade receivables	32	2,619	2,858
Other receivables	33	7,939	9,599
Cash and cash equivalents	34	19,889	21,456
Assets held for sale	35	709	1,292
Restricted bank deposits		174	158
Prepaid expenses and other current assets		619	736
Derivative financial assets	27	2	-
Amounts due from related companies	42	116	115
		<u>33,454</u>	<u>37,866</u>
Current liabilities			
Derivative financial liabilities	27	1,708	1,222
Borrowings	36	85,336	57,913
Lease liabilities	37	21,799	20,805
Trade payables	38	1,537	1,328
Contract liabilities	39	1,496	1,542
Sales in advance of carriage	40	3,383	3,716
Current income tax		312	844
Amounts due to related companies	42	435	363
Accrued expenses	43	17,636	15,479
Other liabilities	44	7,816	7,778
		<u>141,458</u>	<u>110,990</u>

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

At December 31, 2022 and 2021

	Note	December 31 2022 RMB million	December 31 2021 RMB million
Non-current liabilities			
Borrowings	36	34,444	38,354
Lease liabilities	37	72,963	81,944
Derivative financial liabilities	27	-	20
Other non-current liabilities	41	1,954	1,824
Amounts due to related companies	42	85	-
Provision for major overhauls	45	5,199	4,820
Deferred benefits and gains	46	760	725
Deferred tax liabilities	29(b)	24	26
		<u>115,429</u>	<u>127,713</u>
Net assets		<u>55,359</u>	<u>84,508</u>
Capital and reserves			
Share capital	47	18,121	16,948
Reserves		23,154	50,903
Total equity attributable to equity shareholders of the Company		<u>41,275</u>	<u>67,851</u>
Non-controlling interests		14,084	16,657
Total equity		<u>55,359</u>	<u>84,508</u>

Approved and authorized for issue by the Board of Directors on April 27, 2023.

Ma Xu Lun
Director

Han Wen Sheng
Director

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2022, 2021 and 2020

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Other reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	(Note 47)	(Note 48(b))	(Note 48(c))	(Note 48(d))	(Note 48(d))	(Note 48(d))	(Note 48(d))	(Note 48(d))	(Note 48(d))
RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at January 1, 2020	12,267	25,652	2	409	2,844	22,932	64,106	13,223	77,329
Changes in equity for 2020:									
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	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)
Balance at December 31, 2020 and January 1, 2021	15,329	38,541	(35)	274	3,390	12,085	69,584	15,547	85,131
Changes in equity for 2021:									
Loss for the year	-	-	-	-	-	(12,106)	(12,106)	1,090	(11,016)
Other comprehensive income	-	-	35	(118)	-	-	(83)	(60)	(143)
Total comprehensive income	-	-	35	(118)	-	(12,106)	(12,189)	1,030	(11,159)
Distributions to non-controlling interests	-	-	-	-	-	-	-	(659)	(659)
Conversion of convertible bonds to ordinary shares	1,619	8,837	-	-	-	-	10,456	-	10,456
Capital injection from non-controlling interests	-	-	-	-	-	-	-	810	810
Decrease in non-controlling interests as a result of liquidation of a subsidiary	-	-	-	-	-	-	-	(71)	(71)
Balance at December 31, 2021 and January 1, 2022	16,948	47,378	-	156	3,390	(21)	67,851	16,657	84,508
Changes in equity for 2022:									
Loss for the year	-	-	-	-	-	(32,699)	(32,699)	(1,017)	(33,716)
Other comprehensive income	-	-	-	61	1	-	62	46	108
Total comprehensive income	-	-	-	61	1	(32,699)	(32,637)	(971)	(33,608)
Distributions to non-controlling interests	-	-	-	-	-	-	-	(912)	(912)
Issuance of shares (Note 47(ii) & (iii))	1,173	4,873	-	-	-	-	6,046	-	6,046
Capital injection from non-controlling interests	-	-	-	-	15	-	15	12	27
Decrease in non-controlling interests as a result of disposal of subsidiaries	-	-	-	-	-	-	-	(702)	(702)
Disposal of an equity instrument investment	-	-	-	40	-	(40)	-	-	-
Balance at December 31, 2022	18,121	52,251	-	257	3,406	(32,760)	41,275	14,084	55,359

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS
For the years ended December 31, 2022, 2021 and 2020

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Operating activities				
Cash generated from operating activities	34(b)	5,807	15,277	10,727
Interest received		444	671	295
Interest paid		(6,359)	(6,354)	(6,646)
Income tax paid		(2,342)	(1,906)	(1,678)
Net cash (used in)/ generated from operating activities		<u>(2,450)</u>	<u>7,688</u>	<u>2,698</u>
Investing activities				
Proceeds from disposal of property, plant and equipment and right-of-use assets		4,799	990	2,848
Dividends received from associates		34	26	91
Dividends received from joint ventures		97	237	246
Dividends received from other equity instrument investments and other non-current financial assets		8	7	20
Acquisition of term deposits		(648)	(60)	(898)
Proceeds from maturity of term deposits		698	120	654
Acquisition of property, plant and equipment and other assets		(11,696)	(17,137)	(11,061)
Acquisition of an associate		-	(3)	-
Proceeds from disposal of subsidiaries		724	-	-
Proceeds from disposal of associates		43	-	-
Proceeds from disposal of other equity instrument investments and other non-current financial assets		90	-	-
Proceeds from disposal of derivative financial instruments		-	-	51
Net cash used in investing activities		<u>(5,851)</u>	<u>(15,820)</u>	<u>(8,049)</u>
Financing activities				
Proceeds from issuance of shares		6,046	-	15,951
Proceeds from bank borrowings	34(c)	75,429	76,910	71,841
Proceeds from ultra-short-term financing bills	34(c)	27,500	82,500	48,300
Proceeds from corporate bonds	34(c)	3,900	9,000	25,000
Repayment of bank borrowings	34(c)	(36,359)	(70,437)	(52,601)
Repayment of ultra-short-term financing bills	34(c)	(39,600)	(68,900)	(59,800)
Repayment of corporate bonds	34(c)	(7,500)	(3,749)	(2,655)
Capital element of lease rentals paid	34(c)	(21,960)	(21,613)	(20,670)
Capital injections from non-controlling interests		116	1,128	3,802
Payment for purchase of non-controlling interest		-	-	(260)
Refund of aircraft lease deposits		13	49	69
Payments for aircraft lease deposits		(18)	(15)	-
Dividends paid to non-controlling interests		(909)	(687)	(32)
Net cash generated from financing activities		<u>6,658</u>	<u>4,186</u>	<u>28,945</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(1,643)</u>	<u>(3,946)</u>	<u>23,594</u>
Cash and cash equivalents at January 1		21,456	25,419	1,849
Exchange gain/(loss) on cash and cash equivalents		76	(17)	(24)
Cash and cash equivalents at December 31	34(a)	<u>19,889</u>	<u>21,456</u>	<u>25,419</u>

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 and The Stock Exchange of Hong Kong Limited.

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 or available for early adoption 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 (FVPL) (see Note 2(f)); and
- derivative financial assets / liabilities (see Note 2(g)).

Non-current assets (or disposal groups) held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(r)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

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.

(b) Changes in accounting policies

(A) Amendments to IFRSs that are first effective for the year ended December 31, 2022

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract*

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 IAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The adoption of the amendments does not have any material impact on the financial position and the financial result of the Group.

Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The adoption of the amendments does not have any material impact on the financial position and the financial result of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(B) Amendments to IFRSs that are first effective for the year ended December 31, 2021

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform - phase 2*
- Amendment to IFRS 16, *Covid-19-related rent concessions beyond June 30, 2021*

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform - phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”). The adoption of the amendments does 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 beyond June 30, 2021* (“2021 amendment”)

The Group previously applied the practical expedient in IFRS 16 to all leases except for aircraft and engine leases such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met (see Note 2(k)). One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from June 30, 2021 to June 30, 2022.

The Group has early adopted the 2021 amendment in this financial year. The adoption of 2021 amendment does not have any material impact on the financial position and the financial result of the Group.

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 it 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. For each business combination, the Group recognized non-controlling interests based on the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

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), Note 2(q) or Note 2(x) 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)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized 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)(ii)(c)).
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(f) Other investments in debt and equity securities (continued)

(ii) 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)(ii)(b).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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)(ii)(a).

(i) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(l)(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(ab)).

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.

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, equipment and vehicles	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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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(l)(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.

(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.

(i) As a lessee

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 Notes 2(i) and 2(l)(iii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(k) Leased assets (continued)

(i) As a lessee (continued)

For the measurement of component accounting for right-of-use assets and subsequent major overhaul performed, see Note 2(i).

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.

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 that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognized the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(k) Leased assets (continued)

(i) As a lessee (continued)

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.

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.

(ii) 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)(ii)(a).

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)(i), then the Group classifies the sub-lease as an operating lease.

Under a finance lease, at the commencement date, the Group recognizes the finance lease receivable and derecognizes the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

The Group recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognized in accordance with the accounting policy in Note 2(l). Variable lease payments not included in the measurement of net investment in the lease are recognized as income as they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(I) 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 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)

(I) 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)(ii)(c) 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)

(I) 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 reorganization;
- 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.

(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 carrying amount 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.

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 (continued)

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 associates and joint ventures.

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 liabilities

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)).

(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.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortized cost using the effective interest method and including an allowance for credit losses (see Note 2(l)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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. Subsequent to initial recognition, trade and other payables are stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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 a fixed number of shares are issued for a fixed amount of cash or other financial assets, 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 the 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 not remeasured and 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 earnings.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(y) Income tax (continued)

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.

(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.

The Group is the principal for substantially all of its revenue transactions and recognizes revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the goods or service before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the goods or service. In limited revenue transactions, the Group acts as an agent and recognizes revenue on a net basis.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

Revenue is recognized when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(a) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(z) Revenue and other income (continued)

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.

(b) 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)(a), and revenue on redeemed goods or services is recognized when the customers obtain control of the goods or services.

(ii) Revenue from other sources and other income

(a) 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.

(b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(z) Revenue and other income (continued)

(c) 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)).

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(aa) 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.

(ab) 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.

(ac) 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)

(ad) 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.

(ae) 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)

(ae) 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.

(af) 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 expected future mileage redemption patterns, which are associated with changes in the terms of 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 associated with tax losses are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. In determining the forecast of future taxable profits, significant judgements are required on the accounting estimates which are based on the assumptions relating to traffic revenue growth rates and related operating costs growth rates, among which, operating costs consist of jet fuel costs, landing and navigation fees, maintenance expenses, payroll and welfare. Different estimates could significantly affect the recognition of deferred tax assets associated with tax losses.

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(aa), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments

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 programme 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, 2022, the Group's current liabilities exceeded its current assets by RMB108,004 million. For the year ended December 31, 2022, the Group recorded a net cash outflow from operating activities of RMB2,450 million, a net cash outflow from investing activities of RMB5,851 million and a net cash inflow from financing activities of RMB6,658 million, which in total resulted in a net decrease in cash and cash equivalents of RMB1,643 million.

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, 2022, the Group has obtained credit facilities of RMB320,530 million in aggregate granted by several banks and other financial institute, among which approximately RMB223,729 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 of financial instruments (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:

	2022 Contractual undiscounted cash outflow					Carrying amount at December 31
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Borrowings	87,336	14,978	18,850	3,072	124,236	119,780
Lease liabilities	25,641	20,584	42,010	21,023	109,258	94,762
Trade and other payables and accrued charges	22,290	-	-	-	22,290	22,290
Long-term payables	256	198	104	-	558	531
	<u>135,523</u>	<u>35,760</u>	<u>60,964</u>	<u>24,095</u>	<u>256,342</u>	<u>237,363</u>

	2021 Contractual undiscounted cash outflow					Carrying amount at December 31
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Borrowings	59,167	19,428	18,824	3,586	101,005	96,267
Lease liabilities	25,331	22,764	45,142	25,923	119,160	102,749
Trade and other payables and accrued charges	20,097	-	-	-	20,097	20,097
Long-term payables	111	111	96	-	318	291
	<u>104,706</u>	<u>42,303</u>	<u>64,062</u>	<u>29,509</u>	<u>240,580</u>	<u>219,404</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (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(i)).

As at December 31, 2022, 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 earnings by approximately RMB340 million (December 31, 2021: RMB328 million; December 31, 2020: RMB315 million).

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 after tax (and retained earnings) 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 2021 and 2020.

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and retained earnings) 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 floating rate financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

(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 centre.

The Group has significant exposure to foreign currency risk as majority of the Group's lease liabilities (Note 37) 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 of financial instruments (continued)

(c) Foreign currency risk (continued)

The following table indicates the instantaneous change in the Group's loss after tax and retained earnings 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.

		2022	
		Appreciation/(depreciation) of Renminbi against foreign currency	Decrease/(increase) on loss after tax and increase/(decrease) on retained earnings RMB million
USD	1%		293
	(1%)		(293)
Euro	1%		15
	(1%)		(15)
Japanese Yen	10%		24
	(10%)		(24)
2021			
		Appreciation/(depreciation) of Renminbi against foreign currency	Decrease/(increase) on loss after tax and increase/(decrease) on retained earnings RMB million
USD	1%		322
	(1%)		(322)
Euro	1%		18
	(1%)		(18)
Japanese Yen	10%		38
	(10%)		(38)
2020			
		Appreciation/(depreciation) of Renminbi against foreign currency	Decrease/(increase) on loss after tax and increase/(decrease) on retained earnings RMB million
USD	1%		367
	(1%)		(367)
Euro	1%		24
	(1%)		(24)
Japanese Yen	10%		74
	(10%)		(74)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and retained earnings 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 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (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, other non-current financial assets (amortized cost) 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, 2022, the balance due from BSP agents amounted to RMB287 million (December 31, 2021: RMB329 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, 2022:

	December 31, 2022		
	Expected loss rates	Gross carrying amount RMB million	Loss allowance RMB million
Within 3 months	0.01%	1,791	-
More than 3 months but less than 1 year	50.00%	43	21
More than 1 year but less than 2 years	100.00%	2	2
More than 2 years but less than 3 years	100.00%	-	-
More than 3 years	100.00%	13	13
		<u>1,849</u>	<u>36</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (continued)

(d) Credit risk (continued)

	December 31, 2021		
	Expected loss rates	Gross carrying amount RMB million	Loss allowance RMB million
Within 3 months	0.01%	1,811	-
More than 3 months but less than 1 year	50.00%	5	3
More than 1 year but less than 2 years	100.00%	1	1
More than 2 years but less than 3 years	100.00%	3	3
More than 3 years	100.00%	15	15
		<u>1,835</u>	<u>22</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 RMB17 million (December 31, 2021: RMB17 million) based on ECLs.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2022 RMB million	2021 RMB million
Balance at January 1	39	43
Amounts written off	(5)	(4)
Impairment losses reversed	(4)	(5)
Impairment losses recognized	23	5
Balance at December 31	<u>53</u>	<u>39</u>

Other receivables

The Group measures loss allowance for other receivables equal to 12-month ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (continued)

(d) Credit risk (continued)

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.

	2022				2021			
	Stage 1	Stage 2 Lifetime ECLs (not credit- impaired)	Stage 3 Lifetime ECLs (credit- impaired)	Total	Stage 1	Stage 2 Lifetime ECLs (not credit- impaired)	Stage 3 Lifetime ECLs (credit- impaired)	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
As at January 1	1	9	148	158	2	9	148	159
Accrual	2	5	-	7	2	-	-	2
Reversal	-	-	(29)	(29)	(3)	-	-	(3)
As at December 31	<u>3</u>	<u>14</u>	<u>119</u>	<u>136</u>	<u>1</u>	<u>9</u>	<u>148</u>	<u>158</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.

(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. The Group may hedge a portion of the future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. In 2022, the Group did not enter into any jet fuel forward contract.

A reasonable possible increase/decrease of 10% (2021 and 2020:10%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB3,267 million (2021: RMB2,551 million; 2020: RMB1,880 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (continued)

(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 2022, the Group's strategy, which was unchanged from 2021 and 2020, 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.

(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

Recurring fair value measurement	Note	Fair value at December 31, 2022 RMB million	Fair value measurements as at December 31, 2022 categorized into		
			Level 1 RMB million	Level 2 RMB million	Level 3 RMB million
Financial assets/(liabilities):					
Other equity instrument investments:					
-Non-tradable listed shares	26	659	-	-	659
Other non-current financial assets:					
-Listed shares	26	21	21	-	-
-Non-listed shares	26	28	-	-	28
Derivative financial assets:					
-Interest rate swaps	27	29	-	29	-
Derivative financial liabilities:					
-Derivative component of convertible bonds	27	(1,708)	-	(1,708)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (continued)

(g) Fair value (continued)

(i) Financial instruments carried at fair value (continued)

Recurring fair value measurement	Note	Fair value at December 31, 2021 RMB million	Fair value measurements as at December 31, 2021 categorized into		
			Level 1 RMB million	Level 2 RMB million	Level 3 RMB million
Financial assets/(liabilities):					
Other equity instrument investments:					
-Non-tradable listed shares	26	523	-	-	523
-Non-listed shares	26	40	-	-	40
Other non-current financial assets:					
-Listed shares	26	68	68	-	-
-Non-listed shares	26	27	-	-	27
Derivative financial liabilities:					
-Interest rate swaps	27	(20)	-	(20)	-
-Derivative component of convertible bonds	27	(1,222)	-	(1,222)	-

During the years ended December 31, 2022 and 2021, 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 derivative component of convertible bonds is measured by using the Binomial Model. The major inputs used in the Binomial Model are:

	At December 31, 2022	At December 31, 2021
Conversion price	RMB 6.17	RMB 6.24
Stock price of A shares	RMB 7.65	RMB 6.47
Stock market volatility	33.29%	33.78%
Risk-free interest rate	2.46%	2.59%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values of financial instruments (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-tradable listed shares (1)&(3)	Market approach-valuation multiples	Discount for lack of marketability	32%
Other non-current financial assets			
-Non-listed shares (2)	Income approach-discounted cash flow	Expected profit growth rates during the projection period	-9.47%-15%
		Perpetual growth rates	2.65%-2.81%
		Perpetual dividend payout rates	80%
		Expected dividend payout rates during the projection period	27%-33%
		Discount rates	9.08%-11.77%

(1) The fair value of non-tradable listed shares are determined by market value adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

In 2022, the valuation technique of non-tradable listed shares of other equity instrument investments was changed from income approach-discounted cash flow to market approach-valuation multiples, considering the market price of the shares is more appropriate.

(2) The fair value of these 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 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.

(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, other non-current financial assets (amortized cost), trade and other payables, borrowings and lease liabilities are carried at amounts not materially different from their fair values as at December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 service lines is as follows:

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Revenue from contracts with customers within the scope of IFRS 15:				
Disaggregated by service lines				
-Traffic revenue				
- Passenger		60,017	75,392	70,534
- Cargo and mail		20,884	19,887	16,493
-Commission income		2,073	2,677	2,771
-General aviation income		431	572	508
-Cargo handling income		1,123	864	507
-Hotel and tour operation income		497	538	390
-Ground services income		282	326	210
-Air catering service income		203	271	273
-Others		1,351	885	689
		<u>86,861</u>	<u>101,412</u>	<u>92,375</u>
Revenue from other sources:				
-Rental income	19(g)	198	232	186
		<u>87,059</u>	<u>101,644</u>	<u>92,561</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.

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

As at December 31, 2022, 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 RMB3,173million (December 31, 2021: RMB3,061 million) (Note 39). This amount represents revenue expected to be recognized in the future when the customers obtain control of the goods or services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 cargo handling, hotel and tour operation, ground services, air catering services 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 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, 2022 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
Disaggregated by timing of revenue recognition					
Point in time	2,148	1,133	(747)	-	2,534
Over time	84,197	3,152	(2,824)	-	84,525
Revenue from external customers	85,935	1,124	-	-	87,059
Inter-segment sales	410	3,161	(3,571)	-	-
Reportable segment revenue	86,345	4,285	(3,571)	-	87,059
Reportable segment loss before taxation	(31,233)	(452)	(8)	167	(31,526)
Reportable segment loss after taxation	(33,339)	(549)	(8)	198	(33,698)
Other segment information					
Income tax	2,106	97	-	(31)	2,172
Interest income	549	20	(112)	-	457
Interest expense	6,096	41	(131)	-	6,006
Depreciation and amortization	23,830	430	-	-	24,260
Impairment losses	582	-	-	-	582
Credit losses	(4)	1	-	-	(3)
Share of associates and joint ventures' results	-	-	-	291	291
Gain on disposal of subsidiaries and associates	-	-	-	257	257
Changes in fair value of financial assets / liabilities	-	-	-	(388)	(388)
Non-current assets additions during the year [#]	23,739	385	(312)	-	23,812

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, 2021 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
Disaggregated by timing of revenue recognition					
Point in time	2,763	1,418	(1,171)	-	3,010
Over time	98,206	3,257	(2,829)	-	98,634
Revenue from external customers	100,419	1,225	-	-	101,644
Inter-segment sales	550	3,450	(4,000)	-	-
Reportable segment revenue	100,969	4,675	(4,000)	-	101,644
Reportable segment loss before taxation	(13,769)	(111)	2	(25)	(13,903)
Reportable segment loss after taxation	(10,998)	(67)	2	52	(11,011)
Other segment information					
Income tax	(2,771)	(44)	-	(77)	(2,892)
Interest income	763	15	(103)	-	675
Interest expense	6,291	26	(115)	-	6,202
Depreciation and amortization	23,854	380	-	-	24,234
Impairment losses	2,596	18	-	-	2,614
Credit losses	1	(2)	-	-	(1)
Share of associates and joint ventures' results	-	-	-	280	280
Changes in fair value of financial assets / liabilities	-	-	-	(309)	(309)
Non-current assets additions during the year [#]	21,457	905	(359)	-	22,003

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
Disaggregated by timing of revenue recognition					
Point in time	2,856	1,727	(1,483)	-	3,100
Over time	<u>89,196</u>	<u>2,448</u>	<u>(2,183)</u>	<u>-</u>	<u>89,461</u>
Revenue from external customers	91,722	839	-	-	92,561
Inter-segment sales	<u>330</u>	<u>3,336</u>	<u>(3,666)</u>	<u>-</u>	<u>-</u>
Reportable segment revenue	<u>92,052</u>	<u>4,175</u>	<u>(3,666)</u>	<u>-</u>	<u>92,561</u>
Reportable segment loss before taxation	<u>(14,727)</u>	<u>(112)</u>	<u>1</u>	<u>(348)</u>	<u>(15,186)</u>
Reportable segment loss after taxation	<u>(11,388)</u>	<u>(61)</u>	<u>1</u>	<u>(372)</u>	<u>(11,820)</u>
Other segment information					
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 losses	4,015	2	-	-	4,017
Credit losses	153	11	-	-	164
Share of associates and joint ventures' results	-	-	-	(467)	(467)
Changes in fair value of financial assets / liabilities	-	-	-	53	53
Non-current assets additions during the year [#]	<u>24,039</u>	<u>547</u>	<u>(49)</u>	<u>-</u>	<u>24,537</u>

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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, 2022 and December 31, 2021 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
As at December 31, 2022					
Reportable segment assets	301,356	5,677	(1,974)	6,942	312,001
Reportable segment liabilities	<u>254,087</u>	<u>3,089</u>	<u>(1,997)</u>	<u>1,708</u>	<u>256,887</u>
As at December 31, 2021					
Reportable segment assets	312,020	5,909	(1,616)	6,635	322,948
Reportable segment liabilities	<u>236,428</u>	<u>2,640</u>	<u>(1,607)</u>	<u>1,242</u>	<u>238,703</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, gain on disposal of subsidiaries and associates, 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 interests in associates and joint ventures, other equity instrument investments, other non-current financial assets, derivative financial assets and deferred tax assets.

(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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(b) Geographical information (continued)

- (2) Revenue from commission income, general aviation, cargo handling, hotel and tour operation, ground services, air catering services and other miscellaneous services are classified on the basis of where the services are performed.

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Domestic	57,256	76,517	65,137
International	29,249	24,739	27,090
Hong Kong, Macau and Taiwan	554	388	334
	<u>87,059</u>	<u>101,644</u>	<u>92,561</u>

The major revenue earning assets of the Group are 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 before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Loss before income tax				
Reportable segment loss before taxation	6(a)	(31,526)	(13,903)	(15,186)
Capitalization of exchange difference of specific loans	(i)	(25)	(8)	(9)
Government grants	(ii)	1	1	-
Consolidated loss before income tax		<u>(31,550)</u>	<u>(13,910)</u>	<u>(15,195)</u>

	Note	December 31 2022 RMB million	December 31 2021 RMB million
Assets			
Reportable segment assets	6(a)	312,001	322,948
Capitalization of exchange difference of specific loans	(i)	14	39
Government grants	(ii)	(4)	(5)
Adjustments arising from business combinations under common control	(iii)	237	237
Others		<u>(2)</u>	<u>(8)</u>
Consolidated total assets		<u>312,246</u>	<u>323,211</u>

Liabilities

As at December 31, 2022 and 2021, the amount of reportable segment liabilities is the same as the amount of consolidated total liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(c) Reconciliation of reportable segment loss 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.

7 Flight operation expenses

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Jet fuel costs	32,669	25,505	18,797
Flight personnel payroll and welfare	10,602	10,763	10,232
Air catering expenses	1,332	1,577	1,765
Civil Aviation Development Fund	704	1,059	-
Aircraft operating lease charges	791	920	977
Training expenses	898	690	857
Aircraft insurance	176	184	191
Others	4,069	4,871	4,726
	<u>51,241</u>	<u>45,569</u>	<u>37,545</u>

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(Expressed in Renminbi unless otherwise indicated)

8 Maintenance expenses

	2022 RMB million	2021 RMB million	2020 RMB million
Aviation repair and maintenance charges	6,729	7,890	9,101
Staff payroll and welfare	3,162	2,994	2,875
Maintenance materials	1,333	1,278	1,399
	<u>11,224</u>	<u>12,162</u>	<u>13,375</u>

9 Aircraft and transportation service expenses

	2022 RMB million	2021 RMB million	2020 RMB million
Landing and navigation fees	8,473	11,705	10,857
Ground service and other charges	9,033	9,442	7,886
	<u>17,506</u>	<u>21,147</u>	<u>18,743</u>

10 Promotion and selling expenses

	2022 RMB million	2021 RMB million	2020 RMB million
Ticket office expenses	2,589	2,809	2,935
Sales commissions	442	773	842
Computer reservation services	289	413	352
Advertising and promotion	80	140	121
Others	955	570	757
	<u>4,355</u>	<u>4,705</u>	<u>5,007</u>

11 General and administrative expenses

	2022 RMB million	2021 RMB million	2020 RMB million
General corporate expenses	3,255	3,282	3,572
Auditors' remuneration	15	15	20
- Audit services	14	14	17
- Non-audit services	1	1	3
Credit losses	(3)	(1)	164
Other taxes and levies	244	367	332
	<u>3,511</u>	<u>3,663</u>	<u>4,088</u>

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(Expressed in Renminbi unless otherwise indicated)

12 Depreciation and amortization

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Depreciation of property, plant and equipment	8,659	8,835	8,824
Depreciation of right-of-use assets	15,067	14,888	15,388
Other amortization	540	518	378
	<u>24,266</u>	<u>24,241</u>	<u>24,590</u>

13 Staff costs

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Salaries, wages and welfare	23,269	23,441	22,592
Defined contribution retirement scheme	2,798	2,802	2,183
Termination benefits	107	50	72
	<u>26,174</u>	<u>26,293</u>	<u>24,847</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

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Government grants (Note)	4,688	4,040	4,209
Gains/(losses) on disposal of property, plant and equipment and right-of-use assets			
-Aircraft and spare engines and construction in progress	275	149	(18)
-Other property, plant and equipment and right-of-use assets	25	214	75
Others	673	364	420
	<u>5,661</u>	<u>4,767</u>	<u>4,686</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, 2022, 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

15 Interest expense

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Interest on borrowings	2,797	2,448	1,914
Interest relating to lease liabilities (Note 21)	3,899	4,434	5,180
Total interest expense on financial liabilities not at fair value through profit or loss	6,696	6,882	7,094
Less: interest expense capitalized (Note)	(690)	(701)	(363)
	6,006	6,181	6,731
Interest rate swaps: cash flow hedge, reclassified from equity (Note 17)	-	21	(15)
	6,006	6,202	6,716

Note: The weighted average interest rate used for interest capitalization was 2.54% per annum in 2022 (2021: 2.61%; 2020: 2.51%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

16 Income tax

(a) Income tax expense/ (credit) in the consolidated income statement

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
PRC income tax			
-Provision for the year	1,854	2,159	1,716
- (Over)/ under-provision in prior year	(2)	35	48
	<u>1,852</u>	<u>2,194</u>	<u>1,764</u>
Deferred tax (Note 29)			
Origination and reversal of temporary differences	314	(5,088)	(5,132)
Income tax expense/ (credit)	<u>2,166</u>	<u>(2,894)</u>	<u>(3,368)</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 2022, the Company and its branches and subsidiaries in mainland China are subject to income tax rates ranging from 15% to 25% (2021: 15% to 25%, 2020: 15% to 25%), and certain subsidiaries of the Company in Hong Kong are subject to income tax at 16.5% (2021: 16.5%; 2020: 16.5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

16 Income tax (continued)

(b) Reconciliation between actual income tax expense/ (credit) and calculated tax based on accounting loss at applicable income tax rates

	2022 RMB million	2021 RMB million	2020 RMB million
Loss before income tax	<u>(31,550)</u>	<u>(13,910)</u>	<u>(15,195)</u>
Notional tax on loss before taxation, calculated at the rates applicable to loss in the tax jurisdictions concerned (Note 16(a))	(7,678)	(3,380)	(3,667)
Adjustments for tax effect of:			
Non-deductible expenses	90	96	102
Share of results of associates and joint ventures and other non-taxable income	(76)	(70)	111
Unused tax losses and deductible temporary differences for which no deferred tax assets were recognized	6,956	489	80
Reversal of tax losses recognized as deferred tax assets in prior years	2,916	-	-
Utilization of unused tax losses and deductible temporary differences for which no deferred tax assets were recognized in prior years	(1)	(32)	(8)
(Over)/ under-provision in prior year	(2)	35	48
Super deduction of research and development expenses	(39)	(32)	(34)
Income tax expense/ (credit)	<u>2,166</u>	<u>(2,894)</u>	<u>(3,368)</u>

[Table of Contents](#)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Expressed in Renminbi unless otherwise indicated)***17 Other comprehensive income**

	2022 RMB million	2021 RMB million	2020 RMB million
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognized during the year	-	21	(30)
Reclassification adjustments for amounts transferred to profit or loss:			
- interest expense (Note 15)	-	21	(15)
Net deferred tax (debited)/ credited to other comprehensive income	-	(10)	11
	<u>-</u>	<u>32</u>	<u>(34)</u>
Equity investments measured at FVOCI:			
Changes in fair value recognized during the year	142	(236)	(250)
Net deferred tax (debited)/credited to other comprehensive income	(35)	60	63
	<u>107</u>	<u>(176)</u>	<u>(187)</u>
Share of other comprehensive income of associates			
Will not be reclassified to profit or loss	-	(2)	(2)
Are or may be reclassified subsequently to profit or loss	-	3	(3)
	<u>-</u>	<u>1</u>	<u>(5)</u>
Differences resulting from the translation of foreign currency financial statements	<u>1</u>	<u>-</u>	<u>8</u>
Other comprehensive income for the year	<u>108</u>	<u>(143)</u>	<u>(218)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

18 Loss per share

The calculation of basic loss per share for the year ended December 31, 2022 is based on the loss attributable to equity shareholders of the Company of RMB32,699 million (2021: RMB12,106 million, 2020: RMB10,847 million) and the weighted average of 17,205,242,710 shares in issue during the year (2021: 16,201,129,384 shares, 2020: 14,056,887,174 shares).

	2022	2021	2020
	million	million	million
Issued ordinary shares at January 1	16,948	15,329	12,267
Effect of issuance of shares	257	872	1,790
Weighted average number of ordinary shares at December 31	<u>17,205</u>	<u>16,201</u>	<u>14,057</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 years ended December 31, 2022, 2021 and 2020.

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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
Cost:						
At January 1, 2021	522	21,475	114,380	25,025	9,936	171,338
Additions	-	66	2,855	487	668	4,076
Transferred from construction in progress (Note 20)	-	2,097	8,796	434	486	11,813
Reclassification on change of holding intention						
- transferred to other property, plant and equipment	(32)	32	-	-	-	-
- transferred from other property, plant and equipment	50	(50)	-	-	-	-
Transferred to assets held for sale	-	-	(6,309)	(152)	-	(6,461)
Transferred from right-of-use assets on exercise of purchase option (Note 21)	-	-	2,761	-	-	2,761
Others	9	-	-	-	-	9
Disposals	(8)	(115)	(6,393)	(441)	(556)	(7,513)
At December 31, 2021	541	23,505	116,090	25,353	10,534	176,023
At January 1, 2022	541	23,505	116,090	25,353	10,534	176,023
Additions	-	30	2,356	554	430	3,370
Transferred from construction in progress (Note 20)	-	788	4,360	65	141	5,354
Transferred from other assets (Note 30)	-	1,012	88	-	-	1,100
Reclassification on change of holding intention						
- transferred to other property, plant and equipment	(122)	122	-	-	-	-
- transferred from other property, plant and equipment	146	(146)	-	-	-	-
Transferred from right-of-use assets on exercise of purchase option (Note 21)	-	-	7,032	246	-	7,278
Transferred from right-of-use assets to investment properties (Note 21)	19	-	-	-	-	19
Transferred to assets held for sale (e)	-	-	(2,861)	-	-	(2,861)
Disposals						
- disposals (c)	(7)	(65)	(10,558)	(186)	(221)	(11,037)
- disposal of subsidiaries (d)	-	(62)	-	(2,114)	(39)	(2,215)
At December 31, 2022	577	25,184	116,507	23,918	10,845	177,031

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
Accumulated depreciation and impairment losses:						
At January 1, 2021	210	5,440	59,517	14,308	5,717	85,192
Depreciation charge for the year	16	712	5,673	1,394	1,040	8,835
Reclassification on change of holding intention						
- transferred to other property, plant and equipment	(19)	19	-	-	-	-
- transferred from other property, plant and equipment	35	(35)	-	-	-	-
Transferred to assets held for sale	-	-	(2,746)	(66)	-	(2,812)
Transferred from right-of-use assets on exercise of purchase option (Note 21)	-	-	1,202	-	-	1,202
Disposals	(6)	(28)	(4,270)	(406)	(414)	(5,124)
Provision for impairment losses	-	-	914	80	-	994
Impairment losses transferred to assets held for sale	-	-	(2,581)	(60)	-	(2,641)
Impairment losses written-off on disposals	-	-	(809)	-	-	(809)
At December 31, 2021	236	6,108	56,900	15,250	6,343	84,837
At January 1, 2022	236	6,108	56,900	15,250	6,343	84,837
Depreciation charge for the year	19	758	5,601	1,215	1,066	8,659
Reclassification on change of holding intention						
- transferred to other property, plant and equipment	(38)	38	-	-	-	-
- transferred from other property, plant and equipment	25	(25)	-	-	-	-
Transferred from right-of-use assets on exercise of purchase option (Note 21)	-	-	3,680	58	-	3,738
Transferred from right-of-use assets to Investment properties (Note 21)	1	-	-	-	-	1
Transferred to assets held for sale (e)	-	-	(2,178)	-	-	(2,178)
Disposals						
-disposals (c)	(7)	(29)	(7,239)	(137)	(185)	(7,597)
-disposal of subsidiaries (d)	-	(39)	-	(1,279)	(29)	(1,347)
Provision for impairment losses (a)	-	-	348	68	-	416
Impairment losses transferred from right-of-use assets (Note 21)	-	-	429	-	-	429
Impairment losses written-off on disposals (c)	-	-	(444)	-	-	(444)
At December 31, 2022	236	6,811	57,097	15,175	7,195	86,514
Net book value:						
At December 31, 2022	341	18,373	59,410	8,743	3,650	90,517
At December 31, 2021	305	17,397	59,190	10,103	4,191	91,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

19 Property, plant and equipment, net (continued)

- (a) As at December 31, 2022, the Group reported aircraft and related equipment in the amount of RMB192,737 million. For the year ended December 31, 2022, the Group made impairment provision of RMB449 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 RMB416 million, and the impairment provision for leased aircraft and related equipment were RMB33 million (Note 21). 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 appraisal results valued by external appraisal expert based on the cost method or market method.
- (b) As at December 31, 2022, no property, plant and equipment of the Group were mortgaged for bank borrowings (December 31, 2021: nil).
- (c) During the year, the Group disposed certain aircraft directly and disposed certain aircraft through sale and leaseback agreement, against which cost, accumulated depreciation and impairment losses of the aircraft had been reduced with an aggregate amount of RMB8,662 million, RMB5,620 million and RMB444 million respectively.

During the year, the Group derecognized certain aircraft under finance lease agreements as a lessor, against which cost and accumulated depreciation of the aircraft had been reduced with an aggregate amount of RMB241 million and RMB0 respectively, and a long-term receivable was recognized accordingly. As at December 31, 2022, the balance of long-term receivable was RMB896 million (including the balance due within one year) (December 31, 2021: RMB783 million) (Note 26).

- (d) During the year, the Group lost control of Southern Airlines General Aviation Company Limited ("General Aviation Limited") (Note 23(iii)) and certain property, plant and equipment, right-of-use assets and other assets held by General Aviation Limited with carrying value of approximately RMB868 million, RMB75 million and RMB1 million were derecognized respectively.
- (e) During the year, certain aircrafts with carrying amount of RMB683 million were classified as held for sale as the carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- (f) As at December 31, 2022 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 certain properties located in mainland China, in which the Group has interests and for which such certificates have not been granted. As at December 31, 2022, carrying value of such properties of the Group amounted to RMB11,085 million (December 31, 2021: RMB10,554 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.
- (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 totalling RMB198 million (2021: RMB232 million; 2020: RMB186 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:

	2022	2021
	RMB	RMB
	million	million
Within 1 year	32	47
After 1 year but within 5 years	89	130
After 5 years	33	72
	<u>154</u>	<u>249</u>

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(Expressed in Renminbi unless otherwise indicated)

19 Property, plant and equipment, net (continued)

(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:

Components related to engine overhaul costs	Before the change	After the change
Expected useful lives/Expected flying hours		9-42
	3-5.5 years	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

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20 Construction in progress

	Advance payment for aircraft and flight equipment RMB million	Others RMB million	Total RMB million
At January 1, 2021	29,342	3,065	32,407
Additions	10,464	1,821	12,285
Transferred to property, plant and equipment (Note 19)	(9,230)	(2,583)	(11,813)
Transferred to right-of-use assets (Note 21)	(454)	(61)	(515)
Transferred to others	-	(517)	(517)
At December 31, 2021	<u>30,122</u>	<u>1,725</u>	<u>31,847</u>
At January 1, 2022	30,122	1,725	31,847
Additions	11,918	957	12,875
Transferred to property, plant and equipment (Note 19)	(4,425)	(929)	(5,354)
Transferred to right-of-use assets (Note 21)	(5,777)	-	(5,777)
Transferred to others (Note 30)	-	(291)	(291)
At December 31, 2022	<u>31,838</u>	<u>1,462</u>	<u>33,300</u>

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21 Right-of-use assets

	Aircraft and engines RMB million	Land use rights RMB million	Buildings RMB million	Others RMB million	Total RMB million
Cost:					
At January 1, 2021	220,701	6,481	3,022	765	230,969
Additions	3,493	343	1,194	243	5,273
Transferred from construction in progress (Note 20)	302	61	-	152	515
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(2,761)	-	-	-	(2,761)
Transferred to assets held for sale	(1,582)	-	-	-	(1,582)
Disposals	(5,959)	(75)	(931)	(26)	(6,991)
At December 31, 2021	<u>214,194</u>	<u>6,810</u>	<u>3,285</u>	<u>1,134</u>	<u>225,423</u>
At January 1, 2022	214,194	6,810	3,285	1,134	225,423
Additions	5,500	12	579	11	6,102
Transferred from construction in progress (Note 20)	5,706	-	-	71	5,777
Transferred from right-of-use assets to investment properties (Note 19)	-	(19)	-	-	(19)
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(7,032)	-	-	(246)	(7,278)
Disposals					
- disposals	(1,607)	(53)	(582)	(145)	(2,387)
- disposal of subsidiaries (Note 19(d))	-	(47)	(13)	(64)	(124)
At December 31, 2022	<u>216,761</u>	<u>6,703</u>	<u>3,269</u>	<u>761</u>	<u>227,494</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	Buildings RMB million	Others RMB million	Total RMB million
Accumulated amortization and impairment losses:					
At January 1, 2021	77,338	947	1,502	117	79,904
Amortization charge for the year	13,616	140	954	178	14,888
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(1,202)	-	-	-	(1,202)
Transferred to assets held for sale	(616)	-	-	-	(616)
Disposals	(5,959)	-	(913)	(21)	(6,893)
Provision for impairment losses	1,585	-	-	-	1,585
Impairment losses transferred to assets held for sale	(682)	-	-	-	(682)
At December 31, 2021	<u>84,080</u>	<u>1,087</u>	<u>1,543</u>	<u>274</u>	<u>86,984</u>
At January 1, 2022	84,080	1,087	1,543	274	86,984
Amortization charge for the year	13,767	173	937	190	15,067
Transferred to property, plant and equipment on exercise of purchase option (Note 19)	(3,680)	-	-	(58)	(3,738)
Transferred from right-of-use assets to investment properties (Note 19)	-	(1)	-	-	(1)
Disposals					
- disposals	(1,594)	(25)	(563)	(145)	(2,327)
- disposal of subsidiaries (Note 19(d))	-	(12)	(6)	(31)	(49)
Impairment losses transferred to property, plant and equipment (Note 19)	(429)	-	-	-	(429)
Provision for impairment losses (Note 19(a))	33	-	-	-	33
At December 31, 2022	<u>92,177</u>	<u>1,222</u>	<u>1,911</u>	<u>230</u>	<u>95,540</u>
Net book value:					
At December 31, 2022	<u>124,584</u>	<u>5,481</u>	<u>1,358</u>	<u>531</u>	<u>131,954</u>
At December 31, 2021	<u>130,114</u>	<u>5,723</u>	<u>1,742</u>	<u>860</u>	<u>138,439</u>

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 2073.

As at December 31, 2022 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, 2022, carrying value of such land use rights of the Group amounted to RMB2,903 million (December 31, 2021: RMB2,987 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, 2022, no land use right of the Group was mortgaged for bank borrowings (December 31, 2021: nil).

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:

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Interest on lease liabilities (Note 15)	3,899	4,434	5,180
Interest rate swaps: cash flow hedge, reclassified from equity (Note 15)	-	21	(15)
Expense relating to short-term leases	1,067	1,241	1,257
Expense relating to leases of variable lease payments not included in the measurement of lease liabilities	88	124	106

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 37 respectively.

The Group early adopted the Amendment to IFRS 16, COVID-19-related rent concessions beyond June 30, 2021 and applied the practical expedient to all leases except for aircraft and engine leases with eligible rent concessions received by the Group during the year. There is no rent concession received for the year ended December 31, 2022 (December 31, 2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 Goodwill

	2022	2021
	RMB	RMB
	million	million
Cost and carrying amount:	<u>237</u>	<u>237</u>

Impairment tests for cash-generating units containing goodwill

	2022	2021
	RMB	RMB
	million	million
Southern Airlines Group Import and Export Trading Company (“SAIETC”)	182	182
Xiamen Airlines Culture and Media Co., Ltd.	55	55
Total	<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% (2021: 10.5% to 13.5%).

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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>
Xiamen Airlines Company Limited (“Xiamen Airlines”) (i)	PRC	RMB14,000,000,000	55%	Airline transportation
China Southern Airlines Henan Airlines Company Limited (i)	PRC	RMB6,000,000,000	60%	Airline transportation
Chongqing Airlines Company Limited (i)	PRC	RMB1,200,000,000	60%	Airline transportation
Shantou Airlines Company Limited (i)	PRC	RMB280,000,000	60%	Airline transportation
Zhuhai Airlines Company Limited (i)	PRC	RMB250,000,000	60%	Airline transportation
Guizhou Airlines Company Limited (i)	PRC	RMB1,281,000,000	60%	Airline transportation
China Southern Air Logistics Co., Ltd. (“Logistics Company”) (i)	PRC	RMB1,818,181,820	55%	Logistics operations
Guangzhou Nanland Air Catering Company Limited (ii)	PRC	RMB240,000,000	70.50%	Air catering
Beijing Southern Airlines Ground Services Company Limited (i)	PRC	RMB100,000,000	100%	Airport ground services
Nan Lung International Freight Limited	Hong Kong	HKD3,270,000	51%	Freight services

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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	RMB30,000,000	100%	Import and export agent services
Zhuhai Xiang Yi Aviation Technology Company Limited (i)	PRC	RMB469,848,400	100%	Flight simulation services
China Southern Airlines Xiongan Airlines Company Limited (i)	PRC	RMB10,000,000,000	100%	Airline transportation
Shenyang Northern Aircraft Maintenance Co., Ltd. (i)	PRC	RMB31,520,545	100%	Aircraft repair and maintenance services
Guangdong Southern Airline Pearl Aviation Services Company Limited (i)	PRC	RMB5,000,000	100%	Hotel management services
Southern Airlines Nansha Finance Leasing (Guangzhou) Co., Ltd. (i)	PRC	RMB2,000,000,000	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) General Aviation Limited

On December 18, 2020, certain third parties invested into General Aviation Limited by means of capital injection and acquisition of the Company's partial equity interests in General Aviation Limited, the Company's equity interests in General Aviation Limited were decreased from 100% to 57.88%. Changes in the Company's equity interests do not result in a loss of control of General Aviation Limited.

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 General Aviation Limited disposed	<u>667</u>
Other reserves in equity	<u>175</u>

General Aviation Limited was disposed on September 27, 2022 at a consideration of RMB1,177 million. Since then, the Group lost control of General Aviation Limited, and General Aviation Limited was no longer within the consolidation scope. The operating results and cash flow of General Aviation Limited before disposal had been included in the consolidated income statement and consolidated cash flow statement of the Group this year. The Group recognized a net gain of RMB215 million on disposal of General Aviation Limited.

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23 Subsidiaries (continued)

(iv) Logistics Company

On December 24, 2020, certain third parties made capital injections into Logistics Company, causing a decrease of the Company's equity interests in Logistics Company from 100% to 55%. Changes in the Company's equity interests do not result in a loss of control of Logistics Company.

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 Logistics Company disposal	<u>2,830</u>
Other reserves in equity	<u>525</u>

(v) China Southern West Australian Flying College Pty Ltd. ("Flying College")

Flying College, a former subsidiary of the Company, went into liquidation process on December 21, 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.

(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 Logistics Company as capital injection. Since then, Baiyun Logistic became an indirect subsidiary of the Company through Logistics Company.

The above transactions had the following effect on the Group's other reserves in equity:

	RMB million
Cash consideration paid	260
Less: Portion of net assets of Baiyun Logistic acquired	<u>105</u>
Other reserves in equity	<u>155</u>

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23 Subsidiaries (continued)

(vii) Material non-controlling interests

As at December 31, 2022, the balance of total non-controlling interests is RMB14,084 million (December 31, 2021: RMB16,657 million), of which RMB 8,100 million (December 31, 2021: RMB9,103 million) is for Xiamen Airlines and RMB 6,058 million (December 31, 2021: RMB4,814 million) is for Logistics Company. The rest of non-controlling interests are not individually material.

- Set out below are the summarized financial information for Xiamen Airlines.

	2022 RMB million	2021 RMB million
Non-controlling interests percentage	45%	45%
Current assets	4,016	3,137
Non-current assets	47,173	48,775
Current liabilities	(18,235)	(18,601)
Non-current liabilities	(15,442)	(13,781)
Net assets	17,512	19,530
Carrying amount of non-controlling interests	8,100	9,103
Revenue	20,079	21,037
Loss for the year	(2,122)	(938)
Total comprehensive income	(2,018)	(1,071)
Loss allocated to non-controlling interests	(1,049)	(455)
Dividend paid to non-controlling interests	-	-
Net cash generated from operating activities	3,423	4,291
Net cash used in investing activities	(1,999)	(1,099)
Net cash used in financing activities	(1,489)	(2,529)

- Set out below are the summarized financial information for Logistics Company.

	2022 RMB million	2021 RMB million
Non-controlling interests percentage	45%	45%
Current assets	10,330	12,124
Non-current assets	6,543	2,046
Current liabilities	(3,535)	(3,505)
Non-current liabilities	(50)	(91)
Net assets	13,288	10,574
Carrying amount of non-controlling interests	6,058	4,814
Revenue	21,538	19,659
Profit for the year	4,654	5,693
Total comprehensive income	4,654	5,693
Profit allocated to non-controlling interests	2,113	2,572
Dividend paid to non-controlling interests	881	650
Net cash generated from operating activities	4,069	6,872
Net cash generated from/ (used) in investing activities	1,659	(3,390)
Net cash used in financing activities	(3,306)	(2,486)

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24 Interest in associates

	2022 RMB million	2021 RMB million
Share of net assets	2,588	2,637

All the Group's associates are unlisted without quoted market price. The particulars of the Group's principal associates as at December 31, 2022 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. ("Finance Company")	PRC	48.59%	41.81%	6.78%	48.59%	Provision of 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
Beijing Xingming Lake Jinyan Hotel Co., Ltd.	PRC	49%	-	49%	49%	Catering and accommodation services
Shangzhou Aviation Logistics Co., Ltd.	PRC	37.90%	-	37.90%	37.90%	Airline transportation
Beijing Airport Inflight Kitchen Co., Ltd.	PRC	30%	30%	-	30%	Air catering 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.

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24 Interest in associates (continued)

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:

	2022 RMB million	2021 RMB million	2020 RMB million
Aggregate carrying amount of individually immaterial associates	2,588	2,637	2,449
Aggregate amounts of the Group's share of:			
(Loss)/profit from continuing operations	(13)	9	(776)
Other comprehensive income	-	1	(5)
Total comprehensive income	<u>(13)</u>	<u>10</u>	<u>(781)</u>

(i) Disposal of associates

In 2022, the Group fully disposed its equity interests in Beijing Xinghang Airport Property Company Limited at a consideration of RMB43 million and recorded a disposal gain of RMB42 million. In addition, the Group disposed Xiahang Travel Service Company Limited (Taiwan) through liquidation.

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25 Interest in joint ventures

	2022	2021
	RMB	RMB
	million	million
Share of net assets	<u>3,618</u>	<u>3,341</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, 2022 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:

	2022	2021	2020
	RMB	RMB	RMB
	million	million	million
Aggregate carrying amount of individually immaterial joint ventures	3,618	3,341	3,225
Aggregate amounts of the Group's share of:			
Profit from continuing operations and total comprehensive income	<u>304</u>	<u>271</u>	<u>309</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 Financial assets

	Notes	2022 RMB million	2021 RMB million
Other equity instrument investments (FVOCI)	(i)		
- Non-tradable listed shares		659	523
- Non-listed shares		-	40
		<u>659</u>	<u>563</u>
Other non-current financial assets (FVPL)	(i)		
- Listed shares		21	68
- Non-listed shares		28	27
Other non-current financial assets (amortized cost)	(ii)		
- Long-term receivables		387	494
		<u>436</u>	<u>589</u>

Notes:

- (i) Dividend income generated from the investments amounted to RMB7 million for the year of 2022 in total (2021: RMB4 million).
- (ii) In 2022 and 2021, the Group derecognized certain aircraft under finance lease agreements as a lessor and recognized long-term receivables. As at December 31, 2022, long-term receivables (including the portion due within one year) was RMB896 million (December 31, 2021: RMB783 million) (Note 19(c)), among which RMB404 million was recorded in the amounts due from related companies (December 31, 2021: RMB183 million) (Note 42(a)).

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27 Derivative financial assets/(liabilities)

	Note	2022 RMB million	2021 RMB million
<i>Derivative financial assets:</i>			
Interest rate swaps	(i)		
- Non-current		27	-
- Current		2	-
<i>Derivative financial liabilities:</i>			
Interest rate swaps	(i)		
- Non-current		-	(20)
Derivative component of convertible bonds			
- Current	(ii)	(1,708)	(1,222)

Notes:

- (i) 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, 2022 amounted to USD123 million (December 31, 2021: USD190 million).
- (ii) 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 annual 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.

For the year ended December 31, 2022, 1,920 convertible bonds were converted to A shares (for the year ended December 31, 2021, 101,034,070 convertible bonds were converted to A shares) at the conversion price from RMB6.17 per share to RMB6.24 per share. As at December 31, 2022, the carrying amount of liability component of the remaining 58,964,010 A share convertible bonds was RMB5,250 million (December 31, 2021: 58,965,930 A share convertible bonds with a carrying amount of RMB4,992 million) (Note 36(a)), and the fair value of the derivative component of the remaining 58,964,010 A share convertible bonds was RMB1,708 million (December 31, 2021: 58,965,930 A share convertible bonds with fair value of RMB1,222 million). For the year ended December 31, 2022, the loss on the changes in fair value of the derivative component amounted to RMB486 million was recognized (December 31, 2021: loss on the changes in fair value amounted to RMB 269 million) (Note 28).

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28 Changes in fair value of financial assets/ liabilities

	2022	2021
	RMB	RMB
	million	million
Other non-current financial assets (FVPL)	(3)	3
Interest rate swaps measured at FVPL	49	17
Forward foreign exchange and foreign exchange options contracts	52	(60)
Derivative component of convertible bonds (Note 27(ii))	(486)	(269)
	<u>(388)</u>	<u>(309)</u>

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29 Deferred tax assets / (liabilities)

(a) Movements of net deferred tax assets are as follows:

	At December 31, 2021 RMB million	(Charged)/ credited to consolidated income statement RMB million	Charged to other comprehensive income RMB Million	(Charged)/ credited to retain earnings RMB Million	Disposal of subsidiaries RMB Million	At December 31, 2022 RMB million
For the year ended December 31, 2022						
Deferred tax assets:						
Net effect on right-of-use assets	1,575	(102)	-	-	-	1,473
Accrued expenses	1,542	788	-	-	-	2,330
Provision for major overhauls	483	103	-	-	-	586
Contract liabilities/other non-current liabilities	56	(21)	-	-	-	35
Provision for impairment losses	1,493	(875)	-	-	-	618
Provision for tax losses	8,093	(147)	-	14	-	7,960
Change in fair value of derivative financial instruments	22	109	-	-	-	131
Change in fair value of other equity instrument investments	15	-	(1)	(14)	-	-
Depreciation allowances under tax in excess of the related depreciation under accounting	74	(74)	-	-	-	-
Others	142	49	-	-	(1)	190
	<u>13,495</u>	<u>(170)</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>13,323</u>
Deferred tax liabilities:						
Accrued expenses	(6)	6	-	-	-	-
Depreciation allowances under tax in excess of the related depreciation under accounting	(519)	(166)	-	-	-	(685)
Change in fair value of other equity instrument investments	(121)	-	(34)	-	-	(155)
Change in fair value of other non-current financial assets	(17)	8	-	-	-	(9)
Fair value re-measurement of identifiable assets in business combination	(25)	2	-	-	-	(23)
Others	(10)	6	-	-	-	(4)
	<u>(698)</u>	<u>(144)</u>	<u>(34)</u>	<u>-</u>	<u>-</u>	<u>(876)</u>
Net deferred tax assets	<u>12,797</u>	<u>(314)</u>	<u>(35)</u>	<u>-</u>	<u>(1)</u>	<u>12,447</u>

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29 Deferred tax assets / (liabilities) (continued)

(a) **Movements of net deferred tax assets are as follows (continued):**

	At December 31, 2020 RMB million	(Charged)/ credited to consolidated income statement RMB million	(Charged)/ credited to other comprehensive income RMB million	At December 31, 2021 RMB million
For the year ended December 31, 2021				
Deferred tax assets:				
Net effect on right-of-use assets	1,307	268	-	1,575
Accrued expenses	1,456	86	-	1,542
Provision for major overhauls	361	122	-	483
Contract liabilities/other non-current liabilities	57	(1)	-	56
Provision for impairment losses	1,118	375	-	1,493
Provision for tax losses	4,288	3,805	-	8,093
Change in fair value of derivative financial instruments	10	22	(10)	22
Change in fair value of other equity instrument investments	-	-	15	15
Depreciation allowances under tax in excess of the related depreciation under accounting	-	74	-	74
Others	130	12	-	142
	<u>8,727</u>	<u>4,763</u>	<u>5</u>	<u>13,495</u>
Deferred tax liabilities:				
Accrued expenses	(144)	138	-	(6)
Depreciation allowances under tax in excess of the related depreciation under accounting	(669)	150	-	(519)
Change in fair value of other equity instrument investments	(166)	-	45	(121)
Change in fair value of other non-current financial assets	(16)	(1)	-	(17)
Change in fair value of derivative financial liabilities	(34)	34	-	-
Fair value re-measurement of identifiable assets in business combination	(27)	2	-	(25)
Others	(12)	2	-	(10)
	<u>(1,068)</u>	<u>325</u>	<u>45</u>	<u>(698)</u>
Net deferred tax assets	<u>7,659</u>	<u>5,088</u>	<u>50</u>	<u>12,797</u>

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. 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). Therefore, the Group's tax losses occurred in 2020 can be carried forward for 5-8 years, and the Group's tax losses occurred in other years can be carried forward for 5 years.

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29 Deferred tax assets / (liabilities) (continued)

(b) Reconciliation to the consolidated statement of financial position:

	2022 RMB million	2021 RMB million
Net deferred tax asset recognized in the statement of financial position	12,471	12,823
Net deferred tax liability recognized in the statement of financial position	(24)	(26)
	<u>12,447</u>	<u>12,797</u>

(c) Deferred tax assets not recognized

The Group's unused tax losses of RMB43,348 million (2021: RMB3,020 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:

	2022 RMB million	2021 RMB million
Expiring in :		
2022	-	82
2023	109	109
2024	336	336
2025	157	-
2026	11,715	1,515
2027	27,317	-
2028	3,714	978
	<u>43,348</u>	<u>3,020</u>

As at December 31, 2022, the Group's other deductible temporary differences amounting to RMB1,610 million (December 31, 2021: RMB1,094 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.

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30 Other assets

	Software RMB million	Leasehold improvements RMB million	Others RMB Million (Note)	Total RMB million
At January 1, 2021	608	284	1,985	2,877
Additions	83	43	253	379
Transferred from construction in progress	474	28	-	502
Disposal	-	(7)	(4)	(11)
Amortization for the year	(330)	(105)	(83)	(518)
Provision for impairment losses	-	(18)	-	(18)
At December 31, 2021	<u>835</u>	<u>225</u>	<u>2,151</u>	<u>3,211</u>
At January 1, 2022	835	225	2,151	3,211
Additions	297	12	123	432
Transferred from construction in progress (Note 20)	272	19	-	291
Transferred to property, plant and equipment (Note 19)	-	-	(1,100)	(1,100)
Transferred to others	-	-	(18)	(18)
Disposal	(1)	-	-	(1)
Disposal of subsidiaries (Note 19(d))	(1)	-	-	(1)
Amortization for the year	(336)	(91)	(113)	(540)
At December 31, 2022	<u>1,066</u>	<u>165</u>	<u>1,043</u>	<u>2,274</u>

Note: As at December 31, 2022, the amounts include prepayments of RMB495 million made to related parties for acquisition of long-term assets (December 31, 2021: RMB1,302 million) (Note 42(b)&50(c)).

31 Inventories

	2022 RMB million	2021 RMB million
Consumable spare parts and maintenance materials	1,444	1,559
Other supplies	153	173
	<u>1,597</u>	<u>1,732</u>
Less: provision	(210)	(80)
	<u>1,387</u>	<u>1,652</u>

Provision for inventories is shown as below:

	2022 RMB million	2021 RMB million
At January 1	80	72
Provision for inventories	133	17
Written-off upon disposal	(2)	(9)
Disposal of subsidiaries	(1)	-
At December 31	<u>210</u>	<u>80</u>

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32 Trade receivables

	2022	2021
	RMB	RMB
	million	million
Trade receivables	2,672	2,897
Less: loss allowance	(53)	(39)
	<u>2,619</u>	<u>2,858</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:

	2022	2021
	RMB	RMB
	million	million
Within 1 month	1,942	2,337
More than 1 month but less than 3 months	425	273
More than 3 months but less than 12 months	231	236
More than 1 year	74	51
	<u>2,672</u>	<u>2,897</u>
Less: loss allowance	(53)	(39)
	<u>2,619</u>	<u>2,858</u>

All of the trade receivables are expected to be recovered within one year.

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32 Trade receivables (continued)

(b) Trade receivables by currencies

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2022	2021
	RMB	RMB
	million	million
RMB	2,399	2,631
USD	189	195
EURO	8	16
HKD	5	11
AUD	17	9
BDT	7	7
Others	47	28
	<u>2,672</u>	<u>2,897</u>

33 Other receivables

		2022	2021
	Notes	RMB	RMB
		million	million
VAT recoverable		5,609	7,854
Government grants receivables	(i)	985	474
Rebate receivables on aircraft acquisitions		493	302
Other deposits		166	155
Others	(ii)	822	972
		<u>8,075</u>	<u>9,757</u>
Less: loss allowance	(iii)	(136)	(158)
		<u>7,939</u>	<u>9,599</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 RMB177 million (December 31, 2021: RMB227 million), which have a maturity over 3 months at acquisition. The weighted average annualized interest rate of term deposits as at December 31, 2022 was 1.91% (December 31, 2021: 1.95%).
- (iii) The Group lost control of Flying College in December 2020 (Note 23 (v)). As at December 31, 2021 and 2020, prepayment of training expenses made to Flying College amounting to RMB148 million was fully impaired. In 2022, as the unsecured creditor, the Group received an interim amount of the liquidation distribution from Flying College in the amount of RMB29 million, and thus reversed loss allowance of RMB29 million accordingly.

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(Expressed in Renminbi unless otherwise indicated)

34 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2022	2021
	RMB	RMB
	million	million
Deposits in banks and other financial institution	1,173	1
Cash at bank and other financial institution and on hand	18,716	21,455
Cash and cash equivalents in the consolidated statement of financial position	<u>19,889</u>	<u>21,456</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2022	2021
	RMB	RMB
	million	million
RMB	17,864	20,457
USD	1,645	782
EURO	180	88
AUD	23	20
JPY	27	12
HKD	45	31
Others	105	66
	<u>19,889</u>	<u>21,456</u>

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(Expressed in Renminbi unless otherwise indicated)

34 Cash and cash equivalents (continued)

(b) Reconciliation of loss before income tax to cash generated from operating activities

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Loss before income tax		(31,550)	(13,910)	(15,195)
Adjustments for:				
Depreciation and amortization	12	24,266	24,241	24,590
Impairment losses on property, plant and equipment	19	416	994	3,279
Impairment losses on right-of-use assets	21	33	1,585	682
Impairment losses on other assets	30	-	18	-
Disposal of subsidiaries		(215)	-	8
Disposal of associates		(42)	-	-
Credit losses	11	(3)	(1)	164
Share of associates' results	24	13	(9)	776
Share of joint ventures' results	25	(304)	(271)	(309)
Gain on disposal of property, plant and equipment and construction in progress	14	(300)	(363)	(57)
Changes in fair value of financial assets/ liabilities	28	388	309	(53)
Interest income		(457)	(675)	(322)
Interest expense	15	6,006	6,202	6,716
Dividends income from other non-current financial assets	26	(7)	(4)	(23)
Exchange loss/ (gain), net		3,496	(1,524)	(3,170)
Changes in working capital:				
Decrease in inventories		187	108	133
Increase/ (decrease) in contract liabilities and other non-current liabilities		73	(85)	(134)
Decrease in sales in advance of carriage		(333)	(281)	(6,306)
Increase/ (decrease) in deferred benefits and gains	46	35	(44)	(64)
Decrease/ (increase) in operating receivables		1,364	(1,593)	1,408
Increase/ (decrease) in operating payables		2,741	580	(1,396)
Cash generated from operating activities		<u>5,807</u>	<u>15,277</u>	<u>10,727</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:

	<i>Bank loans and other borrowings</i> RMB million (Note 36)	<i>Lease liabilities</i> RMB million (Note 37)	<i>Interest rate swaps (liabilities/ asset)</i> RMB million (Note 27)	<i>Derivative component of convertible bonds</i> RMB million (Note 27)	<i>Total RMB million</i>
At January 1, 2022	96,267	102,749	20	1,222	200,258
Changes from financing cash flows:					
Proceeds from bank borrowings	75,429	-	-	-	75,429
Proceeds from ultra-short-term financing bills	27,500	-	-	-	27,500
Proceeds from corporate bonds	3,900	-	-	-	3,900
Repayment of bank borrowings	(36,359)	-	-	-	(36,359)
Repayment of ultra-short-term financing bills	(39,600)	-	-	-	(39,600)
Repayment of corporate bonds	(7,500)	-	-	-	(7,500)
Capital element of lease rentals paid(Note 34(d))	-	(21,960)	-	-	(21,960)
Total changes from financing cash flows	23,370	(21,960)	-	-	1,410
Exchange adjustments	(42)	3,497	-	-	3,455
Changes in fair value	-	-	(49)	486	437
Other changes:					
Increase in lease liabilities from entering into new leases during the year (Note 52)	-	10,476	-	-	10,476
Amortization amount of convertible bonds	275	-	-	-	275
Impact of accrued interest expense	(90)	-	-	-	(90)
Total other changes	185	10,476	-	-	10,661
At December 31, 2022	<u>119,780</u>	<u>94,762</u>	<u>(29)</u>	<u>1,708</u>	<u>216,221</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> RMB million	<i>Lease liabilities</i> RMB million (Note 37)	<i>Interest rate swaps (liabilities/assets)</i> RMB million (Note 27)	<i>Derivative component of convertible bonds</i> RMB million (Note 27)	<i>Total RMB million</i>
At January 1, 2021	(Note 36) 78,233	121,213	53	3,092	202,591
Changes from financing cash flows:					
Proceeds from bank borrowings	76,910	-	-	-	76,910
Proceeds from ultra-short-term financing bills	82,500	-	-	-	82,500
Proceeds from corporate bonds	9,000	-	-	-	9,000
Repayment of bank borrowings	(70,437)	-	-	-	(70,437)
Repayment of ultra-short-term financing bills	(68,900)	-	-	-	(68,900)
Repayment of corporate bonds	(3,749)	-	-	-	(3,749)
Capital element of lease rentals paid (Note 34(d))	-	(21,613)	-	-	(21,613)
Total changes from financing cash flows	25,324	(21,613)	-	-	3,711
Exchange adjustments	-	(1,474)	-	-	(1,474)
Changes in fair value	-	-	(33)	269	236
Other changes:					
Increase in lease liabilities from entering into new leases during the year (Note 52)	-	4,623	-	-	4,623
Conversion of convertible bonds to ordinary shares (Note 52)	(8,317)	-	-	(2,139)	(10,456)
Amortization amount of convertible bonds	456	-	-	-	456
Impact of accrued interest expense	571	-	-	-	571
Total other changes	(7,290)	4,623	-	(2,139)	(4,806)
At December 31, 2021	96,267	102,749	20	1,222	200,258

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(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:

	2022 RMB million	2021 RMB million	2020 RMB million
Within operating cash flows	(5,054)	(5,794)	(6,528)
Within investing cash flows	(12)	(343)	(45)
Within financing cash flows	(21,960)	(21,613)	(20,670)
	<u>(27,026)</u>	<u>(27,750)</u>	<u>(27,243)</u>

These amounts relate to the following:

	2022 RMB million	2021 RMB million	2020 RMB million
Lease rentals paid	(27,014)	(27,407)	(27,198)
Acquisition of land use rights	(12)	(343)	(45)
	<u>(27,026)</u>	<u>(27,750)</u>	<u>(27,243)</u>

35 Assets held for sale

	2022 RMB million	2021 RMB million
Aircraft and other flight equipment	<u>709</u>	<u>1,292</u>

As at December 31, 2022, assets held for sale represents certain aircraft and other flight equipment to be delivered. The carrying amount of aircraft and other flight equipment is RMB709 million. As at December 31, 2022, the transaction price with third party is higher than the carrying amount of the assets, and the sale is expected to be completed in 2023.

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(Expressed in Renminbi unless otherwise indicated)

36 Borrowings

(a) Borrowings are analyzed as follows:

	2022	2021
	RMB	RMB
	million	million
Non-current		
Long-term borrowings	15,316	15,389
Corporate bonds (Note (ii))	-	1,000
Convertible bonds (Note 27(ii))	5,240	4,984
Medium-term notes (Note (iii))	13,888	16,981
	<u>34,444</u>	<u>38,354</u>
Current		
Current portion of long-term borrowings	10,773	169
Short-term borrowings	53,674	25,116
Ultra-short-term financing bills	12,536	24,710
Current portion of corporate bonds and medium-term notes (Notes (ii)&(iii))	8,343	7,910
Current portion of convertible bonds (Note 27(ii))	10	8
	<u>85,336</u>	<u>57,913</u>
Total borrowings	<u>119,780</u>	<u>96,267</u>
The borrowings are repayable:		
Within one year	85,336	57,913
In the second year	14,167	18,611
In the third to fifth year	17,599	16,747
After the fifth year	2,678	2,996
Total borrowings	<u>119,780</u>	<u>96,267</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

36 Borrowings (continued)

(a) Borrowings are analyzed as follows (continued):

Notes:

- (i) As at December 31, 2022, the Group did not have any secured bank borrowings (December 31, 2021: nil).
- (ii) The Company issued corporate bonds with aggregate nominal value of RMB3,000 million on February 21, 2019 at a bond rate of 3.45% per annum with a term of 3 years. The bonds were redeemed by the Company in 2022 upon maturity.

The Company issued corporate bonds with aggregate nominal value of RMB2,000 million on May 16, 2019 at a bond rate of 3.72% per annum with a term of 3 years. The bonds were redeemed by the Company in 2022 upon maturity.

Xiamen Airlines issued corporate bonds with aggregate nominal value of RMB1,500 million on November 20, 2019 at a bond rate of 3.58% per annum with a term of 3 years. The bonds were redeemed by Xiamen Airlines in 2022 upon maturity.

Xiamen Airlines issued corporate bonds with aggregate nominal value of RMB1,000 million on March 16, 2020 at a bond rate of 2.95% per annum with a term of 3 years. As at December 31, 2022, the bonds will mature within 1 year.

- (iii) The Company issued medium-term notes with aggregate nominal value of RMB1,000 million in 2019 at an annual interest rate of 3.20% with a term of 3 years. The medium-term notes were redeemed by the Company in 2022 upon maturity.

The Company issued medium-term notes with aggregate nominal value of RMB8,000 million in 2020 at annual interest rates ranging from 2.44% to 3.28% with terms of 3 to 5 years. As at December 31, 2022, the medium-term notes with aggregate nominal value of RMB7,000 million will mature within 1 year and RMB1,000 million will mature over 1 year.

The Company issued medium-term notes with aggregate nominal value of RMB9,000 million in 2021 at annual interest rates ranging from 2.90% to 3.20% with terms of 3 years. As at December 31, 2022, the medium-term notes will mature over 1 year.

The Company issued medium-term notes with aggregate nominal value of RMB3,800 million in 2022 at annual interest rates ranging from 2.69% to 2.95% with terms of 3 years. As at December 31, 2022, the medium-term notes will mature over 1 year.

Xiamen Airlines issued medium-term notes with aggregate nominal value of RMB100 million in 2022 at annual interest rate of 3.00% per annum with a term of 3 years. As at December 31, 2022, the medium-term notes will mature over 1 year.

- (b) As at December 31, 2022, the Group's weighted average interest rates on short-term borrowings were 2.16% per annum (December 31, 2021: 2.20% per annum).

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(Expressed in Renminbi unless otherwise indicated)

36 Borrowings (continued)

(c) Details of borrowings with original maturity over one year are as follows:

	2022 RMB million	2021 RMB million
Renminbi denominated borrowings		
Fixed interest rates at 1.20%~3.30% per annum as at December 31, 2022	22,667	12,483
Corporate bond - Fixed interest rate at 2.95%	1,024	7,666
Convertible bond - Fixed interest rate (Note 27(ii))	5,250	4,992
Medium-term notes - Fixed interest rates at 2.44%~3.28%	21,207	18,225
Floating interest rates at 65%~70% of benchmark interest rate (stipulated by PBOC) as at December 31, 2022	3,422	3,075
	<u>53,570</u>	<u>46,441</u>
Less: borrowings due within one year classified as current liabilities	(19,126)	(8,087)
	<u>34,444</u>	<u>38,354</u>

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	2022 RMB million	2021 RMB million
Renminbi	118,386	96,267
US Dollars	1,394	-
	<u>119,780</u>	<u>96,267</u>

(e) The balance of short-term and long-term borrowings as at December 31, 2022 included entrusted loans from CSAH via Finance Company to the Group amounted to RMB13,007 million (December 31, 2021: RMB1,001 million), among which RMB10,005 million were repayable within one year (December 31, 2021: nil), and RMB3,002 million were repayable over one year (December 31, 2021: RMB1,001 million) (Note 50(d)(ii)).

(f) Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's certain financial 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, 2022, for short-term borrowings with an aggregate amount of RMB27,400 million, the loan covenants relating to certain financial ratios were breached (December 31, 2021: nil). The Group has obtained waiver from the respective financial institution, pursuant to which, the financial institution will not require the Group to repay the borrowings until the due dates, and will maintain the credit facilities granted to the Group.

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37 Lease liabilities

At December 31, 2022, the lease liabilities were payable as follows:

	2022 RMB million	2021 RMB million
Within 1 year	21,799	20,805
After 1 year but within 2 years	17,412	19,229
After 2 years but within 5 years	36,225	38,950
After 5 years	19,326	23,765
	<u>94,762</u>	<u>102,749</u>

		Obligations by denominated currencies					
For the year ended December 31, 2022	Effective interest rate	USD	Japanese Yen	Renminbi	Euro	Other currencies	Total
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Fixed interest rates	1.76%~4.90%	35,913	25	7,338	9	29	43,314
Floating interest rates	0.73%~7.72%	3,964	322	44,921	2,241	-	51,448
		<u>39,877</u>	<u>347</u>	<u>52,259</u>	<u>2,250</u>	<u>29</u>	<u>94,762</u>

		Obligations by denominated currencies					
For the year ended December 31, 2021	Effective interest rate	USD	Japanese Yen	Renminbi	Euro	Other currencies	Total
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Fixed interest rates	1.78%~4.90%	38,254	9	12,780	8	19	51,070
Floating interest rates	0.42%~5.22%	5,524	514	43,091	2,550	-	51,679
		<u>43,778</u>	<u>523</u>	<u>55,871</u>	<u>2,558</u>	<u>19</u>	<u>102,749</u>

The Group has significant lease liabilities which are denominated in USD as at December 31, 2022. The net exchange loss of RMB3,619 million for the year ended December 31, 2022 (2021: net exchange gain of RMB1,575 million, 2020: net exchange gain of RMB3,485 million) was mainly attributable to the translation of balances of lease liabilities which are denominated in USD.

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38 Trade payables

Ageing analysis of trade payables based on transaction date is set out below:

	2022	2021
	RMB	RMB
	million	million
Within 1 month	420	403
More than 1 month but less than 3 months	437	221
More than 3 months but less than 6 months	265	221
More than 6 months but less than 1 year	129	268
More than 1 year	286	215
	<u>1,537</u>	<u>1,328</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2022	2021
	RMB	RMB
	million	million
Renminbi	1,149	891
USD	382	431
Others	6	6
	<u>1,537</u>	<u>1,328</u>

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39 Contract liabilities

	2022 RMB million	2021 RMB million
Unredeemed credits under the frequent flyer award programs (Note)	1,423	1,459
Others	73	83
	<u>1,496</u>	<u>1,542</u>

Note:

As at December 31, 2022, 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:

	2022 RMB million	2021 RMB million
Balance at January 1	3,061	3,196
-Current	1,459	1,451
-Non-current	1,602	1,745
Addition as a result of increase of the unredeemed credits under the frequent flyer award programs	1,564	1,628
Reduction as a result of revenue recognized during the year	(1,452)	(1,763)
-Recognized as revenue from opening balance of contract liabilities	(1,084)	(1,344)
-Recognized as revenue from current year addition of contract liabilities	(368)	(419)
Balance at December 31	<u>3,173</u>	<u>3,061</u>
Representing:		
-Current	1,423	1,459
-Non-current (Note 41)	1,750	1,602

40 Sales in advance of carriage

As at December 31, 2022, 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, RMB2,408 million which was included in the opening balance of the sales in advance of carriage (2021: RMB2,528 million) was recognized as revenue, and RMB1,151 million was refunded to the customers (2021: RMB1,267 million).

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41 Other non-current liabilities

	Note	2022 RMB million	2021 RMB million
Unredeemed credits under the frequent flyer award programs	39	1,750	1,602
Long-term payables (Note)		204	193
Others		-	29
		<u>1,954</u>	<u>1,824</u>

Note: In 2020 and 2022, the Group disposed certain aircraft through sale and leaseback agreement, and the long-term payables were additional financing provided by buyer-lessor to the Group in aircraft sale and leaseback transactions. As at December 31, 2022, long-term payables (including the portion due within one year) was RMB531 million (December 31, 2021: RMB291 million), among which, RMB143 million was recorded in the amounts due to related companies (December 31, 2021: nil) (Note 42(c)).

42 Balances with related companies

(a) Amounts due from related companies

	Note	2022 RMB million	2021 RMB million
Current			
CSAH and its affiliates		10	14
Associates		76	72
Joint ventures		30	28
Other related companies		-	1
	50(c)	<u>116</u>	<u>115</u>
Non-current			
Associates	50(c)	<u>357</u>	<u>151</u>

As at December 31, 2022, the amounts due from associates include long-term receivables of RMB404 million (including the portion due within one year) relating to finance lease arrangements (December 31, 2021: RMB183 million) (Note(26)(ii)). Other than that, the remaining 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	2022 RMB million	2021 RMB million
Non-current			
CSAH and its affiliates		429	719
Associates		66	495
Joint ventures		-	88
	30&50(c)	<u>495</u>	<u>1,302</u>

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42 Balances with related companies (continued)

(c) Amounts due to related companies

	Note	2022 RMB million	2021 RMB million
Current			
CSAH and its affiliates		262	174
Associates		14	14
Joint ventures		159	175
	50(c)	<u>435</u>	<u>363</u>
Non-current			
CSAH and its affiliates	50(c)	<u>85</u>	<u>-</u>

As at December 31, 2022, the amounts due to CSAH and its affiliates include long-term payables of RMB143 million (including the portion due within one year) relating to finance lease arrangements (December 31, 2021: nil) (Note 41). Other than that, the remaining 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.

43 Accrued expenses

	2022 RMB million	2021 RMB million
Repairs and maintenance	6,713	5,477
Salaries and welfare	4,564	4,457
Landing and navigation fees	1,327	1,855
Jet fuel costs	1,665	1,524
Computer reservation services	712	457
Provision for major overhauls (Note 45)	596	124
Air catering expenses	57	75
Others	2,002	1,510
	<u>17,636</u>	<u>15,479</u>

44 Other liabilities

	2022 RMB million	2021 RMB million
Payable for purchase of property, plant and equipment	3,507	3,420
Civil Aviation Development Fund and airport tax payable	554	714
Sales agent deposits	574	446
Other taxes payable	460	501
Deposit received for chartered flights	207	259
Others	2,514	2,438
	<u>7,816</u>	<u>7,778</u>

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45 Provision for major overhauls

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

	2022	2021
	RMB	RMB
	million	million
At January 1	4,944	4,642
Additional provision	922	714
Utilization	(71)	(412)
At December 31	5,795	4,944
Less: current portion (Note 43)	(596)	(124)
	<u>5,199</u>	<u>4,820</u>

46 Deferred benefits and gains

	2022	2021
	RMB	RMB
	million	million
Maintenance rebates	467	485
Government grants	288	233
Others	5	7
	<u>760</u>	<u>725</u>

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47 Share capital

	2022 RMB million	2021 RMB million
Registered, issued and paid-up capital:		
Trade-restricted:		
3,257,005,885 A shares of RMB1.00 each owned by CSAH (2021: 2,453,434,457 shares of RMB1.00 each) (Note (ii))	3,257	2,453
	<u>3,257</u>	<u>2,453</u>
Tradable:		
6,147,463,051 A shares of RMB1.00 each owned by CSAH (2021: 6,147,463,051 shares of RMB1.00 each)	6,147	6,147
4,072,426,466 A shares of RMB1.00 each (2021: 4,072,395,671 shares of RMB1.00 each)	4,073	4,073
4,643,997,308 H shares of RMB1.00 each (Note (iii)) (2021: 4,275,144,849 shares of RMB1.00 each)	4,644	4,275
	<u>14,864</u>	<u>14,495</u>
	<u>18,121</u>	<u>16,948</u>

Notes:

- (i) All the A and H shares rank pari passu in all material respects.
- (ii) In November 2022, the Company issued 803,571,428 A shares (“2022 A shares”) to CSAH at the price of RMB5.60 per share. RMB804 million was credited to share capital and RMB3,693 million was credited to share premium. The 2022 A shares issued to CSAH are restricted for trading within 36 months upon completion of the issuance.
- (iii) In August 2022, the Company issued 368,852,459 H shares (“2022 H shares”) to a fellow subsidiary of CSAH at the price of HKD4.88 per share. RMB369 million was credited to share capital and RMB1,180 million was credited to share premium. In accordance with the 2022 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 2022 H shares for 36 months from the date of completion of the issuance. Considering that the 2022 H shares are not subject to restrictions on sales in nature, the 2022 H shares were recognized as tradable shares.

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48 Reserves

(a) Dividends

The directors did not propose any final dividend in respect of the years ended December 31, 2022 and 2021.

(b) Share premium

The share premium represents the difference between the par value of the shares of the Company and consideration for the shares issued.

(c) 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)).

(d) 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 earnings 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, 2022, the Company did not make any appropriation of statutory surplus reserve as the Company recorded a net loss in 2022 (2021: nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

49 Commitments

(a) Capital commitments

Capital commitments outstanding as at December 31, 2022 not provided for in the financial statements were as follows:

	2022	2021
	RMB	RMB
	million	million
Commitments in respect of aircraft, engines and flight equipment		
- authorized and contracted for	97,329	54,662
Investment commitments		
- authorized and contracted for		
-share of capital commitments of a joint venture	52	185
-capital contributions for acquisition of interests in an associate	171	171
- authorized but not contracted for		
-share of capital commitments of a joint venture	14	24
	<u>237</u>	<u>380</u>
Commitments for other property, plant and equipment		
- authorized and contracted for	3,865	3,796
- authorized but not contracted for	5,450	5,785
	<u>9,315</u>	<u>9,581</u>
	<u>106,881</u>	<u>64,623</u>

As at December 31, 2022, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for aircraft, engines and flight equipment are as follows:

	2022	2021
	RMB	RMB
	million	million
2022	-	33,165
2023	33,968	15,093
2024	23,795	6,404
2025	21,306	-
2026 and the years after 2026	18,260	-
	<u>97,329</u>	<u>54,662</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 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:

	2022 RMB '000	2021 RMB '000	2020 RMB '000
Salaries, wages and welfare	9,796	12,353	10,746
Retirement scheme contributions	1,528	1,854	1,458
	<u>11,324</u>	<u>14,207</u>	<u>12,204</u>

	2022 RMB '000	2021 RMB '000	2020 RMB '000
Directors and supervisors (Note 57)	1,691	1,733	1,590
Senior management	9,633	12,474	10,614
	<u>11,324</u>	<u>14,207</u>	<u>12,204</u>

Total remuneration is included in "staff costs" (Note 13).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 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	2022 RMB million	2021 RMB million	2020 RMB million
Income from CSAH and its affiliates				
Rental income	(i)	7	7	7
Aviation material sales income	(ii)	24	4	7
Entrusted management income	(iii)	39	39	27
Commission income	(iv)	2	18	5
Others		11	4	2
Purchase of goods and services from CSAH and its affiliates				
Commission expenses and service fee	(v)	24	39	36
Maintenance material purchase expense and lease charges for maintenance materials	(ii)	68	106	91
Air catering supplies expenses	(j)	57	84	88
Lease charges for land and buildings	(vi)	406	407	350
Property management fee	(vii)	165	154	129
Construction fee	(xx)	37	-	-
Others		5	8	7
Purchase of goods and services from joint ventures and associates				
Repairing charges	(viii)	1,928	2,474	1,773
Repairing charges and maintenance material purchase expenses	(ix)	1,905	2,124	2,331
Ground service expenses	(x)	14	13	131
Air catering supplies	(xi)	-	3	18
Advertising expenses	(xii)	103	131	169
Property management fee	(xiii)	6	17	18
Lease charges for land and buildings	(xiv)	13	14	-
Commission expenses	(xv)	2	6	10
Others		30	50	16
Income received from joint ventures and associates				
Maintenance material sales and handling income	(xvi)	40	30	14
Entrustment income for advertising media business	(xii)	2	2	2
Repairing income	(xv)	10	12	12
Air catering supplies income	(xv)	4	10	8
Pilot training income	(xv)	7	19	15
Ground service income	(xv)	13	18	16
Transfer of pilots income	(xv)	8	24	-
Aircraft leasing income	(xvii)	6	4	-
Others		14	15	9

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 Material related party transactions (continued)

(b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)

	Note	2022 RMB million	2021 RMB million	2020 RMB million
Purchase of goods and services from other related companies				
Computer reservation services	(xviii)	265	465	433
Aircraft related transactions with CSAH and its affiliates				
Payment of lease charges on aircraft	(xix)	5,727	5,323	4,670

- (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 land and buildings, 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.
General Aviation Limited, became a subsidiary of CSAH in 2022, purchases maintenance materials from the Group.
- (iii) China Northern Airlines Co., Ltd. (“CNAC”) is a wholly-owned subsidiary of CSAH.
The Group provides entrusted management service to CSAH and CNAC.
- (iv) China 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) Commission is earned by Shenzhen Baiyun Air Service Co., Ltd., a wholly-owned subsidiary of CSAH, 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.
Service fee is earned by Shenzhen Baiyun Air Service Co., Ltd., a wholly-owned subsidiary of CSAH, for providing transportation and accommodation services to the Group. Service fee is calculated based on the rates stipulated by the Civil Aviation Administration of China and International Air Transportation Association.
- (vi) 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.
- (vii) China Merchants Property Operation & Service Co., Ltd (previous name: China Southern Airlines Group Property Management Co., Ltd.), became an associate of CSAH in 2022, provides property management services to the Group.
- (viii) MTU, a joint venture of the Group, provides comprehensive maintenance services to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 Material related party transactions (continued)

(b) Transactions with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)

- (ix) GAMECO, a joint venture of the Group, provides comprehensive maintenance services to the Group.
The Group also purchases maintenance material from GAMECO.
- (x) Beijing Aviation Ground Services Co.,Ltd. and Shenyang Konggang, associates of the Group, provide ground services to the Group.
- (xi) Beijing Airport Inflight Kitchen Co.,Ltd. is an associate of the Group and provides air catering related services to the Group.
- (xii) SACM, an associate of the Group, provides advertising services to the Group. The Group provides certain media resources to SACM.
- (xiii) Xinjiang Civil Aviation Property Management Ltd., an associate of the Group, provides property management services to the Group.
- (xiv) Beijing Xingming Lake Jinyan Hotel Co., Ltd. an associate of the Group, provides land and buildings lease 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, ground services and transferred pilots 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 aircraft lease service to Sichuan Airlines and earns aircraft leasing income.
- (xviii) 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 to the Group.
- (xix) China Southern Airlines International Finance Leasing Co., Ltd. (“CSA International”), a joint venture of CSAH, provides aircraft and engines lease services to the Group.
- (xx) Guangzhou Southern Airlines Construction Co., Ltd., a wholly-owned subsidiary of CSAH, provides construction services to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 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 companies of the Group:

	Note	2022 RMB million	2021 RMB million
Current receivables:			
CSAH and its affiliates		10	14
Associates		76	72
Joint ventures		30	28
Other related companies		-	1
	42(a)	116	115
Long-term receivables:			
Associates	42(a)	357	151
Prepayments of acquisition of long-term assets:			
CSAH and its affiliates		429	719
Associates		66	495
Joint ventures		-	88
	30&42(b)	495	1,302
Payables:			
CSAH and its affiliates		262	174
Associates		14	14
Joint ventures		159	175
	42(c)	435	363
Long-term payables:			
CSAH and its affiliates	42(c)	85	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 Material related party transactions (continued)

(c) Balances with CSAH and its affiliates, associates, joint ventures and other related companies of the Group (continued)

	2022 RMB million	2021 RMB million
Accrued expenses:		
CSAH and its affiliates	57	27
Associates	57	57
Joint ventures	1,505	1,277
Other related companies	770	612
	<u>2,389</u>	<u>1,973</u>
Lease liabilities:		
CSAH and its affiliates	24,755	24,756
Associates	3	17
	<u>24,758</u>	<u>24,773</u>

Except the long-term receivables, long-term payables and 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 Finance Company

At December 31, 2022, loans from Finance Company to the Group amounted to RMB6,363 million (December 31, 2021: RMB3,018 million).

The unsecured loans are repayable as follows:

	2022 RMB million	2021 RMB million
Within 1 year	6,325	2,978
After 1 year but within 2 years	38	40
	<u>6,363</u>	<u>3,018</u>

Interest expense charged on such loans amounted to RMB197 million (2021: RMB76 million) and the interest rates range from 3.00% to 3.30% per annum during the year ended December 31, 2022 (2021: 3.00% to 3.30%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

50 Material related party transactions (continued)

(d) Loans from and deposits placed with related parties (continued)

(ii) Entrusted loans from CSAH

In 2021, CSAH, Finance Company and the Group entered into an entrusted loan agreement, pursuant to which, CSAH, as the lender, entrusted Finance Company to lend RMB1,000 million to the Group, which was repaid in 2022.

In 2022, CSAH, Finance Company and the Group entered into entrusted loan agreements, pursuant to which, CSAH, as the lender, entrusted Finance Company to lend RMB13,000 million to the Group.

As at December 31, 2022, the unsecured entrusted loans of RMB10,005 million (including accrued interest expense of RMB5 million) were repayable within one year (December 31, 2021: nil) and RMB3,002 million (including accrued interest expense of RMB2 million) were repayable over one year (December 31, 2021: RMB 1,001 million) (Note 36(e)).

Interest expense charged on such loans amounted to RMB90 million (2021: RMB22 million) and the interest rate was 2.00% per annum during the year ended December 31, 2022 (2021: 3.85% 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, among which, CSAH subscribed for 101,027,580 of the convertible bonds.

In June 2021, CSAH has converted all of the subscribed convertible bonds to A share ordinary shares. As at December 31, 2022, CSAH does not hold any convertible bonds issued by the Group.

(iv) Medium-term notes subscribed by Finance Company

In March 2020, the Group issued a tranche of medium-term notes in the amount of RMB1,000,000,000 with a term of 5 years from the issuance date at an annual interest rate of 3.28%, and Finance Company subscribed for RMB300,000,000 of the medium-term notes. As at December 31, 2022, Finance Company holds RMB300,000,000 of the medium-term notes.

(v) Deposits placed with Finance Company

As at December 31, 2022, the Group's deposits with Finance Company are presented in the table below. The applicable interest rates are determined in accordance with the rates published by the PBOC.

	2022 RMB million	2021 RMB million
Deposits placed with Finance Company	<u>14,118</u>	<u>12,621</u>

Interest income from such deposits amounted to RMB202 million during the year ended December 31, 2022 (2021: RMB159 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

51 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% (2021: 14% to 16%; 2020: 14% to 16%) 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 2022 was approximately RMB884 million (2021: RMB998 million; 2020: RMB1,043 million).

For the year ended December 31, 2022, there is no forfeited contribution under the retirement schemes and Pension Scheme which may be used by the Group to reduce the contribution payable in future years.

(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.

52 Supplementary information to the consolidated cash flow statement

Non-cash transactions

	2022 RMB million	2021 RMB million
Lease of aircraft	10,476	4,623
Convertible bonds converted to A shares	-	10,456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

53 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 RMB562 million (December 31, 2021: RMB696 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2022, total personal bank loans of RMB143 million (December 31, 2021: RMB181 million), under these guarantees, were drawn down from the banks. During the year, RMB0.2 million has been made by the Group due to the default of payments of certain pilot trainees (2021: RMB2 million).

54 Immediate and ultimate controlling party

As at December 31, 2022, 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 27, 2023.

56 Non-adjusting events after the financial year end

After the financial year end, there were no non-adjusting events occurred up to the date of issue of these financial statements.

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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, 2022 is set out below:

Name	Directors'	Salaries, wages and welfare	Housing allowance	Employer's contribution to a retirement benefit scheme	Total
	fees RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Executive directors					
Ma Xu Lun (Note (i))	-	-	-	-	-
Han Wen Sheng (Note (i))	-	-	-	-	-
Luo Lai Jun (Note (i)&(v))	-	-	-	-	-
Supervisors					
Ren Ji Dong (Note (ii))	-	-	-	-	-
Lin Xiao Chun	-	687	-	157	844
Yang Bin	-	687	-	160	847
Independent non-executive directors					
Liu Chang Le	200	-	-	-	200
Guo Wei	200	-	-	-	200
Yan Yan (Note (iv))	167	-	-	-	167
Gu Hui Zhong	200	-	-	-	200
Cai Hong Ping (Note (v))	-	-	-	-	-

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, 2021 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
Executive directors					
Ma Xu Lun (Note (i))	-	-	-	-	-
Han Wen Sheng (Note (i))	-	-	-	-	-
Supervisors					
Ren Ji Dong (Note (ii)&(xi))	-	667	-	131	798
Lin Xiao Chun	-	655	-	147	802
Yang Bin (Note (ix))	-	294	-	25	319
Li Jia Shi (Note (iii)&(x))	-	-	-	-	-
Mao Juan (Note (viii))	-	478	-	134	612
Independent non-executive directors					
Liu Chang Le (Note (vii))	133	-	-	-	133
Guo Wei (Note (vii))	133	-	-	-	133
Yan Yan (Note (vii))	133	-	-	-	133
Gu Hui Zhong	153	-	-	-	153
Tan Jin Song (Note (vi))	50	-	-	-	50
Jiao Shu Ge (Note (vi))	50	-	-	-	50
Zheng Fan (Note (vi))	20	-	-	-	20

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, 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
Executive directors					
Wang Chang Shun (Note (i)&(xii))	-	-	-	-	-
Ma Xu Lun (Note (i))	-	-	-	-	-
Han Wen Sheng (Note (i))	-	-	-	-	-
Supervisors					
Li Jia Shi (Note (iii)&(x))	-	-	-	-	-
Mao Juan	-	706	-	126	832
Lin Xiao Chun	-	633	-	125	758
Independent non-executive directors					
Tan Jin Song	150	-	-	-	150
Jiao Shu Ge	150	-	-	-	150
Zheng Fan (Note (xiii))	60	-	-	-	60
Gu Hui Zhong (Note (xiii))	60	-	-	-	60

Notes:

- (i) These directors did not receive any remuneration for their services in the capacity of the directors of the Company. They also held management positions in CSAH and their salaries were borne by CSAH.
- (ii) Mr. Ren Ji Dong did not receive any remuneration for his service in the capacity of the supervisor of the Company in 2022 and 2021 but received salary for his service in the capacity of the senior management in 2021. He also held management position in CSAH and his salary for his services was borne by CSAH since November 2021.
- (iii) 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.
- (iv) Resigned on October 28, 2022.
- (v) Appointed on December 28, 2022.
- (vi) Resigned on April 30, 2021.
- (vii) Appointed on April 30, 2021.
- (viii) Resigned on November 24, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

57 Directors' and supervisors' emoluments (continued)

- (ix) Appointed on November 24, 2021.
- (x) Resigned on December 28, 2021.
- (xi) Appointed on December 28, 2021.
- (xii) Mr. Wang Chang Shun retired on December 21, 2020.
- (xiii) In 2020, Mr. Zheng Fan and Mr. Gu Hui Zhong received remuneration in accordance with the relevant provisions of the PRC.

58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2022

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended December 31, 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	<i>Effective for accounting periods beginning on or after</i>
IFRS 17, <i>Insurance contracts</i>	January 1, 2023
Amendments to IAS 1, <i>Presentation of financial statements</i> and IFRS Practice Statement 2, <i>Making materiality judgements: Disclosure of accounting policies</i>	January 1, 2023
Amendments to IAS 8, <i>Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates</i>	January 1, 2023
Amendments to IAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i>	January 1, 2023
Amendments to IAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current</i>	January 1, 2024
Amendments to IAS 1, <i>Presentation of financial statements: Non-current liabilities with covenants</i>	January 1, 2024
Amendments to IFRS 16, <i>Leases: Lease liability in a sale and leaseback</i>	January 1, 2024

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 except for the adoption of "Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*", the adoption of the developments above is unlikely to have a significant impact on the consolidated financial statements.

As at December 31, 2022, if the "Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*" is adopted by the Group, the convertible bonds recorded in non-current liabilities amounted to RMB5,240 million would be reclassified to current liabilities.



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

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

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, the extraordinary general meeting held on 27 December 2019, the annual general meeting held on 30 June 2020, the extraordinary general meeting held on 30 April 2021, the extraordinary general meeting held on 28 December 2021, the annual general meeting held on 30 June 2022 and the board meeting pursuant to the authorization of the shareholders' general meeting on 28 November 2022.)

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.

Approved by the CSRC by the Approval of China Southern Airlines Company Limited's Public Issuance of Convertible Bonds (Zheng Jian Xu Ke [2020] No. 2264), the Company publicly issued 160 million A share convertible bonds with a total amount of RMB16 billion on 15 October 2020. On 3 November 2020, pursuant to the approval of the Self-discipline Supervision Decision [2020] No. 355 issued by the Shanghai Stock Exchange, the convertible bonds of the Company with an amount of RMB16 billion were listed on the Shanghai Stock Exchange, and the conversion of the convertible bonds was commenced on 21 April 2021. As of 10 November 2022, a total amount of 10,103,581,000 of the A share convertible bonds have been converted into A shares of the Company, and the total number of shares being converted was 1,619,163,513.

The 2021 second extraordinary general meeting of the Company on 28 December 2021 considered and passed a resolution on non-public issuance of not more than 803,571,428 A Shares and not more than 855,028,969 H shares. Approved by the CSRC (Zheng Jian Xu Ke [2022] No. 497) on 11 March 2022 and (Zheng Jian Xu Ke [2022] No. 2287) on 8 October 2022, the Company successfully publicly issued and listed 368,852,459 H shares on the Hong Kong Stock Exchange on 10 August 2022 and 803,571,428 A shares on the Shanghai Stock Exchange on 23 November 2022.

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- 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 18,120,889,795.
- 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.

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- 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; (14) health and medical examination services; (15) internet retail; (16) internet life service platform (including internet travel platform, internet accommodation platform, internet retail platform, etc.); (17) concurrent-business insurance agent services: property insurance, health insurance, life insurance; (18) trade agency; (19) professional design services; (20) telecom value-added services; (21) internet advertising services; (22) other advertising services; (23) internet data services; (24) internet information services; (25) information system integration services; (26) internet of things technical services; (27) economic and business consulting services; (28) information technology consulting services; (29) other professional consulting and investigations; 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.

The Company publicly issued 160 million A shares convertible bonds with a total amount of RMB16 billion in 2020. During the conversion period from 21 April 2021 to 10 November 2022, an aggregate of RMB10,103,581,000 of the Nanhong Convertible Bonds have been converted into A shares of the Company with a total of 1,619,163,513 shares being converted.

The Company conducted non-public issuance of 368,852,459 H shares and 803,571,428 A shares in 2022. 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 issuance, the current share capital structure of the Company is: (a) 9,404,468,936 A shares held by the promoter, representing 51.90% of the total share capital; (b) 4,072,423,551 A Shares held by domestic investors, representing 22.47% of the total share capital; and (c) 4,643,997,308 H Shares held by foreign investors, representing 25.63% 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.

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- Article 38** The Company may, in accordance with laws, administrative regulations, departmental constitution documents and these Articles of Association, repurchase shares of the Company:
- (1) Reducing the registered capital of the Company;
 - (2) Merging with another company that holds shares in the Company;
 - (3) Offering shares for the employee's share scheme or as equity incentives;
 - (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) When shares are being used to satisfy the conversion of corporate bonds convertible into shares issued by the Company;
 - (6) When safeguarding corporate value and shareholders' equity as the Company deems necessary;
 - (7) Other circumstances permitted by laws and administrative regulations.
- Save for the above circumstances, the Company shall not purchase of its own shares otherwise.
- Article 39** The Company may buy back its shares through public centralized trading or other methods as recognized by laws and regulations and the securities regulatory authorities and the stock exchange(s) in the place where the Company's shares are listed.
- Where the buyback of shares by the Company falls under any of the circumstances stipulated in clauses (3), (5) and (6) of the first paragraph of Article 38 of the Articles of Association, such buyback shall be conducted through public centralized trading method.
- 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) and (2) of Article 38, it shall obtain the prior approval of the shareholders by a resolution at a shareholders' general meeting. Where the Company purchases its own shares under any of the circumstances stipulated in clauses (3), (5) and (6) of Article 38, subject to the laws, regulations, and the listing rules of the place where the Company's shares are listed, it may be resolved by a Board meeting at which more than two-thirds of directors present in accordance with the provisions of these Articles of Association or the authorization of the shareholders' general meeting. After the Company purchases 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 shares in respect of the circumstances described in clause (3), (5) and (6), the aggregated number of shares of the Company held by itself shall be not more than 10% of the total issued shares of the Company and shall be transferred or cancelled within three years.

Where the laws and regulations or the listing rules of stock exchange(s) in the place where the Company's shares are listed has any other provisions in respect of the purchase of shares, such provisions shall prevail.

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;

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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;

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- (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 or other securities of equity nature 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;

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- (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. Where the laws, administrative regulations, departmental rules, normative rules and the stock exchange(s) or the regulatory authorities in the place where the Company's shares are listed has any other provisions, such provisions shall prevail.

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;

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- (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;

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- (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.

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- 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;

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- (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.

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- (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.

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- 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.

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- 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) 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.

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- 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 held, name of the persons (or units) the proxy represents.

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- 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;

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- (2) 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.

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- 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.

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- 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.

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- 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.

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- 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;

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- (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;

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- (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.

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- 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;

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- (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;

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- (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.

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- 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);

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- (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.

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- (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.

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- (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 convened 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.

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- (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.

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- (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 Strategy and Investment Committee, Audit and Risk Management Committee, Nomination Committee, Remuneration and Evaluation Committees and Aviation Safety Committee and other special committees. Each committee shall be comprised of directors, among which, 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:

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- (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;

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- (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;

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- (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.

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- 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;

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- (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).

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- 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:

Conversion price of dividends or other sums to holders in foreign currency	=	Dividends or other sums to holders in RMB
		The mean of the exchange rates for each unit of the foreign currency against RMB as announced by the People's Bank of China for the calendar week preceding the date on which such dividends or other sums to holders are declared by the Company

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;

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- (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).

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- (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:

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- (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;

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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;

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- (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.

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- (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) 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 Rights of Each Class of Securities Registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)

The American Depositary Shares (“ADSs”), each representing 50 H Shares of par value RMB1.00 per share (each, an “H Share”) of China Southern Airlines Company Limited (“we,” “our,” “our company,” or “us”), were listed and traded on the New York Stock Exchange until February 3, 2023. The H Shares underlying the ADSs were held by Bank of New York Mellon, as depository, until March 6, 2023. The ADSs and the H Shares are registered under Section 12(g) of the Exchange Act.

This summary contains a description of the rights of (i) the holders of H Shares and (ii) ADS holders.

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, 2022 (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, 2022 is set out 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 Right 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”.

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.

American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Until March 6 2023, when the deposit agreement, dated August 14, 2012, among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs (the “Deposit Agreement”) and the American Depositary Receipt (“ADR”) facility were terminated, the Bank of New York Mellon, as depositary, issued and delivered the 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 depositary in Hong Kong.

The address of the depositary is: The Bank of New York Mellon, 240 Greenwich Street, Depositary Receipts Division – 8th Floor, Attention: Cancellation Desk, New York, NY 10286.

On January 23, 2023, we filed a Form 25 to delist our ADSs from the New York Stock Exchange. The delisting became effective on February 3, 2023, and the Deposit Agreement and the ADR facility were terminated on March 6, 2023 (the “Termination Date”). Following the Termination Date, the depositary will discontinue the registration of transfers of ADSs, suspend the distribution of dividends to the owners of the ADSs, and will not give any further notices or perform any further acts under the Deposit Agreement, except that the depositary will continue to collect dividends and other distributions pertaining to the H Shares and any and all other securities, property and cash from time to time received in respect of the H Shares and held under the Deposit Agreement (the “Deposited Securities”), sell rights and other property as provided in the Deposit Agreement, and continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of ADSs (after deducting, in each case, the fee of the depositary for the surrender of ADSs, any expenses for the account of the owner of such ADS in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Following the Termination Date, our company is discharged from all obligations under the Deposit Agreement except for its obligations to the depositary under the Deposit Agreement.

Under the terms of the Deposit Agreement, you have until at least July 7, 2023, to surrender your ADRs for delivery of the underlying shares. If you surrender ADRs for delivery of the underlying shares, you must pay a cable fee of \$17.50, a cancellation fee of up to \$0.05 per ADR surrendered and any applicable U.S. or local taxes or governmental charges. Payment should be made payable to The Bank of New York Mellon.

Subsequent to July 7, 2023, under the terms of the Deposit Agreement, the depository may attempt to sell the underlying shares and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the owners of ADSs that have not theretofore been surrendered, such owners thereupon becoming general creditors of the depository with respect to such sale proceeds. If the depository has sold such shares, you must surrender your ADRs to obtain payment of the sale proceeds, net of the expenses of sale, any applicable U.S. or local taxes or government charges and a cancellation fee of up to \$0.05 per ADR.

Amendment n°5

to

A320 Family Purchase Agreement

Dated May 16th, 2014

Between

AIRBUS S.A.S.

as Seller

And

China Southern Airlines Company Limited

as Buyer

And

**China Southern Airlines Group
Import and Export Trading Corp., Ltd.**

as Consenting Party

[***] Certain identified information has been excluded from the exhibit because it is both not material and is the type that China Southern Airlines Company Limited treats as private or confidential.

CONTENT

<u>Clause</u>	<u>Title</u>
0	DEFINITIONS
1	SALES AND PURCHASE
2	SPECIFICATION
3	PRICES
4	PRICE REVISION
5	DELIVERY
6	SELLER REPRESENTATIVE SERVICES
7	TRAINING SUPPORT AND SERVICES
8	NOTICES
9	COMPLIANCE, [***]
10	MISCELLANEOUS

Exhibit

EXHIBIT A	LIST OF SPECIFICATION CHANGE NOTICES
EXHIBIT B	INTENTIONALLY LEFT BLANK
EXHIBIT C	PART 1 – AIRBUS PRICE REVISION FORMULA PART 2 – PROPULSION SYSTEMS PRICE REVISION FORMULAS

This amendment N°5 to the A320 Family purchase agreement dated May 16th, 2014 (the “**Amendment N°5**”) is made on the 1st day of July 2022.

Between

AIRBUS S.A.S., a French société par actions simplifiée, with its registered office at 2, rond-point Emile Dewoitine, 31700 Blagnac, France, registered with the Commercial and Companies Register of Toulouse under number 383 474 814, (the “**Seller**”),

and

CHINA SOUTHERN AIRLINES COMPANY LIMITED, a company organised under the laws of the People’s Republic of China having its principal place of business at No.68, Qixin Road, Baiyun District, Guangzhou, Guangdong, 510403, People’s Republic of China, (the “**Buyer**”),

witnesses by

CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD., a company organised under the laws of the People’s Republic of China having its principal place of business at No.272, Airport Road, Baiyun District, Guangzhou 510405, People’s Republic of China (the “**Consenting Party**”),

The Seller, and the Buyer and the Consenting Party being each individually hereinafter referred to as a “**Party**” and collectively as the “**Parties**”.

CSN – AM5 to A320 PA dated May 2014
CT1202318 – June 2022

Privileged & Confidential
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WHEREAS

- A. The Seller and the Buyer, with the consent of the Consenting Party, have entered into an A320 Family purchase agreement, (Buyer's reference 14SIES2006FR; Seller's reference CT1202318), dated May 16th, 2014 (the "**Purchase Agreement**"), which covers the sale by the Seller and the purchase by the Buyer of eighty (80) A320 Family aircraft (hereinafter individually or collectively referred to as the "**First Batch Aircraft**");
- B. [***];
- C. [***];
- D. [***];
- E. [***].
- F. Now, subject to the provisions of this Amendment N°5, the Buyer wishes to purchase and take delivery of ninety six (96) incremental NEO Aircraft from the Seller and the Seller agrees to sell, manufacture and deliver such Second Batch Aircraft (as defined herein) to the Buyer.
[***].

NOW IT IS HEREBY AGREED AS FOLLOWS:

CSN – AM5 to A320 PA dated May 2014
CT1202318 – June 2022

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0 **DEFINITIONS**

1.1 The terms “herein”, “hereof” and “hereunder” and words of similar import refer to this Amendment N°5. Capitalized terms used herein and not otherwise defined herein will have the meanings assigned thereto in the Agreement.

Except otherwise agreed by the Parties, the Second Batch Aircraft shall individually or collectively be referred to as the “**Aircraft**” for the purpose of the Agreement and this Amendment N°5.

1.2 The Parties hereby agree that the following definitions shall be added to Clause 0.1 of the Agreement:

[***].

“**Buyer’s Account**” means the bank account of the Buyer set out in Clause 22.13.

[***].

“**Notice**” means any notice or request to be made under or in connection with this Agreement pursuant to Clause 22.2.

[***].

[***]

[***].

[***].

1.3 The Parties hereby agree that, with respect to the Second Batch Aircraft only, the following definitions shall be added to Clause 0.1 of the Agreement:

[***].

“**CFM Engine Master Charge Base Price**” has the meaning set out in Clause 3.1.2.

[***].

“**Other Agreements**” means any agreement related to the sale, purchase, financing leasing, of aircraft entered into between (a) the Buyer and (b) the Seller or any of its Affiliates.

“**Second Batch Aircraft**” means the ninety six (96) incremental NEO Aircraft purchased under the Agreement as amended by this Amendment N°5.

“**Scheduled Delivery Half-Year**” has the meaning set out in Clause 9.1.1.3.

“**Scheduled Delivery Quarter**” has the meaning set out in Clause 9.1.1.3.

“**Scheduled Delivery Year**” has the meaning set out in Clause 9.1.1.3.

1.4 The Parties hereby agree that, with respect to the Second Batch Aircraft only, the following definitions set forth in Clause 0.1 of the Agreement are hereby deleted in their entirety and replaced by the following definitions in the below quoted text:

QUOTE

“**A319 NEO Standard Specification**” means the A319-100N standard specification document [***], a copy of which the Buyer acknowledges having received on or before the date of this Agreement.

“**A320 NEO Standard Specification**” means the A320-200N standard specification document [***], a copy of which the Buyer acknowledges having received on or before the date of this Agreement.

“**A321 NEO Aircraft**” or “**A321 NEO**” means an Airbus A321-200NX type aircraft delivered under this Agreement.

“**A321 NEO Standard Specification**” means the A321-200NX standard specification document [***], a copy of which the Buyer acknowledges having received on or before the date of this Agreement.

“**Propulsion Systems Reference Price**” has the meaning set out in respectively Clauses 3.2.1 and 3.2.2.

UNQUOTE

1 SALES AND PURCHASE

1.1 The Seller shall sell and deliver and the Buyer shall buy and take delivery of the Second Batch Aircraft on the Delivery Date at the Delivery Location upon the terms and conditions contained in this Amendment N°5.

1.2 [***].

1.3 [***].

2 SPECIFICATION

2.1 The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clauses 2.1.2 and 2.1.3 of the Agreement are hereby deleted in their entirety and replaced with the following quoted text:

QUOTE

2.1.2 Each Aircraft shall be manufactured in accordance with its Specification, as may already have been modified or varied at the date of this Agreement by the Specification Change Notices listed in Exhibit A.

For the avoidance of doubt, such list is provided for information purpose only and any customisation option set forth therein shall only be incorporated into the Specification if the relevant Specification Change Notice is executed by the parties pursuant to Clause 2.2 and Clause 2.4 of this Agreement.

2.1.3 The applicable standard design weights (Maximum Take-off Weight (“**MTOW**”) Maximum Landing Weight (“**MLW**”) and Maximum Zero Fuel Weight (“**MZFW**”) of the Aircraft are the following:

	MTOW	MLW	MZFW
A319 NEO Aircraft	[***]	[***]	[***]
A320 NEO Aircraft	[***]	[***]	[***]
A321 NEO Aircraft	[***]	[***]	[***]

UNQUOTE

2.2 [***].

2.3 The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clause 2.3.2 of the Agreement is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

2.3.2 Each Aircraft shall be equipped with a set of two (2) of one of the following engine types (the “NEO Propulsion Systems”), manufactured by one of the following Propulsion System Manufacturers: CFM International, Inc (“CFM”) or International Aero Engines, LLC (“IAE LLC”).

	<u>CFM</u>	<u>IAE LLC</u>
A319 NEO Aircraft	[***]	[***]
A320 NEO Aircraft	[***]	[***]
A321 NEO Aircraft	[***]	[***]

* AET means Airbus Equivalent Thrust

UNQUOTE

2.4 The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clause 2.3.4 of the Agreement is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

2.3.4 If the Buyer has not selected the Propulsion Systems by the date of this Agreement, then such selection shall be notified in writing to the Seller by the Buyer, no later than:

[***]

The Buyer shall be responsible for entering into direct discussions with the Propulsion Systems Manufacturer with respect to support services and commercial terms relating to the Propulsion Systems.

UNQUOTE

PRICES

The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clauses 3.1.2, 3.1.3 and 3.2 of the Agreement are hereby deleted in their entirety and replaced with the following quoted text:

QUOTE**3.1.2 NEO Airframe Base Price**

The Airframe Base Price of NEO Aircraft is the sum of:

- (i) The base price of an Airframe (as such Airframe is set out in the Standard Specification) (excluding any Buyer Furnished Equipment), which is:

A319 NEO Airframe Base Price	[***]
A320 NEO Airframe Base Price	[***]
A321 NEO Airframe Base Price	[***]

- (ii) The sum of the base prices of the SCN set forth in Exhibit A, which is:

A319 NEO Aircraft	[***]
A320 NEO Aircraft	[***]
A321 NEO Aircraft	[***]

- (iii) the base price of the master charge, which is applicable if CFM Propulsion Systems are selected (the “**CFM Engine Master Charge Base Price**”), which is:

CFM Master Charge Base Price	[***]
-------------------------------------	-------

- 3.1.3 The Airframe Base Price has been established in accordance with the average economic conditions prevailing in [***], [***] and [***] and corresponding to a theoretical delivery in [***] (the “**Base Period**”).

3.2 **Propulsion Systems Base Price**

3.2.1 Base Prices of CFM LEAP-1A Propulsion Systems

The base price of the CFM LEAP-1A Propulsion Systems (each a “**Propulsion Systems Base Price**”) is:

CFM LEAP-1A24	[***]
CFM LEAP-1A26E1	[***]
CFM LEAP-1A26	[***]
CFM LEAP-1A32	[***]
CFM LEAP-1A33	[***]

Such Propulsion Systems Base Prices are calculated on the basis of the following Propulsion System reference prices, corresponding to a theoretical delivery in [***] (each a “**Propulsion Systems Reference Price**”):

CFM LEAP-1A24	[***]
CFM LEAP-1A26E1	[***]
CFM LEAP-1A26	[***]
CFM LEAP-1A32	[***]
CFM LEAP-1A33	[***]

3.2.2 Base Prices of IAE LLC PW1100G-JM Propulsion Systems

The base price of the IAE LLC PW1100G-JM Propulsion Systems (each a “**Propulsion Systems Base Price**”) is:

IAE LLC PW1124G-JM	[***]
IAE LLC PW1127G1-JM	[***]
IAE LLC PW1127GA-JM	[***]
IAE LLC PW1133GA-JM	[***]

Such Propulsion Systems Base Prices are calculated on the basis of the following Propulsion System reference prices, corresponding to a theoretical delivery in [***] (each a “**Propulsion Systems Reference Price**”):

IAE LLC	
PW1124G-JM	[***]
IAE LLC	
PW1127G1-JM	[***]
IAE LLC	
PW1127GA-JM	[***]
IAE LLC	
PW1133GA-JM	[***]

3.2.3 The Propulsion Systems Base Prices in Clauses 3.2.1 and 3.2.2 above has been established in accordance with the delivery conditions prevailing in [***] and have been calculated from the Propulsion Systems Reference Prices.

UNQUOTE

4 PRICE REVISION

With respect to the Second Batch Aircraft only, Exhibit C of the Agreement shall be deleted in its entirety and replaced by the Exhibit C to this Amendment N°5.

5 DELIVERY

5.1 The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clauses 9.1.1.2 and 9.1.1.3 of the Agreement are hereby deleted in their entirety and replaced with the following quoted text:

QUOTE

9.1.1.2 Subject to Clauses 2, 7, 8, 10 and 18, the Seller shall have the Second Batch Aircraft Ready for Delivery at the Delivery Location within the following periods:

<u>Aircraft rank</u>	<u>Aircraft type</u>	<u>Scheduled Delivery Period</u>
81	[***]	[***]
82	[***]	[***]
83	[***]	[***]
84	[***]	[***]
85	[***]	[***]
86	[***]	[***]
87	[***]	[***]
88	[***]	[***]
89	[***]	[***]
90	[***]	[***]
91	[***]	[***]
92	[***]	[***]
93	[***]	[***]
94	[***]	[***]
95	[***]	[***]
96	[***]	[***]
97	[***]	[***]
98	[***]	[***]
99	[***]	[***]
100	[***]	[***]
101	[***]	[***]
102	[***]	[***]
103	[***]	[***]
104	[***]	[***]
105	[***]	[***]
106	[***]	[***]
107	[***]	[***]
108	[***]	[***]
109	[***]	[***]
110	[***]	[***]
111	[***]	[***]
112	[***]	[***]
113	[***]	[***]
114	[***]	[***]
115	[***]	[***]
116	[***]	[***]

117	[***]	[***]
118	[***]	[***]
119	[***]	[***]
120	[***]	[***]
121	[***]	[***]
122	[***]	[***]
123	[***]	[***]
124	[***]	[***]
125	[***]	[***]
126	[***]	[***]
127	[***]	[***]
128	[***]	[***]
129	[***]	[***]
130	[***]	[***]
131	[***]	[***]
132	[***]	[***]
133	[***]	[***]
134	[***]	[***]
135	[***]	[***]
136	[***]	[***]
137	[***]	[***]
138	[***]	[***]
139	[***]	[***]
140	[***]	[***]
141	[***]	[***]
142	[***]	[***]
143	[***]	[***]
144	[***]	[***]
145	[***]	[***]
146	[***]	[***]
147	[***]	[***]
148	[***]	[***]
149	[***]	[***]
150	[***]	[***]
151	[***]	[***]
152	[***]	[***]
153	[***]	[***]
154	[***]	[***]

155	***	***
156	***	***
157	***	***
158	***	***
159	***	***
160	***	***
161	***	***
162	***	***
163	***	***
164	***	***
165	***	***
166	***	***
167	***	***
168	***	***
169	***	***
170	***	***
171	***	***
172	***	***
173	***	***
174	***	***
175	***	***
176	***	***

9.1.1.3 Each period set out in Clause 9.1.1.2 above shall be, with respect to the corresponding Aircraft, the “**Scheduled Delivery Quarter**”, or the “**Scheduled Delivery Half-Year**” or the “**Scheduled Delivery Year**”, and the “**Scheduled Delivery Period**”

The Seller shall notify to the Buyer:

- 1) the applicable Scheduled Delivery Half-Year no later than [***] prior to the first day of the Scheduled Delivery Year, if any, set out above; and
- 2) the applicable Scheduled Delivery Quarter no later than [***] prior to the first day of the previously notified Scheduled Delivery Half-Year, if any; and
- 3) no later than [***] prior to the first day of the previously notified Scheduled Delivery Quarter of an Aircraft within which month of such Scheduled Delivery Quarter the Seller shall have such Aircraft Ready for Delivery at the Delivery Location (the “**SDM Notification**”). Such months shall be, with respect to such Aircraft, the “**Scheduled Delivery Month**”.

Until above mentioned notifications, and for the purposes of this Agreement, including specifically Clause 5 hereof, (i) the [***] of such Scheduled Delivery Period shall be deemed to be the Scheduled Delivery Month of such Aircraft when such Scheduled

Delivery Period is a Quarter, and (ii) the [***] of such Scheduled Delivery Period shall be deemed to be the Scheduled Delivery Month of such Aircraft when such Scheduled Delivery Period is a half-year, and (iii) the [***] of such Scheduled Delivery Period shall be deemed to be the Scheduled Delivery Month of such Aircraft when such Scheduled Delivery Period is a year.

In order to take into consideration the Buyer's organizational constraints, the Seller shall, subject to the Seller's then industrial and commercial constraints, use its reasonable endeavours to limit the total number of Aircraft to be delivered within the month of [***] to [***] Aircraft.

The Buyer may request an adjustment to the notified Scheduled Delivery Months within their respective Scheduled Delivery Quarters, by means of a written notification to the Seller, no later than [***] after the SDM Notification. Such adjustment shall be limited to a maximum of [***] of the NEO Aircraft to be delivered in a given calendar year. Taking into account such request and the Seller's then industrial and commercial constraints, the Seller shall notify the Buyer of the Scheduled Delivery Months of the affected Aircraft within [***] of the Seller's receipt of the Buyer's notice.

UNQUOTE

5.2 The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clause 9.2.3.1 of the Agreement are hereby deleted in their entirety and replaced with the following quoted text:

QUOTE

9.2.3.1 [***].

UNQUOTE

5.3 The Parties hereby agree that, with respect to the Second Batch Aircraft only, the following quoted text is hereby added after the Clause 9.3 of the Agreement and shall constitute the Clause 9.4:

QUOTE

9.4 Delivery Location [***].

UNQUOTE

6 **SELLER REPRESENTATIVE SERVICES**

The Parties hereby agree that, with respect to the Second Batch Aircraft only, Clause 1 of the Appendix A to Clause 15 of the Agreement is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

1 The Seller shall provide to the Buyer Seller Representative services at the Buyer's main base or at other locations to be mutually agreed for a total of [***].

UNQUOTE

7 **TRAINING SUPPORT AND SERVICES**

The Parties hereby agree that, with respect to the Second Batch Aircraft only, the preamble, Clauses 1 and 2 of the Appendix A to Clause 16 of the Agreement are hereby deleted in their entirety and replaced with the following quoted text:

QUOTE

TRAINING ALLOWANCES

For the avoidance of doubt, all quantities indicated in this Appendix A are the total quantities granted for the entire fleet of ninety six (96) Aircraft, unless otherwise specified herein.

The Seller shall provide the training courses to the Buyer during the period starting [***] prior to the Scheduled Delivery Month of the Aircraft scheduled to be delivered first and ending [***] after Delivery of the Aircraft scheduled to be delivered last under this Agreement.

Any modification of the above periods shall be agreed between the Buyer and the Seller.

1 FLIGHT COURSES

- (i) [***],
- (ii) [***].

2 MAINTENANCE COURSES

[***].

3 PERFORMANCE / OPERATIONS COURSE(S)

[***].

UNQUOTE

8 NOTICES

The Parties hereby agree that Clause 22.2 of the Agreement is hereby deleted in its entirety and replaced with the following quoted text:

QUOTE

22.2 NOTICES

22.2.1 Any notice or request to be made under or in connection with this Agreement (a “**Notice**”) shall be in the English language, in writing and signed and shall be given:

- a) by personal delivery; or
- b) by way of an international express courier or facsimile; or
- c) by email.

22.2.2 Any Notice given by a Party to the other Party shall only be effective:

- a) if by personal delivery, when it has been delivered to the relevant address set out below;
- b) if by way of international express courier, at the time and on the date such Notice has been recorded by the international express courier company as having been delivered to the relevant address set out below;
- c) if by e-mail, when transmission has been confirmed by an email delivery receipt;
- d) if by facsimile, the date upon which it is sent with a confirmation printout.

22.2.3 If any Notice is delivered in accordance with Clause 22.2.2(b) above:

- a) after 5:00 pm (local time) to the relevant address; or
- b) on a non-Business Day,

such Notice shall be deemed to become effective only on the following Business Day.

22.2.4 The address, email address and facsimile number of each Party for any Notice to be given under or in connection with this Agreement is:

a) in the case of the Seller:

AIRBUS S.A.S.
2 Rond-Point Emile Dewoitine
31700 Blagnac
France

Email: [***]

Fax: [***]

Attention: [***]

b) in the case of the Buyer:

CHINA SOUTHERN AIRLINES COMPANY LIMITED
No.68, Qixin Road, Baiyun District,
Guangzhou, Guangdong, 510403,
People's Republic of China

Email: [***]

Attention: [***],

or any substitute address or addressee as a Party may notify to the other Party in accordance with this Clause from time to time.

UNQUOTE

9 COMPLIANCE, [*]**

The Parties hereby agree that the following quoted text shall be added after Clause 22.12 of the Agreement and shall constitute the Clause 22.13:

QUOTE

22.13 [***]

22.13.1 [***]

22.13.2 [***]

22.13.3 [***]

22.13.4 [***]

22.13.5 **Buyer's Account for Payments by Buyer**

[***].

UNQUOTE

CSN – AM5 to A320 PA dated May 2014
CT1202318 – June 2022

Privileged & Confidential
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10 MISCELLANEOUS

- 10.1** The Parties hereby agree that the present Amendment N°5 shall enter into full force and effect from the date mentioned above.
- 10.2** Except as otherwise provided by the terms and conditions hereof, this Amendment N°5 contains the entire agreement of the Parties with respect to the subject matter hereof and supersedes all other prior understandings, commitments, agreements, representations and negotiations whatsoever, oral and written, and may not be varied except by an instrument in writing of even date herewith or subsequent hereto executed by the duly authorised representatives of the Parties.
- 10.3** In the event of any inconsistency between the terms and conditions of the Agreement and those of the present Amendment N°5, the latter shall prevail to the extent of such inconsistency, whereas the part not concerned by such inconsistency shall remain in full force and effect.
- 10.4** The provisions of Clause 22.12 of the Agreement shall be incorporated by reference into this Amendment N°5 as if the same were set out in full herein *mutatis mutandis*.
- 10.5** The Parties agree that this Amendment N°5, upon execution hereof, shall constitute an integral and non-severable part of the Agreement and shall be governed by all of its provisions, as such provisions have been specifically amended pursuant to this Amendment N°5. Except as otherwise expressly modified herein, all other terms and conditions of the Agreement shall continue to be in full force and effect.
- 10.6** This Amendment N°5 may be executed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 10.7** This Amendment N°5 shall be governed by and construed in accordance with the laws of England. Any dispute arising out of or in connection with this Amendment N°5 shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by three (3) arbitrators appointed in accordance with such rules. Arbitration shall take place in London in the English language.
- 10.8** The Parties do not intend that any term of this Amendment N°5 shall be enforceable solely by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to this Amendment N°5. The Parties may rescind, vary, waive, release, assign, novate or otherwise dispose of all or any of their respective rights or obligations under this Amendment N°5 in accordance with the terms hereof without the consent of any person who is not a party to this Amendment N°5.
- 10.9** Notwithstanding any other provision of the Agreement, this Amendment N°5 and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

IN WITNESS WHEREOF, this Amendment N°5 was entered into the day and year first above written.

Agreed and Accepted

Agreed and Accepted

For and on behalf of:

For and on behalf of:

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Name:
Title:
Signature:

Name:
Title:
Signature:

Witnessed and acknowledged,
For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP IMPORT AND
EXPORT TRADING CORP., LTD.**

Name:
Title:
Signature:

CSN – AM5 to A320 PA dated May 2014
CT1202318 – June 2022

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EXHIBIT A

LIST OF SPECIFICATION CHANGE NOTICES

AIRBUS Standard budget OPTION LIST
A319-100N

Based on Standard Spec Iss [***]

Total Option Price / aircraft [***]
Prices in [***] Delivery Conditions (USD)

#	Option	Description	Comments	BFE	Selected SCN Price
1	[***]	[***]	[***]	[***]	[***]
2	[***]	[***]	[***]	[***]	[***]
3	[***]	[***]	[***]	[***]	[***]
4	[***]	[***]	[***]	[***]	[***]
5	[***]	[***]	[***]	[***]	[***]
6	[***]	[***]	[***]	[***]	[***]
7	[***]	[***]	[***]	[***]	[***]
8	[***]	[***]	[***]	[***]	[***]
9	[***]	[***]	[***]	[***]	[***]
10	[***]	[***]	[***]	[***]	[***]
11	[***]	[***]	[***]	[***]	[***]
12	[***]	[***]	[***]	[***]	[***]
13	[***]	[***]	[***]	[***]	[***]
14	[***]	[***]	[***]	[***]	[***]
15	[***]	[***]	[***]	[***]	[***]
16	[***]	[***]	[***]	[***]	[***]
17	[***]	[***]	[***]	[***]	[***]
18	[***]	[***]	[***]	[***]	[***]
19	[***]	[***]	[***]	[***]	[***]
20	[***]	[***]	[***]	[***]	[***]

EXHIBIT A

AIRBUS Standard budget OPTION LIST
A320-200N

Based on Standard Spec [***]

Total Option Price / aircraft: [***]

Prices in [***]

#	Description	Comments CABIN (LOPA Ref: [***]1)	BFE	Selected Quantity	Price per a/c
1	[***]	[***]	[***]	[***]	[***]
2	[***]	[***]	[***]	[***]	[***]
3	[***]	[***]	[***]	[***]	[***]
4	[***]	[***]	[***]	[***]	[***]
5	[***]	[***]	[***]	[***]	[***]
6	[***]	[***]	[***]	[***]	[***]
7	[***]	[***]	[***]	[***]	[***]
8	[***]	[***]	[***]	[***]	[***]
9	[***]	[***]	[***]	[***]	[***]
10	[***]	[***]	[***]	[***]	[***]
11	[***]	[***]	[***]	[***]	[***]
12	[***]	[***]	[***]	[***]	[***]
13	[***]	[***]	[***]	[***]	[***]
14	[***]	[***]	[***]	[***]	[***]
15	[***]	[***]	[***]	[***]	[***]
16	[***]	[***]	[***]	[***]	[***]
17	[***]	[***]	[***]	[***]	[***]
18	[***]	[***]	[***]	[***]	[***]
19	[***]	[***]	[***]	[***]	[***]
20	[***]	[***]	[***]	[***]	[***]
21	[***]	[***]	[***]	[***]	[***]
22	[***]	[***]	[***]	[***]	[***]
23	[***]	[***]	[***]	[***]	[***]
24	[***]	[***]	[***]	[***]	[***]
25	[***]	[***]	[***]	[***]	[***]
26	[***]	[***]	[***]	[***]	[***]
27	[***]	[***]	[***]	[***]	[***]
28	[***]	[***]	[***]	[***]	[***]
29	[***]	[***]	[***]	[***]	[***]
30	[***]	[***]	[***]	[***]	[***]
31	[***]	[***]	[***]	[***]	[***]
32	[***]	[***]	[***]	[***]	[***]

EXHIBIT A

33	***	***	***	***	***
	***	***	***	***	***

	***	***	***	***	***
34	***	***	***	***	***
	***	***	***	***	***
35	***	***	***	***	***
36	***	***	***	***	***
37	***	***	***	***	***
38	***	***	***	***	***
39	***	***	***	***	***
40	***	***	***	***	***
41	***	***	***	***	***
42	***	***	***	***	***
43	***	***	***	***	***
44	***	***	***	***	***
45	***	***	***	***	***
46	***	***	***	***	***
	***	***	***	***	***
47	***	***	***	***	***
	***	***	***	***	***
48	***	***	***	***	***
49	***	***	***	***	***
50	***	***	***	***	***
51	***	***	***	***	***
52	***	***	***	***	***
53	***	***	***	***	***
54	***	***	***	***	***
	***	***	***	***	***
55	***	***	***	***	***
	***	***	***	***	***
56	***	***	***	***	***
57	***	***	***	***	***
58	***	***	***	***	***
	***	***	***	***	***
59	***	***	***	***	***
60	***	***	***	***	***

	***	***	***	***	***
61	***	***	***	***	***

EXHIBIT A

AIRBUS Standard Budget OPTION LIST
A321-200NX

Based on Standard Spec Iss [***]

Total Option Price / aircraft: [***]

Prices in [***]

#	Description	Comments	BFE	Selected Quantity	Price per a/c
	[***]	CABIN (LOPA Ref: [***])			
1	[***]	[***]	[***]	[***]	[***]
2	[***]	[***]	[***]	[***]	[***]
3	[***]	[***]	[***]	[***]	[***]
4	[***]	[***]	[***]	[***]	[***]
5	[***]	[***]	[***]	[***]	[***]
6	[***]	[***]	[***]	[***]	[***]
7	[***]	[***]	[***]	[***]	[***]
8	[***]	[***]	[***]	[***]	[***]
9	[***]	[***]	[***]	[***]	[***]
10	[***]	[***]	[***]	[***]	[***]
11	[***]	[***]	[***]	[***]	[***]
12	[***]	[***]	[***]	[***]	[***]
13	[***]	[***]	[***]	[***]	[***]
14	[***]	[***]	[***]	[***]	[***]
15	[***]	[***]	[***]	[***]	[***]
16	[***]	[***]	[***]	[***]	[***]
17	[***]	[***]	[***]	[***]	[***]
18	[***]	[***]	[***]	[***]	[***]
19	[***]	[***]	[***]	[***]	[***]
20	[***]	[***]	[***]	[***]	[***]
21	[***]	[***]	[***]	[***]	[***]
22	[***]	[***]	[***]	[***]	[***]
23	[***]	[***]	[***]	[***]	[***]
24	[***]	[***]	[***]	[***]	[***]
25	[***]	[***]	[***]	[***]	[***]
26	[***]	[***]	[***]	[***]	[***]
27	[***]	[***]	[***]	[***]	[***]
28	[***]	[***]	[***]	[***]	[***]

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29	***	***	***	***	***
30	***	***	***	***	***
31	***	***	***	***	***
32	***	***	***	***	***
33	***	***	***	***	***

	***	***	***	***	***
34	***	***	***	***	***
	***	***	***	***	***
35	***	***	***	***	***
36	***	***	***	***	***
37	***	***	***	***	***
38	***	***	***	***	***
39	***	***	***	***	***
40	***	***	***	***	***
41	***	***	***	***	***
42	***	***	***	***	***
43	***	***	***	***	***
44	***	***	***	***	***
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	***	***	***	***	***
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53	***	***	***	***	***
54	***	***	***	***	***
55	***	***	***	***	***
	***	***	***	***	***
56	***	***	***	***	***
57	***	***	***	***	***
	***	***	***	***	***
58	***	***	***	***	***
59	***	***	***	***	***
60	***	***	***	***	***
61	***	***	***	***	***

EXHIBIT A

	[***]	[***]	[***]	[***]	[***]
62	[***]	[***]	[***]	[***]	[***]
63	[***]	[***]	[***]	[***]	[***]
	[***]				
	[***]	[***]	[***]	[***]	[***]
64	[***]	[***]	[***]	[***]	[***]

EXHIBIT C

PRICE REVISION FORMULAS

PART 1 AIRBUS PRICE REVISION FORMULA

1 BASE PRICE

The Airframe Base Price quoted in Clause 3.1 of this Agreement, and all other amounts expressed in this Agreement as being subject to this Airbus Price Revision Formula (each a “**Base Price**”), are subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

2 BASE PERIOD

[***].

3 INDEXES

Labor Index: [***].

Material Index: [***]

4 REVISION FORMULA

[***]

5 GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Substitution of Indexes for Airbus Price Revision Formula

[***]

5.3 Final Index Values

[***]

5.4 Limitation

[***]

EXHIBIT C

PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULAS

CFM INTERNATIONAL

1. REFERENCE PRICE OF THE PROPULSION SYSTEMS

The Propulsions Systems Reference Price of a set of [***] Propulsion Systems, as respectively set out in Clause 3.2 of this Agreement (each a “**Reference Price**”), is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof.

2. REFERENCE PERIOD

[***]

3. INDEXES

Labor Index: [***]

Material Index: [***]

[***]

4. REVISION FORMULA

[***]

5. GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Final Index Values

[***]

5.3 Interruption of Index Publication

[***]

5.4 Annulment of the Formula

[***]

5.5 Limitation

[***]

EXHIBIT C

PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULAE

IAE LLC

1. REFERENCE PRICE OF THE PROPULSION SYSTEMS

The Propulsions Systems Reference Price of a set of [***] Propulsion Systems, as respectively set out in Clause 3.2 of this Agreement (each a “**Reference Price**”), is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

2. BASE PERIOD

[***].

3. INDEXES

Labor Index: [***]

Material Index: [***].

4. REVISION FORMULA

[***]

5. GENERAL PROVISIONS

5.1 Roundings

[***].

5.2 Substitution of Indexes for Price Revision Formula

[***]

5.3 Final Index Values

[***]

5.4 Limitation

[***]

A320 NEO FAMILY
PURCHASE AGREEMENT
BETWEEN
AIRBUS S.A.S.
as Seller
AND
XIAMEN AIRLINES
as Buyer

Reference: [***]

[***] Certain identified information has been excluded from the exhibit because it is both not material and is the type that China Southern Airlines Company Limited treats as private or confidential.

CXA A320NEO Family PA - 2022
[***]

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CLAUSES	TITLES
1	DEFINITIONS AND INTERPRETATION
2	SALE AND PURCHASE
3	SPECIFICATION
4	CERTIFICATION
5	PRICES AND PRICE REVISION
6	PAYMENTS
7	INSPECTIONS AND TECHNICAL ACCEPTANCE
8	DELIVERY
9	DELAYS
10	ASSIGNMENTS AND TRANSFERS
11	DEFAULT AND REMEDIES
12	COMPLIANCE, [***]
13	NOTICES
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15	LAW AND JURISDICTION
16	MISCELLANEOUS
EXHIBIT A	LIST OF BUYER CHANGES
EXHIBIT B	PART 1 - AIRBUS PRICE REVISION FORMULA PART 2 - PROPULSION SYSTEMS PRICE REVISION FORMULAS
EXHIBIT C	DELIVERY SCHEDULE
EXHIBIT D	FORM OF CERTIFICATE OF ACCEPTANCE
EXHIBIT E	FORM OF BILL OF SALE
APPENDIX 1	BUYER FURNISHED EQUIPMENT
APPENDIX 2	WARRANTIES AND PATENT INDEMNITY
APPENDIX 3	CUSTOMER SUPPORT

A320NEO FAMILY PURCHASE AGREEMENT

This Agreement is made on _____ 2022

Between

AIRBUS S.A.S., a French *société par actions simplifiée*, with its registered office at 2, rond-point Emile Dewoitine, 31700 Blagnac, France (the “**Seller**”);

and

XIAMEN AIRLINES, a company registered under the law of the People’s Republic of China, with its principal place of business at No. 22 Dailiao Road, Huli District, Xiamen City, People’s Republic of China (the “**Buyer**”),

The Buyer and the Seller may be referred to in this Agreement individually as a “**Party**” and collectively as the “**Parties**”.

WHEREAS, subject to the terms and conditions of this Agreement, the Seller desires to sell the Aircraft to the Buyer and the Buyer desires to purchase the Aircraft from the Seller.

NOW THEREFORE IT IS AGREED AS FOLLOWS.

CXA A320NEO Family PA - 2022

[***]

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1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In addition to words and terms defined in this Agreement, capitalised words and terms used in this Agreement and any appendix hereto shall have the meaning set out below:

“**A319 NEO Aircraft**” or “**A319 NEO**” means [***].

“**A319 NEO Standard Specification**” means [***].

“**A320 NEO Aircraft**” or “**A320 NEO**” means [***].

“**A320 NEO Standard Specification**” means [***].

“**A321 NEO Aircraft**” or “**A321 NEO**” means [***].

“**A321 NEO Standard Specification**” means [***].

[***].

“**Additional Training Proposal**” has the meaning set out in Clause 4.3.5 of Appendix 3.

“**Affiliate**” means, with respect to any natural or legal person, another natural or legal person directly or indirectly Controlling, Controlled by or under common Control with such person.

“**Agreement**” means this A320 NEO Family purchase agreement made between the Seller and the Buyer, including its Exhibits, Appendices and Schedules which shall form an integral part thereof.

“**Airbus On-Board Certified Software**” means Airbus Part 125 and/or FAR 125 certified software installed on board an Aircraft at Delivery and bearing a part number of the Seller (excluding any software embedded in any component, furnishing or equipment installed on the Aircraft which itself bears a part number).

“**Airbus BFE Product Catalogue**” means the Seller’s catalogue which sets out the items of Buyer Furnished Equipment and their associated BFE Suppliers which have been approved by the Seller for the purposes of the installation of BFE on Airbus aircraft.

“**Airbus Generic Manuals**” means the Technical Data that are common to all Airbus aircraft.

[***] is set out in Part 1 of Exhibit B.

“**Aircraft**” means, as the context may require, any or all of the A319 NEO Aircraft, A320 NEO Aircraft and A321 NEO Aircraft delivered or to be delivered under this Agreement, including any part, component, furnishing, software or equipment (including the Propulsion Systems) incorporated in or installed on such Aircraft at Delivery, and including BFE, if any, subject to the conditions set out in Appendix 1.

“**Aircraft Training**” means any flight training, flight assistance, line training, line assistance and more generally all flights of any kind performed by the Seller, and maintenance support, maintenance training (including practical training), training support of any kind, in each case performed on aircraft and provided to the Buyer pursuant to this Agreement.

“**Airframe**” means an Aircraft excluding the Propulsion Systems.

[***] has the meaning set out in Clause 5.1.1.

“**AirbusWorld**” means the Seller’s customer portal as further defined in the GTC.

“**AOG**” means aircraft-on-ground.

[***]

“**Aviation Authority**” means, in respect of any jurisdiction, the entity which under the laws of such jurisdiction has control over civil aviation or the registration, airworthiness or operation of aircraft in such jurisdiction.

“**Balance of the [***]**” has the meaning set out in Clause 6.4.

[***] has the meaning set out in Clause 1 of Part 1 of Exhibit B.

“**Beyond Economic Repair**” has the meaning set out in Clause 1.1.7.3 of Appendix 2.

“**BFE Data**” has the meaning set out in Clause 2.3.2 of Appendix 3.

“**BFE Engineering Definition**” means, for each BFE, a written detailed engineering definition including (a) the dimensions and weight of such BFE and the information necessary for its installation and operation on each Aircraft, (b) 3D models compatible with the Seller’s systems (if applicable), and (c) a Declaration of Design and Performance.

“**BFE Process**” means the process to be followed by the Buyer with respect to the selection, definition, delivery and installation of BFE on Airbus aircraft, as set out in Appendix 1.

“**BFE Supplier**” means a supplier of BFE listed in the Airbus BFE Product Catalogue.

“**Bill of Sale**” means the bill of sale for an Aircraft in the form set out in Exhibit E.

“**Browser**” has the meaning set out in Clause 2.2.3 of Appendix 3.

“**Business Day**” means:

- a) any day, other than a Saturday or Sunday, on which business of the kind contemplated by this Agreement is carried on in (i) France and (ii) the People’s Republic of China; and
- b) where used in relation to a payment, any day on which commercial banks are open for business in (i) France, (ii) the People’s Republic of China and (iii) New York.

“**Buyer’s Account**” means the bank account of the Buyer specified in Clause 12.3.

“**Buyer Change(s)**” has the meaning set out in Clause 3.2.1.

[***] has the meaning set out in Clause 5.1.2.

“**Buyer Event of Default**” has the meaning set out in Clause 11.2.

“**Buyer Furnished Equipment**” or “**BFE**” means the items of equipment to be installed on Aircraft which are identified in the Specification as being furnished by the Buyer.

“**Buyer’s Goods and Services Account**” means the Buyer’s account with the Seller for the purchase of Goods and Services.

“**Buyer Manhours**” means the manhours specified in the relevant Seller documentation (excluding any manhours required for maintenance work concurrently being carried out on the Aircraft or on the Warranted Part) as being required to:

- a) remove a Warranted Part from an Aircraft and reinstall it thereon; and
- b) for the Inhouse Warranty, disassemble, inspect, repair or modify, reassemble, perform the final inspection and test a Warranted Part.

“**Buyer Party**” means the Buyer and/or any of its Affiliates.

“**Buyer Related Person**” means the directors, officers, agents, employees, representatives and subcontractors of the Buyer.

“**Buyer Third Party**” has the meaning set out in Clause 2.8 of Appendix 3.

“**Central Bank Rate**” means the lower bound of the short-term interest rate target range set by the US Federal Open Market Committee and published by the Federal Reserve Bank of New York.

“**Certificate of Acceptance**” means the certificate of acceptance for an Aircraft in the form set out in Exhibit D.

[***]

[***] has the meaning set out in Clause 5.1.3.

“**Commercial Information**” has the meaning set out in Clause 14.2.

“**Contractual Definition Freeze**” or “**CDF**” means the finalization of the Specification of the Aircraft, as further described in Clause 3.4.

“**Contractual On-Dock Dates**” has the meaning set out in Clause 1 of Appendix 1.

“**Control**” means, in respect of a natural or legal person, the power of another natural or legal person to direct the affairs and/or control the composition of the board of directors or equivalent body of the first natural or legal person and the terms “**Controlling**” and “**Controlled**” shall be construed accordingly.

“**Country of Registration**” has the meaning set out in Clause 4.1.2.

“**Critical Design Review**” or “**CDR**” means the final review of the definitive design of a BFE to ensure the compliance of its functional and technical design with both the Seller’s technical specification and the Buyer’s definition, prior to release for production and testing activities.

“**Customer Inspection Procedure**” has the meaning set out in Clause 7.1.

“**Customisation Milestone Chart**” or “**CMC**” has the meaning set out in Clause 3.4.1.

“**Customer Order Desk**” means the Seller’s order desk, which manages all customer orders for Material.

“**Customer Services Catalogue**” or “**CSC**” means the then current customer services e-catalogue available on AirbusWorld.

“**Customer Support**” has the meaning set out in Clause 1 of Appendix 3.

“**Customised Technical Data**” means the Technical Data that are customised to integrate the specificities of the configuration of the Buyer’s fleet, as known at the date of issuance thereof.

“**Declaration of Design and Performance**” means the documentation provided by a BFE Supplier confirming that the corresponding equipment meets the requirements of its technical specification and of the Seller’s Interface Documentation.

“**Default Rate**” [***]

“**Delivered At Place**” or “**DAP**” has the meaning set out in the Incoterms 2020 publication issued by the International Chamber of Commerce.

“**Delivery**” means the transfer of title to an Aircraft by the Seller to the Buyer in accordance with Clause 8.2.

“**Delivery Location**” means, in respect of an Aircraft, the location of the facilities of the Seller where Delivery of such Aircraft shall occur.

“**Delivery Schedule**” means the schedule of deliveries of Aircraft set out in Exhibit C and as may be amended and/or replaced from time to time in accordance with this Agreement.

“**Demonstration Flight**” has the meaning set out in Clause 7.2.3.1.

“**Development Changes**” has the meaning set out in Clause 3.2.2.

“**Direct Labour Costs**” means the amount obtained by multiplying the Buyer Manhours by the Inhouse Warranty Labour Rate.

“**Direct Material Costs**” means the net prices at which the Buyer acquired the material to perform an Inhouse Warranty (excluding any parts and materials used for maintenance performed in parallel to the Inhouse Warranty repair).

“**EASA**” means the European Aviation Safety Agency or any successor thereof.

“**EULA**” means the conditions applicable to the use of Airbus on-ground software as set out in the CSC.

“**Envelope Manuals**” means the Technical Data that are common to all Airbus aircraft of the same type.

“**Expedite Service**” has the meaning set out in Clause 5.1 of Appendix 3.

“**Excusable Delay**” has the meaning set out in Clause 9.1.1.

“**Export Airworthiness Certificate**” means an export certificate of airworthiness issued by the Aviation Authority of the Delivery Location in respect of an Aircraft.

“**Extrinsic Force**” means an external force that is not expected to be encountered in the normal day-to-day operation of aircraft, including foreign object damage, hard landing and operation otherwise than in accordance with the Aircraft Flight Manual.

“**Failure**” means a defect of any Item that is expected by the Seller to occur on Airbus aircraft on a fleet-wide basis and that materially impairs such Item.

[***] has the meaning set out in Clause 5.2.

“**First Article Inspection**” or “**FAI**” means the inspection of the first shipset of a BFE to ensure the full compliance of such equipment with its specification and with the Buyer’s requirements, to allow serial production.

“**Flight Cycle**” means one (1) take-off and landing of an Aircraft, and for this purpose “take-off and landing” shall include “touch and go” take-offs and landings.

“**Flight Hour**” means each hour or part thereof elapsing from the moment at which the wheels of an Aircraft leave the ground upon take-off until the wheels of such Aircraft touch the ground upon the landing of such Aircraft following such take-off.

“**GDPR**” has the meaning set out in Clause 16.11.

“**General Terms and Conditions of Access to and Use of AirbusWorld**” or “**GTC**” means the terms and conditions relating to the access and use of AirbusWorld to be entered into between the Parties on or about the date of this Agreement.

“**Goods and Services**” means any goods and services that may be purchased by the Buyer from the Seller or its wholly owned subsidiaries, excluding aircraft.

“**Gross Negligence**” means any act or omission done with intent to cause damage or done recklessly and with knowledge that damage would probably result.

“**Ground Training**” means all training courses performed in classrooms, simulator sessions, field trips and any other training products and services provided by the Seller to the Buyer on the ground pursuant to this Agreement and which are not Aircraft Training.

[***] has the meaning set out in Clause 12.1.

“**Immovable BFE**” has the meaning set out in Clause 5 of Appendix 1.

“**Indemnitee**” has the meaning set out in Clause 7.4.2.

“**Indemnitor**” has the meaning set out in Clause 7.4.2.

“**Inhouse Warranty**” has the meaning set out in Clause 1.1.7 of Appendix 2.

“**Inhouse Warranty Labour Rate**” means an agreed labour rate of [***], revised in accordance with Schedule 2 to Appendix 2.

“**Insolvency Event**” has the meaning set out in Clause 11.1.

“**Insolvent Party**” has the meaning set out in Clause 11.1.

“**Interface Documentation**” means a document provided by the Seller to the Buyer and/or the BFE Supplier(s) and including the interface documentation or any other specification document provided by the Seller, as applicable, and all the relevant certification requirements for BFE, as amended from time to time.

“**Interface Issue**” has the meaning set out in Clause 1.4 of Appendix 2.

“**Initial Provisioning**” has the meaning set out in Clause 5.2 of Appendix 3.

“**Initial Provisioning Conference**” has the meaning set out in Clause 5.2.1 of Appendix 3.

“**Initial Provisioning Material**” has the meaning set out in Clause 5.2.1 of Appendix 3.

“**Initial Provisioning Period**” has the meaning set out in Clause 5.2 of Appendix 3.

“**Initial Technical Coordination Meeting**” or “**ITCM**” means the initial meeting relative to the cabin definition, including specifically BFE, during which the Buyer’s main requirements and the technical constraints are captured, in order to launch the development of the cabin and the corresponding BFE.

“**Instructors**” means the instructors, pilots or other personnel of the Seller providing training support services under Clause 4 of Appendix 3.

“**IP Claim**” has the meaning set out in Clause 2.2.1 of Appendix 2.

“**Item**” means any item listed in Schedule 1 of Appendix 2.

[***]

“**Losses**” means any losses, liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees).

“**Major BFE**” has the meaning set out in Clause 6.1 of Appendix 1.

“**Manufacturer Development Change**” has the meaning set out in Clause 3.2.2.2.

“**Manufacturing Facilities**” means the various manufacturing facilities of the Seller, its Affiliates and any sub-contractor, where each Airframe and/or any sub-assembly of the Airframe (in each case excluding BFE) are manufactured or assembled.

“**Manufacturer Specification Change Notice**” or “**MSCN**” means the document issued by the Seller in respect of a Manufacturer Development Change or a Regulatory Change in accordance with Clause 3.

“**Material**” means Seller Spare Parts, Supplier Spare Parts as well as ground support equipment and specific-to-type tools of both the Seller and certain suppliers (but excludes Propulsion Systems, parts thereof, and engine exchange kits, as well as Buyer Furnished Equipment).

“**Maximum Amount**” has the meaning set out in Clause 1.1.7.3 of Appendix 2.

“**Minor Development Change**” has the meaning set out in Clause 3.2.2.1.

“**NEO Aircraft**” means, as the context may require, any or all Airbus A319 NEO Aircraft, A320 NEO Aircraft and A321 NEO Aircraft.

“**Non-Excusable Delay**” has the meaning set out in Clause 9.2.1.

“**Notice**” means any notice or request to be made under or in connection with this Agreement pursuant to Clause 13.

“**Order**” means any purchase order placed by the Buyer for any order of Material, whether placed in the frame of Initial Provisioning, replenishment or on an expedite basis.

“**Other Agreement**” has the meaning set out in Clause 11.2.

“**Other Part**” means any Supplier Part, the Propulsion Systems, any Buyer Furnished Equipment and any component, equipment, accessory, or part installed on an Aircraft at Delivery which is not a Warranted Part.

“**Performance Engineer’s Programmes Package**” or “**PEP Package**” means a set of performance computation modules for the aircraft type covered under this Agreement including software components, databases and consultation tools.

“**Period of Non-Excusable Delay**” has the meaning set out in Clause 9.2.3.

“**Preliminary Design Review**” or “**PDR**” means the review to validate the concepts of the Buyer’s cabin, including specifically BFE, prior to the launching of the detailed design.

“**Predelivery Payment(s)**” means the payment(s) determined in accordance with Clause 6.3.

“**Predelivery Payment Reference Price**” or “**PDPRP**” means the Predelivery Payment reference price determined in accordance with the formula set out in Clause 6.3.1.

“**Pre-Provisioning Meeting**” has the meaning set out in Clause 5.2.1 of Appendix 3.

“**Propulsion Systems**” has the meaning set out in Clause 3.3.

[***] has the meaning set out in respectively Clauses 5.1.4 and 5.1.5.

“**Propulsion Systems Manufacturer**” means the manufacturer of the Propulsion Systems as selected in accordance with Clause 3.3.

[***] is set out in Part 2 to Exhibit B.

[***] has the meaning set out in respectively Clauses 5.1.4 and 5.1.5.

“**Provisioning Data**” has the meaning set out in Clause 5.2.2 of Appendix 3.

“**Ready for Delivery**” means, in respect of any Aircraft, the date on which:

- a) the Technical Acceptance Process has been completed in accordance with Clause 7.2 in respect of such Aircraft; and
- b) all technical conditions required for the issuance of the Statement of Conformity and, if applicable, the Export Airworthiness Certificate in respect of such Aircraft have been satisfied.

“**Regulatory Change(s)**” has the meaning set out in Clause 4.2.2.

“**Relevant Amounts**” has the meaning set out in Clause 11.3.3.

“**Relevant Period**” has the meaning set out in Clause 9.2.1.

“**Removable BFE**” has the meaning set out in Clause 5 of Appendix 1.

“**Replacement Part**” has the meaning set out in Clause 1.1.6.3 of Appendix 2.

“**Retention Period**” has the meaning set out in Clause 1.1.7.4 of Appendix 2.

“**Returned Part**” has the meaning set out in Clause 1.1.6.3 of Appendix 2.

“**Revision Service Period**” has the meaning set out in Clause 2.1 of Appendix 3.

[***].

[***].

[***].

[***].

“**SB Report**” has the meaning set out in Clause 2.4 of Appendix 3.

“**Scheduled Delivery Month**” has the meaning set out in Exhibit C.

“**Scheduled Delivery Period**” means, as the case may be, the calendar year, half-year, quarter or month specified in the Delivery Schedule set out in Exhibit C corresponding to the period during which an Aircraft shall be Ready for Delivery:

- a) as each is in effect with the passage of time and pursuant to the notifications made by the Seller in accordance with Exhibit C; and
- b) as may be amended from time to time pursuant to the provisions of this Agreement.

“**Seller’s Account**” means the bank account of the Seller specified in Clause 6.1.

“**Seller Party**” means the Seller and/or any of its Affiliates.

“**Seller Related Person**” means the directors, officers, agents, employees, representatives and subcontractors of the Seller.

“**Seller Representative(s)**” means the representatives of the Seller referred to in Clause 3 of Appendix 3.

“**Seller Service Bulletin**” or “**Seller SB**” means a document issued by the Seller (as aircraft manufacturer) (excluding service bulletins relating to Supplier topics) to all operators of an aircraft type, notifying them of a modification to the design of, or the need to inspect, or perform an upgrade on, a delivered aircraft to either maintain its level of safety or improve the operation of such aircraft type.

“**Seller Spare Parts**” means spare parts bearing a part number of the Seller and manufactured by the Seller or its licensees.

“**Seller Training Centre**” means one of the Seller’s training centres, including those in Blagnac (France), Hamburg (Germany), Miami (U.S.A.), Beijing (People’s Republic of China) or any other training centre that the Seller may open in the future.

“**Service Life Policy**” has the meaning set out in Clause 1.2.1 of Appendix 2.

“**Source Inspection**” or “**SI**” means the inspection of each shipset of BFE occurring prior to shipping of such BFE by the BFE Supplier.

“**Spare Parts Price Catalogue(s)**” means the then current Spare Parts Price e-Catalogue of the Seller or an Affiliate of the Seller available on AirbusWorld.

“**Specification**” means the Standard Specification as amended and supplemented by all applicable SCNs and MSCNs executed pursuant to Buyer Changes, Development Changes and Regulatory Changes.

“**Specification Change Notice**” or “**SCN**” means the document evidencing an agreement between the Parties in respect of a Buyer Change to amend or supplement the Standard Specification in accordance with Clause 3.2.

“**SPSA Application**” means the application available on AirbusWorld, which provides the Buyer with access to the Supplier Support Conditions.

“**Standard Specification**” means, as the context may require, any and all of the A319 NEO Standard Specification, A320 NEO Standard Specification and the A321 NEO Standard Specification.

“**Start Date**” has the meaning given in Clause 9.2.1.

“**Statement of Conformity**” means, in respect of an Aircraft, a statement of conformity issued by the Aviation Authority of the Delivery Location in respect of such Aircraft.

“**Substitute Index**” has the meaning set out in Clause 5.2 of Exhibit B.

“**Supplier**” means any supplier of Supplier Parts with whom the Seller has entered into Supplier Support Conditions.

“**Supplier Part**” means any component, equipment, accessory, software or part installed in an Aircraft at the time of Delivery which is included in a Supplier Support Conditions. For the sake of clarity, Propulsion Systems, Buyer Furnished Equipment and other equipment selected by the Buyer and provided by suppliers with whom the Seller has no existing warranty arrangements are not Supplier Parts.

“**Supplier Spare Parts**” means either supplier Repairable Line Maintenance Parts or supplier Expendable Line Maintenance Parts (as each defined in SPEC 2000).

“**Supplier Support Conditions**” or “**SSC**” means the agreement between the Seller and a Supplier, based on the conditions set out in the “World Airlines Support Guide”, which includes warranties, and when applicable, service life policies for a Supplier Part.

“**Taxes**” means any present or future tax, duty, withholding, deductions, levy, impost, stamp, fee or charge of any kind imposed by any taxing or other governmental authority together with any penalties, fines and interest thereon.

“**Technical Acceptance Process**” has the meaning set out in Clause 7.2.1.

“**Technical Data**” means the flight operations and maintenance engineering technical data and PEP Package necessary to operate and maintain the Aircraft, as set out in Schedule 1 of Appendix 3 and as more precisely listed in the then current CSC.

“**Term**” means the period commencing on the date of this Agreement and continuing for as long as at least five (5) aircraft of the model of the Aircraft are operated in commercial air transport service, of which at least one (1) by the Buyer.

“**Third Party Entity**” has the meaning set out in Clause 1.8 of Appendix 2.

“**Third Party License**” has the meaning set out in Clause 2.8 of Appendix 3.

“**Training Allowances**” means the training support and services provided by the Seller to the Buyer under this Agreement, as set out in Schedule 2 Appendix 3.

“**Training Centre**” has the meaning set out in Clause 4.2.1 of Appendix 3.

“**Training Conference**” has the meaning set out in Clause 4.1.2 of Appendix 3.

“**Training Conference Proposal**” has the meaning set out in Clause 4.3.5 of Appendix 3.

“**Type Certificate**” has the meaning set out in Clause 4.1.1.

“**USD**” means United States Dollar(s).

“**Validation of Type Certificate**” or “**VTC**” has the meaning set out in Clause 4.1.2.

“**VAT**” means value added tax.

“**Warranted Part(s)**” means any component, equipment, accessory, Airbus On-Board Certified Software or part which is installed on an Aircraft at Delivery and that bears a part number of the Seller at the time of Delivery of such Aircraft.

“**Warranty Claim**” has the meaning set out in Clause 1.1.5.1 of Appendix 2.

“**Warranty Period**” has the meaning set out in Clause 1.1.3 of Appendix 2.

1.2 Interpretation

In this Agreement, unless the context otherwise requires:

- a) clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement;
- b) references to Clauses, Appendices, Exhibits or Schedules are to be construed as references to the clauses, appendices, exhibits or schedules to this Agreement and references to this Agreement include its Appendices, Exhibits and Schedules;
- c) words importing the plural shall include the singular and vice versa;
- d) rank numbers, manufacturer serial numbers (or MSN), fleet serial numbers (or FSN) or any other internal or external designation or reference used for convenience to designate a particular aircraft as an Aircraft to which any provision of this Agreement refers shall have no separate contractual force or effect;
- e) references to a person shall be construed as including, without limitation, references to an individual, firm, company, corporation, government, association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality), unincorporated body of persons and any state or agency of a state;
- f) the term “including” when used in this Agreement means “including without limitation” except when used in the computation of time periods;
- g) technical and trade terms not otherwise defined herein shall have the meanings assigned to them as generally accepted in the aircraft manufacturing industry;
- h) references to days other than Business Days shall be construed as references to calendar days;
- i) any notice, notification or request to be made in this Agreement shall be in writing and shall comply with the requirements set out in Clause 13;
- j) with respect to any USD amounts in this Agreement, if there is any inconsistency between the amounts set out in figures and in letters, the amount set out in letters shall prevail.

2. SALE AND PURCHASE

Subject to the terms and conditions contained in this Agreement:

- a) the Seller shall sell and deliver and the Buyer shall purchase and take delivery of the Aircraft specified in the Delivery Schedule;
- b) the Seller shall install Buyer Furnished Equipment on Aircraft in accordance with the provisions set out in Appendix 1;
- c) the Seller shall provide to the Buyer the warranty and service life policy, and the patent and copyright indemnity set out in Appendix 2;
and
- d) the Seller shall provide to the Buyer the customer support services set out in Appendix 3.

3. SPECIFICATION

3.1 Aircraft Specification

- 3.1.1 Each Aircraft shall be manufactured in accordance with its Specification.
- 3.1.2 The applicable standard design weights (Maximum Take-off Weight (“**MTOW**”) Maximum Landing Weight (“**MLW**”) and Maximum Zero Fuel Weight (“**MZFW**”) of the Aircraft are the following:

	<u>MTOW</u>	<u>MLW</u>	<u>MZFW</u>
A319 NEO Aircraft	[***]	[***]	[***]
A320 NEO Aircraft	[***]	[***]	[***]
A321 NEO Aircraft	[***]	[***]	[***]

3.2 Specification Changes

3.2.1 Buyer Changes

[***]

3.2.2 Development Changes

[***]

3.2.2.1 Minor Development Changes

[***]

3.2.2.2 Manufacturer Development Changes

[***]

3.2.3 Regulatory Changes

[***]

3.3 Propulsion Systems

Each Aircraft shall be equipped with a set of two (2) of one of the following engine types (the “**Propulsion Systems**”), manufactured by one of the following Propulsion System Manufacturers: CFM International, Inc (“**CFM**”) or International Aero Engines, LLC (“**IAE LLC**”).

	<u>CFM</u>	<u>IAE LLC</u>
A319 NEO Aircraft	[***]	[***]
A320 NEO Aircraft	[***]	[***]
A321 NEO Aircraft	[***]	[***]

* AET means Airbus Equivalent Thrust

If the Buyer has not selected the Propulsion Systems by the date of this Agreement, then such selection shall be notified in writing to the Seller by the Buyer, no later than the first day of [***] prior to the Scheduled Delivery Period of the Aircraft of a certain type scheduled to be delivered the first.

The Buyer shall be responsible for entering into direct discussions with the Propulsion Systems Manufacturer with respect to support services and commercial terms relating to the Propulsion Systems.

3.4 Customisation Milestones

3.4.1 Customisation Milestones Chart

No later than [***] prior to the commencement of the Scheduled Delivery Period of the Aircraft scheduled to be delivered first, the Seller shall provide a customisation milestones chart (the “**Customisation Milestone Chart**” or “**CMC**”) to the Buyer. The CMC sets out the date(s) by which decisions or actions by the Buyer in respect of the customization of such Aircraft are required to be made or taken in order to achieve a Contractual Definition Freeze which will enable the Seller to manufacture and deliver such Aircraft in accordance with this Agreement. The CMC shall be valid for all Aircraft, subject to the paragraph below.

[***]

3.4.2 Compliance with Customisation Milestones

[***]

4. CERTIFICATION

4.1 Type Certification

4.1.1 The Seller confirms it has obtained the relevant type certificate for the A319 NEO, A320 NEO and A321 NEO aircraft types under European Aviation Safety Agency (EASA) regulations (the “**Type Certificate**”).

4.1.2 [***]

4.2 Statement of Conformity and Export Airworthiness Certificate

4.2.1 Each Aircraft shall be delivered to the Buyer with a Statement of Conformity and, if applicable, an Export Airworthiness Certificate for export of such Aircraft to the Country of Registration.

[***]

4.2.2 [***]

4.3 Other certificates or approvals

[***]

4.4 Costs of Certification

[***]

CXA A320NEO Family PA - 2022

[***]

5. PRICES AND PRICE REVISION

5.1 [***] Prices

5.1.1 [***]

The [***] (as such Airframe is set out in the Standard Specification) (excluding any Buyer Furnished Equipment) (the [***]) is:

A319 NEO [***]	[***]
A320 NEO [***]	[***]
A321 NEO [***]	[***]

5.1.2 [***]

The [***] of all Buyer Changes listed in Exhibit A (the [***]) is:

A319 NEO [***]	[***]
A320 NEO [***]	[***]
A321 NEO [***]	[***]

5.1.3 [***]

The [***] is:

[***]	[***]
-------	-------

5.1.4 [***] of CFM LEAP-1A Propulsion Systems

The [***] of the CFM LEAP-1A Propulsion Systems (each a [***]) is:

CFM LEAP-[***]	[***]
CFM LEAP-[***]	[***]
CFM LEAP-[***]	[***]

Such [***] are calculated on the basis of the following [***], corresponding to a theoretical delivery in January 2010 (each a [***]):

CFM LEAP-[***]	[***]
CFM LEAP-[***]	[***]
CFM LEAP-[***]	[***]

5.1.5 [***] of IAE LLC PW1100G-JM Propulsion Systems

The [***] of the IAE LLC PW1100G-JM Propulsion Systems (each a [***]) is:

IAE LLC [***]	[***]
IAE LLC [***]	[***]
IAE LLC [***]	[***]

Such [***] are calculated on the basis of the following [***], corresponding to a theoretical delivery in January 2010 (each a [***]):

IAE LLC [***]	[***]
IAE LLC [***]	[***]
IAE LLC [***]	[***]

5.1.6 Each of the [***], the [***], the [***] and the [***] have been calculated on the basis of a theoretical delivery in January 2020.

5.2 [*]**

The price of each Aircraft payable by the Buyer on or prior to Delivery (the [***]) shall be the aggregate of:

- a) the [***] as revised in accordance with Clause 5.3.1; and
- b) the [***] as revised in accordance with Clause 5.3.1, if applicable;
- c) the [***] of all SCNs and MSCNs applicable to the Airframe as revised in accordance with Clause 5.3.1; and
- d) the [***] as revised in accordance with Clause 5.3.2; and
- e) the [***] of all SCNs and MSCNs applicable to the Propulsion Systems as revised in accordance with Clause 5.3.2; and
- f) [***]

5.3 Price Revision

5.3.1 Revision of [***]

For each Aircraft, the [***], the [***], if applicable, and the [***] of all SCNs and MSCNs applicable to the Airframe shall be revised in accordance with the [***] up to and including the month of Delivery of such Aircraft.

5.3.2 Revision of [***]

For each Aircraft, the [***] and the [***] of all SCNs and MSCNs applicable to the Propulsion Systems shall be revised in accordance with the [***] up to and including the month of Delivery of such Aircraft.

5.3.3 Propulsion Systems Manufacturer Modifications

The [***], the [***] of the SCNs and MSCNs applicable to the Propulsion Systems, the Propulsion Systems designation(s) and the [***] are based on information received from the Propulsions Systems Manufacturer and may be modified by such Propulsion Systems Manufacturer at any time prior to the Delivery of an Aircraft. Any such modification made by the Propulsion Systems Manufacturer shall be automatically incorporated into this Agreement which shall be amended accordingly.

5.4 Taxes

5.4.1 Amounts payable by the Buyer under this Agreement do not include any value added tax (“VAT”), sales tax and/or other similar tax. If such taxes are applicable, then they shall be paid by the Buyer.

5.4.2 The Seller shall pay all other Taxes in connection with the manufacture and assembly of each Aircraft and any parts installed on or data incorporated on such Aircraft (except for Buyer Furnished Equipment).

5.4.3 The Buyer shall pay any and all Taxes not assumed by the Seller under Clause 5.4.2 (including any duties upon or in connection with the importation or registration of Aircraft in any country) except for Taxes imposed on the Seller’s income.

6. PAYMENTS

6.1 Seller's Account

The Buyer shall pay the Predelivery Payments, the [***] and any other amount owed by the Buyer to the Seller under this Agreement to the following bank account:

Beneficiary Name:	AIRBUS
Account identification:	[***]
with	[***]
SWIFT:	[***]
ABA:	[***]
Address:	[***]

or to such other bank account as may be notified by the Seller to the Buyer from time to time.

6.2 Intentionally Left Blank

6.3 Predelivery Payments

6.3.1 [***]

6.3.2 [***]

For the purposes of this Clause 6.3, the Scheduled Delivery Period shall refer to the Delivery Schedule set out in Exhibit C as at the date of this Agreement.

If the application of the above schedule results in any Predelivery Payment(s) falling due prior to the date of signature of this Agreement, then such Predelivery Payments shall be paid on the date of this Agreement.

6.3.3 Any Predelivery Payment received by the Seller in respect of an Aircraft shall constitute an instalment of the [***] of such Aircraft, which is due and payable by the relevant dates set out in Clause 6.3.2 above. The Seller shall be entitled to hold and use any Predelivery Payment as absolute owner thereof.

6.3.4 Specification Change Notice Predelivery Payments

At the date of this Agreement, the Parties have agreed a list of Buyer Changes and the Buyer Changes Base Price as set out in Exhibit A.

If the sum of the [***] set out in all SCNs agreed and MSCNs issued in both cases at the time of the Contractual Definition Freeze of the Aircraft scheduled to be delivered first (calculated on the basis of a theoretical delivery in January 2020) exceeds the [***], then the Seller may require the payment, and the Buyer shall pay, an additional Predelivery Payment for each Aircraft which shall equal [***] of such excess and which shall be payable on the first day of the [***] prior to the commencement of the Scheduled Delivery Period of each Aircraft.

6.4 Balance of the [*]**

On or prior to the date of Delivery of an Aircraft, the Buyer shall pay to the Seller the [***] in respect of such Aircraft less an amount equal to the Predelivery Payments received in respect of such Aircraft in accordance with this Agreement (the “**Balance of the [***]**”).

6.5 Other Amounts

Any other amounts due under this Agreement in respect of an Aircraft shall be paid by the Buyer at the same time as the Balance of the [***], or, if invoiced after the date of Delivery of an Aircraft, upon receipt of the Seller’s invoice for such amounts.

6.6 Payment in Full

6.6.1 All payments to be made by the Buyer under this Agreement shall be made in United States Dollars (USD) in immediately available funds. Unless expressly stated to the contrary, if a payment under this Agreement is due on a day which is not a Business Day, the due date for that payment shall be the immediately preceding Business Day.

6.6.2 All payments due to the Seller hereunder shall be made in full, without set-off, counterclaim, deduction or withholding of any kind, including any Taxes payable by the Buyer. If, at any time, the Buyer is obliged by law to make any withholding or deduction from any payment to be made by the Buyer under this Agreement, then the amount due from the Buyer shall be increased to the extent necessary to ensure that, after such withholding or deduction is made, the Seller receives on the due date a net amount equal to the amount which would have been received in the absence of such withholding or deduction.

6.7 Overdue Payments

If any amount due and payable by the Buyer under this Agreement is not paid when due, then interest at the Default Rate shall accrue from the date such amount is due until the date of actual payment. Such interest shall be calculated pro-rata on the basis of the actual number of days elapsed and a 360-day year and shall be paid by the Buyer upon demand of the Seller.

6.8 Set-Off

The Seller may set-off any matured obligation owed by the Buyer to a Seller Party against any obligation (whether or not matured) owed by the Seller to the Buyer, regardless of the place of payment or currency (it being understood that if this obligation is unascertainable it may be estimated and the set-off made in respect of such estimate).

7. INSPECTIONS AND TECHNICAL ACCEPTANCE

7.1 Buyer participation in inspections

The Buyer may attend inspections of the manufacture and assembly of each Aircraft and any sub-assembly of the Airframe (excluding the BFE) organised by the Seller in accordance with the Seller's standard procedure applicable to the inspection of aircraft by its customers (the "Customer Inspection Procedure") at the relevant Manufacturing Facility, subject to the provisions of this Clause 7.

Prior to the beginning of the manufacturing process of the Aircraft scheduled to be delivered first, the Buyer may select from the Seller's standard list of customer inspections those inspections which it wishes to attend.

For any inspection which the Buyer's representatives attend, such Buyer representatives shall at all times comply with the rules and regulations set out in the Customer Inspection Procedure as well as those applicable at the relevant Manufacturing Facility.

All inspections attended by the Buyer shall take place in the presence of Seller's personnel and shall be scheduled so as not to hinder or delay the Seller's manufacturing and assembly operations.

Throughout the process of manufacture and assembly of an Aircraft, the Buyer shall have access through AirbusWorld to the relevant technical information including production reports, configuration data and the technical status of such Aircraft.

7.2 Technical Acceptance

7.2.1 Technical Acceptance Process

Prior to the Delivery of any Aircraft, such Aircraft shall undergo the technical acceptance process developed by the Seller and applicable to such aircraft type (the "Technical Acceptance Process"). The Technical Acceptance Process shall be conducted by the Seller in accordance with its standard procedures for the delivery of aircraft to customers.

Successful completion of the Technical Acceptance Process shall be deemed to demonstrate compliance of the relevant Aircraft with the Specification.

Should it be established that an Aircraft does not comply with the requirements of the Technical Acceptance Process, then the Seller shall without hindrance from the Buyer be entitled to carry out any necessary changes and, as soon as practicable thereafter, submit the relevant Aircraft to the remainder of the Technical Acceptance Process until successful completion.

7.2.2 Technical Acceptance Process Schedule

The Technical Acceptance Process of an Aircraft shall:

- a) commence on the date notified by the Seller to the Buyer pursuant to Clause 8.1.3;
- b) take place at the Delivery Location of such Aircraft; and
- c) generally be completed within [***].

7.2.3 Buyer's Attendance

7.2.3.1 The Buyer may attend the Technical Acceptance Process of an Aircraft, and, if it does, may request that a demonstration flight be performed with such Aircraft (a "**Demonstration Flight**").

Such Demonstration Flight shall not exceed a period of [***] during which up to [***] of the Buyer's representatives (no more than [***] of whom shall have access to the Aircraft's cockpit at any one time) may accompany the personnel of the Seller on the relevant Aircraft. The Buyer's representatives shall comply at all times with the instructions of the Seller's personnel.

7.2.3.2 If the Buyer does not attend, or delays or fails to cooperate with the requirements of, the Technical Acceptance Process, then the Seller may complete the Technical Acceptance Process for the relevant Aircraft on its own and the Buyer shall be deemed to have accepted that such Technical Acceptance Process has been completed in accordance with the provisions of Clause 7.2.1.

7.2.4 Certificate of Acceptance

Following completion of the Technical Acceptance Process in respect of an Aircraft, the Buyer shall sign and deliver to the Seller a Certificate of Acceptance in respect of such Aircraft. The execution of the Certificate of Acceptance shall constitute conclusive and irrevocable evidence of acceptance of the relevant Aircraft.

7.3 Office Facilities for Buyer's Inspectors

For the purposes of the Buyer attending the inspections and the Technical Acceptance Process, the Seller shall furnish free of charge suitable space and office equipment at, or conveniently located near, the Delivery Location for use by a reasonable number of the Buyer's inspectors.

7.4 Indemnification and Insurance

Each of the Seller and the Buyer shall be liable for the Losses respectively incurred by it and arising from its acts or omissions in connection with the exercise of its rights and performance of its obligations under this Agreement, except as provided for in Clauses 7.4.1 and 7.4.2, and Clauses 6.1, 6.2 and 6.3 of Appendix 3.

7.4.1 Indemnities

7.4.1.1 The Seller shall, except in case of Gross Negligence of the Buyer, its Affiliate(s) (or any director, officer, agent, employee, representative or subcontractor of such Affiliate(s)) or any Buyer Related Person, be solely liable for and shall indemnify and hold harmless the Buyer, its Affiliates, their respective insurers and any Buyer Related Person from and against all Losses in respect of:

- a) loss of, or damage to, the Seller's property;
- b) injury to, or death of, any Seller Related Person;
- c) any damage caused by the Seller or any Seller Related Person to third parties, in each case arising out of, or in any way connected with, any inspection carried out pursuant to Clause 7.1 or the Technical Acceptance Process; and

d) any damage caused by the Buyer to third parties arising out of, or in any way connected with, Demonstration Flights.

7.4.1.2 The Buyer shall, except in case of Gross Negligence of the Seller, its Affiliate(s) (or any director, officer, agent, employee, representative or subcontractor of such Affiliate(s)) or any Seller Related Person, be solely liable for and shall indemnify and hold harmless the Seller, its Affiliates, their respective insurers and any Seller Related Person from and against all Losses in respect of:

- a) loss of, or damage to, the Buyer's property;
- b) injury to, or death of, any Buyer Related Person; and
- c) any damage caused by the Buyer or any Buyer Related Person to third parties (other than in respect of any Demonstration Flight), in each case arising out of, or in any way connected with, any inspection carried out pursuant to Clause 7.1 or the Technical Acceptance Process.

7.4.2 Notice of Claims

If any claim is made or suit is brought against a Party or entity entitled to indemnification under this Clause 7.4 (the "**Indemnitee**") for Losses for which liability has been assumed by the other Party under this Clause 7.4 (the "**Indemnitor**"), then the Indemnitee shall promptly give notice to the Indemnitor (which notice shall include all relevant information relating to the claim) and the Indemnitor shall assume and conduct the defence or settlement thereof, or effect any settlement which it, in its opinion, deems proper. Upon request of the Indemnitee, the Indemnitor shall promptly inform and consult the Indemnitee for all developments which may affect the rights or reputation of the Indemnitee.

7.4.3 Insurance

The Buyer shall (or shall cause its agent, its representative or its subcontractor to) take out and maintain the following insurances:

- a) General Third Party Liability insurance for an amount of cover commensurate with the exposure potential of the Buyer's undertakings under this Clause 7.4;
- b) Travel insurance (medical expenses and emergency repatriation); and
- c) any other adequate insurance policies covering the Buyer's liabilities under this Clause 7.4 (including Workers Compensation insurance if applicable) with amounts of cover consistent with the scope and magnitude of risks incurred.

Upon the Seller's request, the Buyer shall provide evidence that such insurance coverage is in full force and effect.

8. DELIVERY

8.1 Delivery Schedule

- 8.1.1 An Aircraft shall be Ready for Delivery at the Delivery Location within its Scheduled Delivery Period subject to the provisions of this Agreement.
- 8.1.2 The Scheduled Delivery Periods set out in Exhibit C remain subject to the availability of the type of Propulsion Systems from the respective Propulsion System Manufacturers at the time of their selection as set forth in Clause 3.3.
- 8.1.3 The Seller shall give the Buyer at least [***] prior notice of the date on which an Aircraft is anticipated to be Ready for Delivery. Such notice shall also indicate the date on which the Technical Acceptance Process is anticipated to start. The Seller shall notify the Buyer of any change in such date(s).

8.2 Delivery

8.2.1 On the date on which an Aircraft is Ready for Delivery:

- a) the Buyer shall ensure that its representatives are present to take Delivery of such Aircraft at the Delivery Location; and
- b) the Buyer shall sign the Certificate of Acceptance and pay the Balance of the [***] following which the Seller shall transfer title to the Aircraft and provide the Buyer with:
 - (i) a Statement of Conformity and, if applicable, an Export Airworthiness Certificate in respect of the Aircraft; and
 - (ii) a Bill of Sale confirming transfer of title to the Aircraft (including, BFE, if any, which has been installed on the Aircraft and to which the Seller has received title from the Buyer).

Risk of loss of or damage to the relevant Aircraft shall pass to the Buyer at Delivery thereof.

8.2.2 If, in respect of an Aircraft which is Ready for Delivery, the Buyer fails to:

- a) deliver the signed Certificate of Acceptance to the Seller; or
 - b) pay the Balance of the [***] for such Aircraft to the Seller,
- then the Buyer shall be deemed to have wrongfully rejected the Aircraft.

In such case, without prejudice to the Seller's other rights under this Agreement or at law:

- (i) the Seller shall retain title to the relevant Aircraft;
- (ii) the Buyer shall indemnify the Seller for all Losses (including any parking and storage costs and damage to the Aircraft) incurred by the Seller and other consequences resulting from such failure.

8.2.3 Following Delivery of an Aircraft, the Buyer shall promptly remove such Aircraft from the Delivery Location, failing which the provisions of Clause 8.2.2(ii) shall apply without prejudice to the Seller's other rights under this Agreement or at law.

8.3 Fly Away

[***]

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[***]

9. DELAYS

9.1 Excusable Delay

[***]

9.2 Non-Excusable Delay

[***]

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[***]

10. ASSIGNMENTS AND TRANSFERS

10.1 No Assignments or Transfers

Except as provided in this Clause 10, neither Party may assign, novate, transfer or dispose of any of its rights or obligations under this Agreement to any person without the prior written consent of the other Party.

10.2 Assignments by the Seller

The Seller may assign, novate or transfer its rights and obligations under this Agreement to any Affiliate upon written notification to the Buyer.

The Seller may at any time, upon notice to the Buyer, assign its right to receive monies under this Agreement to any financial institution or other entity.

The Seller may appoint an Affiliate to perform any of its obligations under this Agreement provided that the Seller remains liable for the performance of such obligation(s).

10.3 Assignments by the Buyer

The Buyer shall be entitled to assign its rights (but not its obligations) under this Agreement subject to prior notice to the Seller received sufficiently in advance to allow for the implementation of such assignment, for the purposes of financing Predelivery Payments or, immediately prior to Delivery, financing the [***] of an Aircraft provided such assignment (i) is not to a competing airframe manufacturer or its Affiliate, or an entity with which the Seller objects to doing business and (ii) is in form and substance acceptable to the Seller.

10.4 Sale or Merger

The Buyer shall give the Seller at least [***] prior notice of any prospective sale or merger by the Buyer of all or a substantial part of its assets or of a change of Control in the ownership of the Buyer. Following such notice, the Parties shall consult with each other in good faith for a period of [***] in order to establish the impact of such sale or merger or change of Control on this Agreement and such modifications to this Agreement as are considered necessary by the Seller, acting reasonably, to protect its legitimate commercial and business interests. If no agreement has been reached between the Parties in respect of the consequences of such sale, merger or change of Control following the expiry of the above-mentioned [***] period of consultation, then the Seller shall be entitled to suspend its obligations under this Agreement and upon agreement between the Parties being reached, to notify the Buyer of revised month(s) in which affected Aircraft is/are anticipated to be delivered consistent, if applicable, with the Seller's other commitments and production constraints.

11. DEFAULT AND REMEDIES

11.1 Insolvency

Each of the following events shall constitute an “**Insolvency Event**”.

[***]

11.2 Buyer Events of Default

Each of the following shall constitute a “**Buyer Event of Default**”:

a) [***]

11.3 Seller Remedies

[***]

11.4 Termination

[***]

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[***]

12. COMPLIANCE, [***]

For the purpose of this Clause 12, any reference to an “Affiliate” shall be deemed to include the directors, officers, agents, employees, representatives and subcontractors of such Affiliate.

12.1 Compliance

[***]

12.2 [***]

[***]

12.3 Buyer’s Account for Payments by Buyer

The Buyer shall pay the Predelivery Payments, the Balance of the [***] and any other amount owed by the Buyer to the Seller hereunder from the following Buyer’s account (the “Buyer’s Account”):

Beneficiary Name:	Xiamen Airlines
Account identification:	[***]
with:	[***]
SWIFT:	[***]
Full address of bank:	[***]

or from such other bank account (the “Buyer’s Other Account”) as may be notified by the Buyer to the Seller from time to time provided that [***].

13. NOTICES

13.1 Any notice or request to be made under or in connection with this Agreement (a “Notice”) shall be in the English language, in writing and signed and shall be given:

- a) by personal delivery; or
- b) by way of an international express courier or facsimile; or
- c) by email.

13.2 Any Notice given by a Party to the other Party shall only be effective:

- a) if by personal delivery, when it has been delivered to the relevant address set out below;
- b) if by way of international express courier, at the time and on the date such Notice has been recorded by the international express courier company as having been delivered to the relevant address set out below;
- c) if by e-mail, when transmission has been confirmed by an email delivery receipt;
- d) if by facsimile, the date upon which it is sent with a confirmation printout.

13.3 If any Notice is delivered in accordance with Clause 13.2(b) above:

- a) after 5:00 pm (local time) to the relevant address; or
- b) on a non-Business Day,

such Notice shall be deemed to become effective only on the following Business Day.

13.4 The address, email address and facsimile number of each Party for any Notice to be given under or in connection with this Agreement is:

a) in the case of the Seller:

AIRBUS S.A.S.
2 Rond-Point Emile Dewoitine
31700 Blagnac
France
Email: [***]
Fax: [***]
Attention: [***]

b) in the case of the Buyer:

XIAMEN AIRLINES
No. 22 Dailiao Road, Huli District
Xiamen City
People’s Republic of China
Email: [***]
Attention: [***]

or any substitute address or addressee as a Party may notify to the other Party in accordance with this Clause from time to time.

14. CONFIDENTIALITY

14.1 The terms of this Agreement, its existence and any data provided under or in connection with it are confidential between the Parties and shall not be disclosed by either Party (or its directors, officers, employees, representatives or agents) in whole or in part to any other person or entity except:

- a) to its legal advisors, auditors and accountants who have a need to know and provided such persons are bound by professional confidentiality obligations;
- b) to its directors, officers, members, employees, or representatives or agents who have a need to know for the purpose of implementation of this Agreement and provided such persons are bound by an equivalent confidentiality undertaking;
- c) as may be required by applicable law or governmental regulation or court order;
- d) in the case of the Seller, to its Affiliates or subcontractors or the relevant Propulsion Systems Manufacturer, in each case who have a need to know for the purpose of implementation of this Agreement and provided they are bound by an equivalent confidentiality undertaking; or
- e) with the prior written consent of the other Party.

14.2 In addition, each Party agrees that:

- a) it will not, without the prior written consent of the other Party, make any press release in relation this Agreement or any amendment to this Agreement that may be entered into from time to time; and
- b) all commercial terms and conditions of the transaction contemplated in this Agreement (the “**Commercial Information**”) are strictly personal and exclusive to the Buyer (including Aircraft pricing, Predelivery Payments and delivery schedule). Consequently, promptly upon receipt by the Buyer of any request from any bank, operating lessor or other entity (or their respective agents) for disclosure of Commercial Information for the purposes of the financing of Predelivery Payments or the acquisition of any Aircraft, the Buyer undertakes to consult with the Seller with respect to any such request and as to whether and to what extent Commercial Information may be disclosed including through the relevant third party agreeing to be bound by an equivalent confidentiality undertaking.

14.3 The Buyer shall use its best efforts to limit the disclosure of the contents of this Agreement to the extent legally permissible in any filing required to be made by the Buyer with any governmental or regulatory agency, including with respect to any merger, consolidation or sale of the Buyer, or to any court. The Buyer agrees that prior to any such disclosure or filing, the Seller and the Buyer shall jointly review and agree on the content of such disclosure.

14.4 Upon the Seller’s reasonable request, the Buyer shall provide the Seller with all data necessary to the operation, maintenance, configuration and/or modification of the Aircraft and any other aircraft operated by the Buyer.

Any data that are made available to the Seller may be shared by the Seller with its Affiliates, suppliers, subcontractors, partners, advisors and agents provided they are bound by confidentiality obligations. Until otherwise notified by the Buyer to the Seller, the Seller and its Affiliates, suppliers, subcontractors, partners, advisors and agents shall have the right to use, analyse, aggregate, process, duplicate, transfer, modify, combine such data with other data and develop derivative works with such data including for purposes other than those for which they were provided. The provision of data to the Seller shall not be construed as relieving the Buyer from any liability with respect to the aircraft, notably with respect to their operation, maintenance, airworthiness and with respect to the use of the data generated by such aircraft. Subject to applicable laws, regulations and contracts, the Seller shall in particular be under no obligation to analyse any data and/or make reports to the Buyer.

15. LAW AND JURISDICTION

15.1 Governing law

This Agreement shall be governed by and construed in accordance with the laws of England.

15.2 Jurisdiction

All disputes shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by three arbitrators. Each Party shall nominate one arbitrator and the two arbitrators shall nominate the President in consultation with the Parties. The seat of arbitration shall be Paris. The language of arbitration shall be English.

The existence and content of the arbitral proceedings and any ruling or award shall be kept confidential except: (i) to the extent that disclosure may be required of a party to fulfil a legal duty, protect or pursue a legal right, or enforce or challenge an award in *bona fide* legal proceedings before a state court or other judicial authority; or (ii) with the written consent of all Parties.

15.3 United Nations Convention on Contracts for the International Sale of Goods

The Parties agree that the United Nations Convention on Contracts for the International Sale of Goods shall not apply to this transaction.

15.4 Contracts (Rights of Third Parties) Act 1999

Unless expressly provided in this Agreement, the Parties do not intend that any term of this Agreement shall be enforceable solely by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to this Agreement.

16. MISCELLANEOUS

16.1 Negotiated Agreement

The Buyer and the Seller acknowledge that this Agreement is an international supply contract which has been the subject of discussion and negotiation, that all of its terms and conditions are fully understood by the Parties, and that the agreements of the Parties set out herein, including the price of each Aircraft, were arrived at in consideration of all of the provisions hereof, including all waivers and releases by the Buyer set out herein.

16.2 Severability

If any provision of this Agreement is held to be unlawful or unenforceable, then the remainder of this Agreement shall remain in full force and effect.

16.3 Entire Agreement

This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes any previous understandings, commitments or representations whatsoever, oral or written, in connection therewith.

16.4 Inconsistencies

If there is any inconsistency between the terms of this Agreement and the terms contained in any Appendix, Exhibit or Schedule, the terms of this Agreement shall prevail over the terms of such Appendix, Exhibit or Schedule.

16.5 Waiver

The failure or delay of either Party to exercise any right or remedy or enforce at any time any of the provisions of this Agreement shall not be construed to be a present or future waiver of such right, remedy or provisions. The express waiver (whether made once or several times) by either Party of any provision of this Agreement shall not constitute a waiver of any future obligation to comply with such provision.

16.6 Proprietary Interest

The Buyer shall not, by virtue of any provision of this Agreement or of law or in equity (including payment of any Predelivery Payments hereunder, or any internal or external designation, identification or reference used by the Seller or the Buyer to identify a particular aircraft as an Aircraft) acquire any title, right or other interest whatsoever in any Aircraft before Delivery of such Aircraft pursuant to this Agreement.

16.7 Variation

The terms and conditions of this Agreement may only be varied by way of an amendment to this Agreement agreed and executed in writing by the duly authorised representatives of the Parties.

16.8 Survival of Obligations

On termination or cancellation of this Agreement in accordance with the provisions contained herein, it will immediately cease to have any further force and effect except for:

- a) any provision of this Agreement that expressly or by implication is intended to continue in force on or after termination or cancellation (including Clauses 14, 15, 16.3 and 16.8 hereof, Clauses 1.5 and 1.6 of Appendix 2 and Clause 6 of Appendix 3), each of which shall remain in full force and effect; and

b) any rights, remedies, obligations or liabilities of the Parties that have accrued before termination.

16.9 Language

All correspondence, notices, documents and any other written matters in connection with this Agreement shall be in English.

16.10 Counterparts

This Agreement has been executed in two (2) original copies.

Notwithstanding the above, this Agreement may be executed by the Parties in separate counterparts, each of which shall be deemed to constitute an original and all such counterparts shall together constitute one and the same agreement.

16.11 Data Protection

Each Party, at its own expense, will ensure that it complies with the requirements of all legislation and regulatory requirements in force from time to time relating to the use of personal data that is provided or made available to it by the other Party pursuant to this Agreement, including the applicable provisions of the Data Protection Act 2018 and the General Data Protection Regulation (“**GDPR**”) ((EU) 2016/679). Each Party further agrees to only use the personal data that it receives from the other Party pursuant to this Agreement for the purposes stipulated in this Agreement and that any personal data is provided by each Party as independent controller and without joint-controllership.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

EXECUTION PAGE

Agreed and Accepted

For and on behalf of

XIAMEN AIRLINES

By : _____

Its : _____

CXA A320NEO Family PA - 2022
[***]

Agreed and Accepted

For and on behalf of

AIRBUS S.A.S.

By : _____

Its : _____

EXHIBIT A

LIST OF BUYER CHANGES

AIRBUS Standard budget OPTION LIST

A319-100N

Based on Standard Spec [***]		Total Option Price / aircraft Prices in 01/2020 Delivery Conditions (USD)			[***]
#	Option	Description	Comments	BFE	Selected SCN Price
ATA 02 - CERTIFICATION AND EXT LIVERY					
1	[***]	[***]	[***]	[***]	[***]
2	[***]	[***]	[***]	[***]	[***]
ATA 03 - GENERAL A/C DESIGN CRITERIA					
3	[***]	[***]	[***]	[***]	[***]
ATA 22 - AUTO FLIGHT					
4	[***]	[***]	[***]	[***]	[***]
ATA 23 - COMMUNICATIONS					
5	[***]	[***]	[***]	[***]	[***]
6	[***]	[***]	[***]	[***]	[***]
7	[***]	[***]	[***]	[***]	[***]
8	[***]	[***]	[***]	[***]	[***]
9	[***]	[***]	[***]	[***]	[***]
ATA 25 - EQUIPMENT					
10	[***]	[***]	[***]	[***]	[***]
11	[***]	[***]	[***]	[***]	[***]
ATA 33 - LIGHTS					
12	[***]	[***]	[***]	[***]	[***]
13	[***]	[***]	[***]	[***]	[***]
ATA 34 - NAVIGATION					
14	[***]	[***]	[***]	[***]	[***]
15	[***]	[***]	[***]	[***]	[***]
16	[***]	[***]	[***]	[***]	[***]
17	[***]	[***]	[***]	[***]	[***]
18	[***]	[***]	[***]	[***]	[***]
ATA 35 - OXYGEN					
19	[***]	[***]	[***]	[***]	[***]
ATA 44 - CABIN SYSTEMS					
20	[***]	[***]	[***]	[***]	[***]
ATA 46 - INFO SYSTEMS – GENERAL					
21	[***]	[***]	[***]	[***]	[***]

AIRBUS Standard budget OPTION LIST

A320-200N

Total Option Price / aircraft: [***]
Prices in 01/2020 Delivery Conditions
(USD)

Based on Standard Spec [***]

#	Description	CABIN (LOPA Ref: 320-25.46347_A_1)	Comments	BFE	Selected Quantity	Price per a/c
Business Class Seats and IFE						
1	[***]		[***]	[***]	[***]	[***]
2	[***]		[***]	[***]	[***]	[***]
3	[***]		[***]	[***]	[***]	[***]
Economy Class Seats and IFE						
4	[***]		[***]	[***]	[***]	[***]
5	[***]		[***]	[***]	[***]	[***]
6	[***]		[***]	[***]	[***]	[***]
Galleys, trolleys and stowages						
7	[***]		[***]	[***]	[***]	[***]
8	[***]		[***]	[***]	[***]	[***]
9	[***]		[***]	[***]	[***]	[***]
10	[***]		[***]	[***]	[***]	[***]
11	[***]		[***]	[***]	[***]	[***]
12	[***]		[***]	[***]	[***]	[***]
13	[***]		[***]	[***]	[***]	[***]
Lavatories						
14	[***]		[***]	[***]	[***]	[***]
15	[***]		[***]	[***]	[***]	[***]
16	[***]		[***]	[***]	[***]	[***]
17	[***]		[***]	[***]	[***]	[***]
18	[***]		[***]	[***]	[***]	[***]
19	[***]		[***]	[***]	[***]	[***]
20	[***]		[***]	[***]	[***]	[***]
Emergency						
21	[***]		[***]	[***]	[***]	[***]
22	[***]		[***]	[***]	[***]	[***]
Cabin systems						
23	[***]		[***]	[***]	[***]	[***]
24	[***]		[***]	[***]	[***]	[***]
Provisions						
25	[***]		[***]	[***]	[***]	[***]
26	[***]		[***]	[***]	[***]	[***]
27	[***]		[***]	[***]	[***]	[***]
28	[***]		[***]	[***]	[***]	[***]
29	[***]		[***]	[***]	[***]	[***]
30	[***]		[***]	[***]	[***]	[***]
31	[***]		[***]	[***]	[***]	[***]
32	[***]		[***]	[***]	[***]	[***]

Miscellaneous				
33	[***]	[***]	[***]	[***]
SYSTEMS				
Cargo definition				
34	[***]	[***]	[***]	[***]
Communication - Navigation - Surveillance / Air traffic management				
35	[***]	[***]	[***]	[***]
36	[***]	[***]	[***]	[***]
37	[***]	[***]	[***]	[***]
38	[***]	[***]	[***]	[***]
39	[***]	[***]	[***]	[***]
40	[***]	[***]	[***]	[***]
41	[***]	[***]	[***]	[***]
42	[***]	[***]	[***]	[***]
43	[***]	[***]	[***]	[***]
44	[***]	[***]	[***]	[***]
45	[***]	[***]	[***]	[***]
46	[***]	[***]	[***]	[***]
Cockpit Equipment				
47	[***]	[***]	[***]	[***]
Flight options				
48	[***]	[***]	[***]	[***]
49	[***]	[***]	[***]	[***]
50	[***]	[***]	[***]	[***]
51	[***]	[***]	[***]	[***]
52	[***]	[***]	[***]	[***]
53	[***]	[***]	[***]	[***]
54	[***]	[***]	[***]	[***]
Ground operations				
55	[***]	[***]	[***]	[***]
Miscellaneous				
56	[***]	[***]	[***]	[***]
57	[***]	[***]	[***]	[***]
58	[***]	[***]	[***]	[***]
Operations				
59	[***]	[***]	[***]	[***]
60	[***]	[***]	[***]	[***]
LIVERY				
Design				
61	[***]	[***]	[***]	[***]

AIRBUS Standard Budget OPTION LIST

A321-200NX

Total Option Price / aircraft: [***]
Prices in 01/2020 Delivery Conditions
(USD)

Based on Standard Spec [***]

#	Description	Comments	BFE	Selected Quantity	Price per a/c
CABIN (LOPA Ref: 321-25.48133_A_1)					
Business Class Seats and IFE					
1	[***]	[***]	[***]	[***]	[***]
2	[***]	[***]	[***]	[***]	[***]
3	[***]	[***]	[***]	[***]	[***]
Economy Class Seats and IFE					
4	[***]	[***]	[***]	[***]	[***]
5	[***]	[***]	[***]	[***]	[***]
6	[***]	[***]	[***]	[***]	[***]
Galleys, trolleys and stowages					
7	[***]	[***]	[***]	[***]	[***]
8	[***]	[***]	[***]	[***]	[***]
9	[***]	[***]	[***]	[***]	[***]
10	[***]	[***]	[***]	[***]	[***]
11	[***]	[***]	[***]	[***]	[***]
12	[***]	[***]	[***]	[***]	[***]
13	[***]	[***]	[***]	[***]	[***]
Lavatories					
14	[***]	[***]	[***]	[***]	[***]
15	[***]	[***]	[***]	[***]	[***]
16	[***]	[***]	[***]	[***]	[***]
17	[***]	[***]	[***]	[***]	[***]
18	[***]	[***]	[***]	[***]	[***]
19	[***]	[***]	[***]	[***]	[***]
20	[***]	[***]	[***]	[***]	[***]
Emergency					
21	[***]	[***]	[***]	[***]	[***]
22	[***]	[***]	[***]	[***]	[***]
Cabin systems					
23	[***]	[***]	[***]	[***]	[***]
24	[***]	[***]	[***]	[***]	[***]
Provisions					
25	[***]	[***]	[***]	[***]	[***]
26	[***]	[***]	[***]	[***]	[***]
27	[***]	[***]	[***]	[***]	[***]
28	[***]	[***]	[***]	[***]	[***]
29	[***]	[***]	[***]	[***]	[***]
30	[***]	[***]	[***]	[***]	[***]
31	[***]	[***]	[***]	[***]	[***]
32	[***]	[***]	[***]	[***]	[***]

Miscellaneous				
33	[***]	[***]	[***]	[***]
SYSTEMS				
Cargo definition				
34	[***]	[***]	[***]	[***]
Communication - Navigation - Surveillance / Air traffic management				
35	[***]	[***]	[***]	[***]
36	[***]	[***]	[***]	[***]
37	[***]	[***]	[***]	[***]
38	[***]	[***]	[***]	[***]
39	[***]	[***]	[***]	[***]
40	[***]	[***]	[***]	[***]
41	[***]	[***]	[***]	[***]
42	[***]	[***]	[***]	[***]
43	[***]	[***]	[***]	[***]
44	[***]	[***]	[***]	[***]
45	[***]	[***]	[***]	[***]
46	[***]	[***]	[***]	[***]
Cockpit Equipment				
47	[***]	[***]	[***]	[***]
Flight options				
48	[***]	[***]	[***]	[***]
49	[***]	[***]	[***]	[***]
50	[***]	[***]	[***]	[***]
51	[***]	[***]	[***]	[***]
52	[***]	[***]	[***]	[***]
53	[***]	[***]	[***]	[***]
54	[***]	[***]	[***]	[***]
55	[***]	[***]	[***]	[***]
Ground operations				
56	[***]	[***]	[***]	[***]
57	[***]	[***]	[***]	[***]
Miscellaneous				
58	[***]	[***]	[***]	[***]
59	[***]	[***]	[***]	[***]
60	[***]	[***]	[***]	[***]
61	[***]	[***]	[***]	[***]
Operations				
62	[***]	[***]	[***]	[***]
63	[***]	[***]	[***]	[***]
LIVERY				
Design				
64	[***]	[***]	[***]	[***]

EXHIBIT B

PRICE REVISION FORMULAS

PART 1 AIRBUS PRICE REVISION FORMULA

1 [***]
[***]

2 [***]
[***]

3 [***]
[***]

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[***]

4 REVISION FORMULA

[***]

5 GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Substitution of Indexes for Airbus Price Revision Formula

[***]

5.3 Final Index Values

[***]

5.4 Limitation

[***]

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[***]

CFMINTERNATIONAL

1. [***]

The Propulsions Systems Reference Price of a set of CFM INTERNATIONAL LEAP Propulsion Systems, as respectively set out in Clause 5.1 (each a "**Reference Price**"), is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Clauses 4 and 5 hereof. [***]

2. [***]

[***]

3. [***]

[***]

4. REVISION FORMULA

[***]

5. GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Final Index Values

[***]

5.3 Interruption of Index Publication

[***]

5.4 Annulment of the Formula

[***]

5.5 Limitation

[***]

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[***]

PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULAE

IAE LLC

1. [***]
[***]

2. [***]
[***]

3. [***]
[***]

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[***]

4. REVISION FORMULA

[***]

5. GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Substitution of Indexes for Price Revision Formula

[***]

5.3 Final Index Values

[***]

5.4 Limitation

[***]

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[***]

EXHIBIT C

DELIVERY SCHEDULE

Aircraft rank [***]	Aircraft type [***]	Scheduled Delivery Period [***]
-------------------------------	-------------------------------	---

In respect of each Scheduled Delivery Period, the Seller shall notify to the Buyer:

- 1) the applicable delivery half-year no later than [***] prior to the first day of the delivery year, if any, set out above; and
- 2) the applicable delivery quarter no later than [***] prior to the first day of the previously notified delivery half-year, if any; and
- 3) the applicable delivery month no later than [***] prior to the first day of the previously notified delivery quarter, if any.

The Parties agree that this Delivery Schedule may be amended and replaced from time to time by notice of the Seller to the Buyer (i) following any rescheduling of Aircraft pursuant to the provisions of this Agreement; and/or (ii) to reflect the applicable half-years, quarters or months in which Aircraft are scheduled to be delivered and which are in effect at the time of the notifications set out above. Upon replacement of this Delivery Schedule by the Seller by a new Delivery Schedule, such new Delivery Schedule shall constitute the Delivery Schedule for all purposes of this Agreement.

Following notification of the applicable delivery month by the Seller as set out above, the Scheduled Delivery Period may be referred to as the “**Scheduled Delivery Month**” in any notices or documents provided by the Seller to the Buyer in connection with this Agreement.

For the avoidance of doubts, except if an Aircraft is rescheduled pursuant to the provisions of this Agreement, each relevant half-year, quarter or month with respect to any Aircraft shall be notified within the previously notified year, half-year or quarter for any such Aircraft, as applicable.

EXHIBIT D

FORM OF CERTIFICATE OF ACCEPTANCE

In accordance with the terms of the _____ purchase agreement dated _____ and entered into between _____ (the “**Customer**”) and Airbus S.A.S., as amended and supplemented from time to time (the “**Purchase Agreement**”), the Technical Acceptance Process (as defined therein) relating to one Airbus A3____ aircraft bearing manufacturer’s serial number _____ and registration mark _____ (the “**Aircraft**”) has been conducted in [Blagnac, France /or Hamburg, Germany /or Tianjin, People’s Republic of China].

In view of the Technical Acceptable Process having been carried out with satisfactory results, the Customer, as agent of _____ (the “**Owner**”) pursuant to the purchase agreement assignment dated the date hereof and entered into between the Customer and the Owner and the notice, acknowledgement and consent agreement relating thereto, dated the date hereof and entered into between the Customer, the Owner and Airbus S.A.S., hereby approves the Aircraft as being in conformity with the provisions of the Purchase Agreement and accepts the Aircraft for delivery in accordance with the provisions of the Purchase Agreement.

Such acceptance shall not impair the rights that may be derived from the warranties relating to the Aircraft set forth in the Purchase Agreement.

Any right at law or otherwise to revoke this acceptance of the Aircraft is hereby irrevocably waived.

IN WITNESS WHEREOF, the Customer, as agent of the Owner, has caused this instrument to be executed by its duly authorised representative this _____ day of _____ in [Blagnac, France /or Hamburg, Germany /or Tianjin, People’s Republic of China].

[CUSTOMER]

as agent of [Owner]

Name:

Title:

Signature:

EXHIBIT E

FORM OF BILL OF SALE
(the "Bill of Sale")

Know all men by these presents that Airbus S.A.S., a *Société par Actions Simplifiée* existing under French law and having its principal office at 2, rond-point Emile Dewoitine, 31700 Blagnac, France (the "Seller") was, this ____ day of _____, the owner of the following airframe and all appliances, components, parts, instruments, accessories, furnishings, modules and other equipment of any nature, (excluding buyer furnished equipment [as set out in the schedule to the BFE Bill of Sale defined below (the "BFE")]) incorporated therein, installed thereon, attached or allocated thereto on the date hereof (the "Airframe"), and the [engines/propulsion systems] as specified below (the ["Engines/Propulsion Systems"]):

AIRFRAME:
AIRBUS Model A3__-__

[ENGINES/PROPULSION SYSTEMS]:
Model _____

MANUFACTURER'S SERIAL NUMBER: ENGINE SERIAL NUMBERS:
LH: _____

RH: _____

REGISTRATION MARK: _____

[and had such title to the BFE as was acquired by it from _____ pursuant to a bill of sale dated _____ (the "BFE Bill of Sale")].

The Airframe and the, [Engines/Propulsion Systems] are hereafter together referred to as the "Aircraft".

The Seller did, on this ____ day of _____, sell, transfer and deliver all of its rights, title and interest in and to the Aircraft [and the BFE, in each case] to the following entity, the said Aircraft [and the BFE] to be the property thereof:

[Insert Name of Buyer]
[Insert Address of Buyer]
(the "Buyer")

The Seller hereby warrants to the Buyer, its successors and assigns that (i) the Seller had good and lawful right to sell, deliver and transfer title to the Aircraft to the Buyer, (ii) there was conveyed to the Buyer good, legal and valid title to the Aircraft, free and clear of all liens, claims, charges, encumbrances and rights of others, [and] (iii) the Seller shall defend such title forever against all claims and demands whatsoever [and (iv) the Seller had such title to the BFE as it had acquired from _____ pursuant to the BFE Bill of Sale].

This Bill of Sale shall be governed by and construed in accordance with the laws of _____.

IN WITNESS WHEREOF, the Seller has caused this instrument to be executed by its duly authorised representative this ____ day of _____ in [Blagnac, France/or Hamburg, Germany /or Tianjin, People's Republic of China].

AIRBUS S.A.S.

Name:

Title:

Signature:

APPENDIX 1

BUYER FURNISHED EQUIPMENT

- 1 BUYER'S OBLIGATIONS**
- 2 INDEMNITIES**
- 3 SELLER'S REMEDIES**
- 4 TITLE AND RISK OF LOSS**
- 5 DISPOSITION OF BFE FOLLOWING TERMINATION**
- 6 BFE PROCESS**

CXA A320NEO Family PA - 2022
[***]

1 BUYER'S OBLIGATIONS

The Buyer:

- (1) shall select the BFE and the associated BFE Supplier(s) from the Airbus BFE Product Catalogue;
- (2) shall select the BFE Supplier(s) by the dates set out in the Customisation Milestone Chart;
- (3) shall strictly comply (and shall cause each BFE Supplier to strictly comply) with the BFE Process, including its various milestones;
- (4) shall cause the selected BFE:
 - a) to be delivered in a serviceable condition, to comply with both the Specification and the BFE Engineering Definition, and to meet the requirements of the Seller with respect to quality and quantity (including spares);
 - b) to be approved by the Aviation Authorities of the Seller and of the Country of Registration and to be accompanied by the relevant certification documentation;
 - c) to be delivered for installation on an Aircraft (and, if requested by the Seller, additional quantities of BFE to serve as spares) by the dates (the "**Contractual On-Dock Dates**") and to the location(s) specified by the Seller. The Buyer shall provide for all BFE a written confirmation to the Seller of the anticipated arrival date of the respective BFE at least [***] prior to the Contractual On-Dock Dates; and
- d) to be delivered free and clear of all encumbrances which may prevent, hinder or delay the installation of such BFE in an Aircraft or the Delivery of an Aircraft;
- (5) shall cause each relevant BFE Supplier, upon the Seller's request, to provide BFE field service at any or all of the final assembly lines where an Aircraft is assembled or the cabin is installed, in order to: (i) act in a technical advisory capacity to the Seller in connection with the installation and calibration of the relevant BFE and (ii) perform repairs to any BFE, if required;
- (6) shall cause each relevant BFE Supplier to provide a BFE Engineering Definition for each BFE to the Seller by the dates notified by the Seller to the Buyer. The Seller shall provide to the BFE Suppliers the necessary Interface Documentation to enable the development by the BFE Suppliers of the BFE Engineering Definition; and
- (7) hereby authorises the Seller to liaise directly with the BFE Suppliers as required on all relevant BFE-related subjects, including design, integration, certification, quality, delivery and follow-up.

2 INDEMNITIES

The Seller shall not be liable for and the Buyer hereby indemnifies the Seller against all claims, liabilities, damages, costs and expenses, for injury to or death of any person, including employees of the Buyer (but not employees of the Seller) and for loss of or damage to any property, including any Aircraft, arising out of or in any way connected with any non-conformity or defect in any BFE, whether such claims, liabilities, damages, costs and expenses are asserted in contract or in tort.

The Buyer further hereby indemnifies the Seller against all claims, liabilities, damages, costs and expenses arising out of (i) any infringement or claim of infringement by any BFE of any patent, copyright or other intellectual property rights or (ii) the custody, sale or use of any BFE by the Seller.

The Buyer hereby acknowledges that for the purposes of this Clause 2 all design inputs, including logos, liveries, pictures, patterns and drawings provided by the Buyer to the Seller for the purposes of customizing the Aircraft shall be deemed to be BFE.

3 SELLER'S REMEDIES

If (i) in the opinion of the Seller (acting reasonably) any item of BFE does not meet any of the foregoing conditions or (ii) the Buyer does not comply with any obligation set out in this Clause 3, then the Seller shall be entitled to refuse to take delivery of and/or install any such item of BFE.

In addition and without prejudice to the provisions of Clauses 11.2(d) and 11.2(e) of this Agreement, any delay or failure by the Buyer or any BFE Supplier to comply with any of its obligations under this Appendix 1 (after application of any grace periods set forth in Clauses 11.2(d) and 11.2(e) of this Agreement) may delay the performance by the Seller of its obligations under this Agreement, including Delivery of an Aircraft on which such BFE was to be installed, and shall constitute an Excusable Delay.

In addition, the Seller may (at its discretion):

- (1) select, purchase and install equipment similar to the BFE identified in the Specification, in which case the [***] of the Aircraft on which such BFE is installed shall be increased by the purchase price of such equipment plus reasonable costs and expenses incurred by the Seller in acquiring such equipment; and/or
- (2) deliver the relevant Aircraft without installation of any item of BFE that does not comply with the requirements set out in this Appendix 1, notwithstanding the Seller's obligations under Clause 4 of this Agreement. Following Delivery of the relevant Aircraft, the Seller shall have no further obligation to install any BFE.

4 TITLE AND RISK OF LOSS

Title to and risk of loss of any BFE shall at all times remain with the Buyer except that risk of loss (limited to the cost of replacement of any BFE which is lost) shall be with the Seller for as long as such BFE is in the custody and under the control of the Seller.

5 DISPOSITION OF BFE FOLLOWING TERMINATION

If this Agreement is terminated pursuant to the provisions of Clause 9 or Clause 11 of this Agreement with respect to an Aircraft for which all or part of the BFE has been delivered or in which such BFE has been installed, in each case prior to the date of such termination, then the provisions of this Clause 5 shall apply:

- (1) with respect to any BFE the removal of which from the Aircraft would (a) cause damage to the Aircraft or render any system in the Aircraft unusable or (b) represent a disproportionately high cost (the “**Immovable BFE**”), the Seller shall purchase such Immovable BFE from the Buyer and shall pay to the Buyer an amount equal to the net price paid by the Buyer for such Immovable BFE (subject to receipt by the Seller of reasonable documentation evidencing such net price). The Buyer shall transfer title to such Immovable BFE to the Seller free and clear of all liens, claims, charges, encumbrances and rights of others;
- (2) with respect to any BFE that has either not yet been installed in, or can be removed from, the Aircraft (the “**Removable BFE**”), the Seller shall be entitled at its discretion, to:
 - a) purchase any or all such Removable BFE from the Buyer subject to the provisions set out in Clause 5(1) above; and/or
 - b) remove any or all Removable BFE from the Aircraft, provided that:
 - i) the Buyer shall be responsible for all costs incurred by the Seller in removing and storing any Removable BFE and shall reimburse the Seller for all such costs upon receipt of the Seller’s invoice; and
 - ii) the Seller shall have no liability for any damage, loss or destruction of any Removable BFE removed and/or stored by the Seller;
- (3) the Buyer undertakes, upon the Seller’s request, to collect any Removable BFE from the relevant Manufacturing Facility within [***] of the date of such request.

6 BFE PROCESS

6.1 BFE Development Meetings

From the selection of the BFE Suppliers and up to Delivery of each Aircraft to the Buyer, the Buyer shall:

- (1) monitor the BFE Suppliers and ensure that they shall enable the Buyer to fulfil its obligations under this Appendix 1 and those set out in the Customisation Milestone Chart;
- (2) if a timeframe, quality or other type of risk is identified with respect to a BFE Supplier by either Party or by a BFE Supplier, take such steps as are necessary (including providing adequate technical and engineering expertise and/or allocating Buyer resources to such BFE Supplier) to ensure that the manufacturing of an Aircraft is not delayed;
- (3) for major customised BFE, including seats, in-flight entertainment and any other BFE mutually agreed as being major (the “**Major BFE**”), participate in any meetings organised by the Seller to facilitate the development of the BFE Engineering Definition, including:
 - i) the ITCM;
 - ii) the PDR; and
 - iii) the CDR;
- (4) attend the FAI for the first shipset of Major BFE; and
- (5) attend the SI that takes place at the BFE Supplier’s premises prior to the shipment of each shipset of all Major BFE.

If the Buyer does not attend the FAI or the SI, then the Buyer may delegate its participation to the FAI or the SI (as applicable) to the relevant BFE Supplier by written notice to the Seller prior to the corresponding inspection. In the absence of such notification, the Buyer shall be deemed to have delegated its participation to the relevant BFE Supplier. In each such case, the conclusions of the relevant BFE Supplier with respect to the FAI and/or SI shall be binding on the Buyer.

6.2 Seller's Involvement

- (1) Without prejudice to the Buyer's obligations under this Appendix 1, the Seller shall be entitled to attend any of the meetings and/or inspections set out in Clause 6.1 above, acting in an advisory capacity only and shall at no time be deemed to be an employee or an agent of the Buyer.
- (2) Upon the request of the Seller, the Buyer shall provide to the Seller through the relevant application on AirbusWorld the dates and references of all BFE purchase orders placed by the Buyer with the relevant BFE Suppliers.

6.3 Shipping and Customs

- (1) The Buyer shall cause each BFE to be delivered DAP to the shipping address(es) specified by the Seller and shall import such BFE into the country of the Delivery Location under a suspensive customs regime without application of any customs duties or taxes.
- (2) The Buyer shall be the importer of record of all BFE and, as such, shall ensure that all BFE shipments comply with the applicable customs regulation(s). At the request of the Buyer, the Seller may agree to act as importer of record of any BFE on behalf of the Buyer, provided that the Buyer ensures that the relevant BFE Suppliers provide all necessary information and documentation to the Seller in respect of such BFE in order for the Seller to comply with the applicable customs regulations(s).
- (3) In respect of any Aircraft to be delivered outside of the European Union, the Seller may instruct the Buyer to deliver certain BFE to the relevant Manufacturing Facilities in the European Union prior to their importation into the country of the Delivery Location for the purposes, among other things, of enabling their integration into other equipment. The Seller shall act as importer of record on behalf of the Buyer in respect of such BFE and the Buyer shall ensure that the Seller has all necessary information and documentation to do so.

APPENDIX 2

WARRANTIES AND PATENT INDEMNITY

1	WARRANTIES AND SERVICE LIFE POLICY
2	PATENT AND COPYRIGHT INDEMNITY
SCHEDULE 1	SERVICE LIFE POLICY – LIST OF ITEMS
SCHEDULE 2	INHOUSE WARRANTY LABOUR RATE REVISION FORMULA
SCHEDULE 3	WARRANTY CLAIM DATA REQUIREMENTS
SCHEDULE 4	AIRBUS AIRCRAFT SOFTWARE LICENSE AGREEMENT
SCHEDULE 5	SUPPLIER SOFTWARE LICENSE AGREEMENT

1 WARRANTIES AND SERVICE LIFE POLICY**1.1 Seller's Warranty****1.1.1 Warranty**

Subject to the terms of this Agreement (including this Clause 1), the Seller warrants to the Buyer that, at Delivery of an Aircraft:

- a) such Aircraft shall be free from defects arising from any failure to conform with the Specification, except with respect to elements of the Specification which either relate to performance or which are estimates or approximations or design objectives;
- b) each Warranted Part shall be free from defects:
 - (i) in material;
 - (ii) in workmanship, including processes of manufacture and installation;
 - (iii) in design (including the selection of materials) having regard to the state of the art at the date of such design; and
- c) each Other Part shall be free from defects:
 - (i) in the Seller's design of the installation of such Other Part which impairs the use of that Other Part, having regard to the state of the art at the date of such design; and
 - (ii) in the Seller's workmanship in the installation of such Other Part.

1.1.2. Accepted Industry Standard Practices Normal Wear and Tear

The Buyer's rights under this Clause 1 are subject to:

- 1) the Aircraft, each Warranted Part, each Item and each Other Part being maintained, overhauled, repaired and operated in accordance with (i) all accepted industry standard practices, (ii) all Technical Data and any other instructions issued by the Seller, the Suppliers, the BFE Suppliers and the Propulsion Systems Manufacturer and (iii) all applicable rules, regulations and directives of the relevant Aviation Authorities; and
- 2) any defect in any Aircraft, Warranted Part, Item or Other Part not having resulted from the act or omission of the Buyer or any third party.

The Seller's obligations and liability under this Clause 1 shall not extend to normal wear and tear nor to any Aircraft, Warranted Part, Item or Other Part:

 - a) that has been repaired, altered or modified after Delivery, except by the Seller or in a manner approved by the Seller;
 - b) that has been operated in a damaged state;
 - c) from which the trademark, name, part or serial number or other identification marks have been removed.

1.1.3 Warranty Period

The warranty set out in Clause 1.1.1 shall be limited to those defects that become apparent within [***] of the date of Delivery of the Aircraft on which the defective Warranted Part is installed (the “**Warranty Period**”).

The period of the Seller’s warranty with respect to repaired, modified or replaced Warranted Parts (as applicable) in accordance with this Clause 1.1 shall be the remaining portion of the Warranty Period or [***], whichever is longer.

1.1.4 Seller’s Obligations

1.1.4.1 The Seller’s obligations and liability under Clause 1.1 are limited, at the Seller’s option, to the:

- a) repair; or
- b) modification (or supply of modification kits); or
- c) replacement (or crediting of the Buyer’s Goods and Services Account of an amount equal to the Seller’s then current sales price for a replacement),

in each case, of or in respect of the defective Warranted Part.

In addition, the Seller shall credit the Buyer’s Goods and Services Account with an amount equal to the Direct Labour Costs, if any, incurred by the Buyer in performing the removal and reinstallation of the defective Warranted Part on the Aircraft.

1.1.4.2 Inspection Costs

In addition to the remedies set out in Clause 1.1.4.1, the Seller shall reimburse the Direct Labour Costs incurred by the Buyer during the Warranty Period in performing any inspections of the Aircraft to determine whether or not a defect exists in any Warranted Part, subject to the following conditions:

- a) such inspections are recommended by a Seller SB and are performed in compliance with such Seller SB;
- b) the Buyer Manhours shall not exceed those set out in the corresponding Seller SB;
- c) no reimbursement shall be made by the Seller under this Clause 1.1.4.2 in relation to any inspection performed as an alternative to implementing any corrective action recommended by the Seller; and
- d) the Buyer has submitted a claim to the Seller in accordance with Clause 1.1.5 within [***] after the completion of such inspection.

1.1.5 Warranty Claims

1.1.5.1 The Buyer’s remedy and the Seller’s obligations and liability under this Clause 1.1 are subject to the following conditions being satisfied:

- a) the defect having become apparent within the Warranty Period;
- b) the Buyer having filed a warranty claim in accordance with the provisions of Clause 1.1.5.2 below within [***] of such defect becoming apparent; and

- c) the defect the subject of the warranty claim falling within one of the categories set out in Clause 1.1.1.

Any claim which complies with this Clause 1.1.5 is hereinafter referred to as a “**Warranty Claim**”.

1.1.5.2 Claim Filings

The Buyer shall make each claim pursuant to this Clause 1.1 through the relevant on-line application in AirbusWorld and shall provide all data required in such tool, as set out in Schedule 3 of this Appendix 2. The Buyer shall provide any additional information as may be subsequently required by the Seller in connection with such claim.

1.1.5.3 Claim Determination

Determination as to whether a claim submitted by the Buyer is a Warranty Claim for the purposes of Clause 1.1 shall be made by the Seller based upon the claim details provided by the Buyer under Clause 1.1.5.2, as well as reports from the Seller Representative(s), historical data logs, inspections, tests, findings during repair, defect analysis and any other relevant documents as may be requested by the Seller.

The Seller shall have the right, in respect of any claim filed by the Buyer pursuant to this Clause 1.1, to:

- a) have a representative of the Seller present during the disassembly, inspection and testing of any Warranted Part alleged to be defective;
- b) inspect the Aircraft on which the relevant Warranted Part is installed as well as any documents and any other records relating thereto; and
- c) require the return of any Warranted Part removed by the Buyer from an Aircraft if, in the opinion of the Seller, the nature of the alleged defect requires technical investigation by the Seller.

If the Seller rejects a claim made by the Buyer pursuant to this Clause 1.1, then the Seller shall provide reasonable written explanation of such rejection. The Buyer shall reimburse to the Seller reasonable inspection and test charges, if any, incurred by the Seller in connection with the rejected claim.

If the Buyer wishes to provide to the Seller additional information or documentary evidence following the rejection of a claim, the Buyer shall submit any such further information or evidence no later than [***] following the rejection of such claim by the Seller. If the Buyer has not provided any evidence within such [***], the claim shall be deemed definitively closed

1.1.6 Return of a Warranted Part or Aircraft

1.1.6.1 Transportation Costs of Warranted Parts

The cost of transporting a Warranted Part claimed to be defective to the facilities designated by the Seller and for the return therefrom of a repaired or replaced Warranted Part shall be borne by the Buyer.

1.1.6.2 On-aircraft Work by the Seller

If the Seller determines that the remedy of the defect in a (or several) Warranted Part(s) requires the technical expertise of the Seller as manufacturer of the Aircraft, the Seller shall, at its option either:

- a) dispatch a working team to the Buyer's facilities; or
- b) require the return of the relevant Aircraft to the Seller's facilities,

in each case for repair or modification or replacement of the defective Warranted Part(s) and the provisions of Clause 1.1.6.3 shall apply.

In both cases, the Seller and the Buyer shall agree on a schedule, location and other applicable details for the performance of the repair or modification. Transportation and accommodation costs relating to the dispatch of a Seller's working team shall be borne by the Seller. If an Aircraft is returned to the Seller's facilities, then the Seller shall bear the costs of fuel and landing fees for the flight to and from the Seller's facilities, provided that the Buyer makes reasonable efforts to minimize the duration of such flights.

1.1.6.3 Risk of Loss

Risk of loss of any Aircraft or any Warranted Part returned by the Buyer to the Seller pursuant to with this Clause 1.1.6 (a "**Returned Part**") shall at all times remain with the Buyer, except during the period that such returned Aircraft or Returned Part is under the control and custody of the Seller. For the sake of clarity, risk of loss of a returned Aircraft or Returned Part which is repaired or modified by the Seller shall pass to the Buyer upon the ferrying of such Aircraft or the shipment of such repaired or modified Returned Part by the Seller to the Buyer's facilities.

In addition:

- a) title to and risk of loss of any part provided by the Seller to the Buyer in replacement of a Returned Part (a "**Replacement Part**") shall pass to the Buyer upon its shipment by the Seller; and
- b) title to of a Returned Part shall pass to the Seller upon shipment by the Seller to the Buyer of the corresponding Replacement Part.

1.1.7 Inhouse Warranty

As an alternative to filing a claim in respect of a Warranted Part as set out in Clause 1.1.5, the Buyer may itself repair or modify any defective Warranted Part(s) and benefit from the Seller's warranty set out below, subject to the conditions set out in this Clause 1.1.7 (the "**Inhouse Warranty**").

1.1.7.1 Seller's Consent

If the estimated cost of any repair exceeds [***], then the consent of the Seller is required before the Buyer commences such repair or modification. The Buyer shall notify the Seller of its intention to perform the repair or modification and such notification shall include sufficient details regarding the defect, estimated labour hours and materials and contemplated repair or modification solution to allow the Seller to evaluate the estimated cost of the repair or modification. The Seller's consent to the performance of the repair or modification shall not be unreasonably withheld or delayed.

1.1.7.2 Claim filing

All claims under the Inhouse Warranty shall be filed through the relevant on-line application in AirbusWorld within [***] of the appearance of the defect and shall contain all data required in such tool, as set out in Schedule 3 of this Appendix 2. The Buyer shall provide any additional information as may be subsequently required by the Seller in connection with such claim.

1.1.7.3 Credit

The Seller shall credit the Buyer's Goods and Services Account with an amount equal to the Direct Labour Costs and the Direct Material Costs incurred by the Buyer in performing the repair or modification of the relevant Warranted Part.

If the repair or modification costs (corresponding to both the Direct Labour Costs and the Direct Material Costs) of any defective Warranted Part exceed [***] of the Seller's then current sales price for a part to replace for such Warranted Part (the "**Maximum Amount**"), then such Warranted Part shall be considered as beyond economic repair ("**Beyond Economic Repair**"). The credit issued by the Seller pursuant to this Clause 1.1.7.3 shall in no circumstances exceed the Maximum Amount, including in circumstances where the Buyer chooses to repair a Warranted Part which is Beyond Economic Repair rather than to file a claim under Clause 1.1.5.

1.1.7.4 Retention and Scrapping of removed Warranted Parts

The Buyer shall retain any Warranted Part or any defective part removed from a Warranted Part, in each case removed from the Aircraft for a period of [***] after the date of submission of a claim under the Inhouse Warranty (the "**Retention Period**"). The Buyer shall return such parts to the Seller within [***] of the Seller's request to that effect.

However, subject to the agreement of the Seller and to the applicable Aviation Authority's regulations, the Buyer may, prior to the end of the Retention Period, scrap any defective parts that are Beyond Economic Repair and are not required locally for technical evaluation.

The scrapping of Warranted Parts shall be evidenced by a record of scrapped material certified by the Buyer (to which the Seller shall have access upon request) and shall be retained by the Buyer for at least the remainder of the applicable Warranty Period.

1.2 Service Life Policy

1.2.1 For the purposes of this Clause 1.2, if a Failure occurs in any Item that does not result from the occurrence of an Extrinsic Force, then, subject to the conditions and limitations set out in Clause 1.2.4, the provisions of this Clause 1.2 shall apply (the "**Service Life Policy**") in respect of such Item.

1.2.2 Periods and Seller's Undertakings

If a Failure occurs on an Aircraft on which an Item was originally installed before (a) such Aircraft has completed [***] Flying Hours, (b) such Aircraft has completed [***] Flight Cycles or (c) the expiry of a period of [***] after the Delivery of such Aircraft, whichever occurs first, then the Seller shall, at its election, as promptly as practicable, provide a Seller Service Bulletin and associated kit for either the repair or modification of such Item or replace such Item, in each case with the financial participation of the Seller as set out in Clause 1.2.3 below.

1.2.3 Seller's Participation in the Costs

Any Seller Service Bulletin and associated kit or part provided by the Seller to the Buyer under this Service Life Policy shall be provided at the Seller's then current price for such Seller Service Bulletin, kit or part, less the Seller's financial participation determined in accordance with the following formula:

[***]

1.2.4 General Conditions and Limitations

1.2.4.1 The undertakings of the Seller set out in this Clause 1.2 shall enter into force upon the expiry of the Warranty Period.

1.2.4.2 The Buyer's rights under this Clause 1.2 are subject to the compliance by the Buyer at all times with the following conditions:

- a) the Buyer shall maintain adequate log books and other historical records with respect to each Item, so as to enable the Seller to determine whether the alleged Failure is covered by this Clause 1.2;
- b) the Buyer shall keep the Seller informed of any significant incidents relating to any Aircraft after Delivery;
- c) the Buyer shall implement such structural inspection programs as may be defined from time to time by the Seller and reports relating thereto shall be regularly supplied to the Seller; and
- d) the Buyer shall report to the Seller in the applicable tool on AirbusWorld any Failure within [***] after such Failure becomes apparent, including sufficient detail with respect to the Failure to enable the Seller to determine whether such Failure is covered by this Service Life Policy.

- 1.2.4.3 The Buyer shall make each claim pursuant to this Clause 1.2 through the relevant on-line application in AirbusWorld and shall provide all data required in such tool, as set out in Schedule 3 of this Appendix 2. Except as otherwise set out in this Clause 1.2, any claim under this Service Life Policy shall be administered as provided for in, and shall be subject to the terms and conditions of, Clauses 1.1.5 and 1.1.6.
- 1.2.4.4 If the Seller has issued an instruction to modify applicable to an Aircraft, the purpose of which is to avoid a Failure of any Item, then the Seller shall have no obligation under this Clause 1.2 with respect to any Failure unless the Buyer has incorporated the recommended modification in the relevant Aircraft.
- 1.2.4.5 This Service Life Policy is not an undertaking to modify any Aircraft or any Item to conform to new developments in airframe design and manufacturing.

1.3 Supplier Warranties and Service Life Policies

1.3.1 Supplier Support Conditions

The Seller has entered into SSCs with Suppliers in respect of Supplier Parts, the benefit of which is expressly made available to the Buyer for as long as the Buyer operates an Aircraft. The Buyer hereby accepts the benefit contained in such SSCs.

The Seller shall communicate the SSCs to the Buyer no later than at Delivery of the Aircraft scheduled to be delivered first, by making them available through the SPSA Application.

With respect to Supplier Parts that qualify as software, such software shall be subject to the terms and conditions applicable to Supplier software are as set out in Schedule 5 of this Appendix 2, "**Supplier Software Sublicense Agreement**".

Nothing in this Clause 1.3.1 shall prevent or limit the Buyer from entering into direct negotiations and/or agreements with a Supplier with respect to different or additional terms and conditions of the warranties or service life policies applicable to Suppliers Parts.

The Seller shall monitor Suppliers' compliance with the terms of the SSCs and shall, upon request, assist the Buyer as may be necessary in enforcing the Buyer's rights thereunder.

1.3.2 Supplier's Default

If any Supplier defaults in the performance of any material obligation with respect to a Supplier Part under either a warranty or service life policy contained in an SSC and the Buyer provides reasonable evidence of such default to the Seller in a timely manner:

- a) with respect to a default under a warranty, then Clause 1.1 shall apply as if the Supplier Part was a Warranted Part, except that the warranty period indicated in the relevant SSC shall apply with respect to such Supplier Part; and
- b) with respect to a default under a service life policy, then Clause 1.2 shall apply as if such Supplier Part was listed in Schedule 1 to this Appendix 2, except that the service life policy period indicated in the SSC shall apply with respect to such Supplier Part.

At the Seller's request, the Buyer shall assign to the Seller, and the Seller shall be subrogated to, all of the Buyer's rights against the corresponding Supplier arising by reason of such default and shall provide reasonable assistance to enable the Seller to enforce such rights.

1.4 Interface issues

If the Buyer experiences a technical issue in the operation of an Aircraft or parts thereof due to a malfunction, the cause of which, after due and reasonable investigation, cannot readily be attributable to the design of a Warranted Part(s) or of any Other Part(s) installed on such Aircraft, but which reasonably appears to be attributable to the design characteristics of one or more parts of the Aircraft (an “**Interface Issue**”), then the Seller shall, if requested by the Buyer, conduct an investigation and analysis to determine, if possible, the cause or causes of the Interface Issue and to recommend such corrective action as may be feasible. The Buyer shall furnish to the Seller all data and information in the Buyer’s possession relating to the Interface Issue and shall cooperate with the Seller in the conduct of the Seller’s investigation.

The Seller shall as soon as is practicable advise the Buyer in writing of its conclusions with respect to the Interface Issue and of its recommended corrective action(s), if any.

If the Seller determines that the Interface Issue is primarily attributable to the design of a Warranted Part or the design of the installation of an Other Part, then the warranty of the Seller set out in Clause 1.1 shall apply.

If the Seller determines that the Interface Issue is primarily attributable to the design of an Other Part, then the Buyer shall make a claim under the applicable warranty in respect of such Other Part, provided by the relevant Supplier, the Propulsion Systems Manufacturer or the relevant BFE Supplier.

If the Seller determines that the Interface Issue is attributable partially to the design of a Warranted Part and partially attributable to the design of a Supplier Part, then the Seller shall, if requested by the Buyer, seek to provide a solution to the Interface Issue through the cooperative efforts of the Seller and the relevant Supplier.

It shall be the sole responsibility of the Buyer to take any recommended action in relation to such Interface Issue, including making any resulting warranty claim to the party to whom the Interface Issue is attributable, except that the Seller shall, if so requested by the Buyer, reasonably assist the Buyer in processing any warranty claim the Buyer may have against the Supplier of any Supplier Part.

The above investigation shall be conducted by the Seller at no charge to the Buyer, other than the transportation costs of the Seller’s personnel to the Buyer’s facilities, if required, except if the Seller demonstrates that it bears no responsibility in the Interface Issue or that the technical issue is not an Interface Issue, in which case the Seller shall be entitled to invoice the Buyer for any and all costs incurred in relation to such investigation.

1.5 Disclaimer of Seller Liability to Third Parties

THE SELLER SHALL NOT BE LIABLE FOR, AND THE BUYER SHALL INDEMNIFY THE SELLER AGAINST, ANY CLAIMS FROM ANY THIRD PARTIES FOR LOSSES DUE TO ANY DEFECT OR NON-CONFORMITY OF ANY KIND, ARISING OUT OF OR IN CONNECTION WITH ANY REPAIR OR MODIFICATION UNDERTAKEN BY THE BUYER ON THE AIRCRAFT OR ANY OTHER ACTIONS UNDERTAKEN BY THE BUYER UNDER THIS CLAUSE 1 WHETHER SUCH CLAIM IS ASSERTED IN CONTRACT OR IN TORT, OR IS PREMISED ON ALLEGED, ACTUAL, IMPUTED, ORDINARY OR INTENTIONAL ACTS OR OMISSIONS OF THE BUYER.

FOR THE PURPOSES OF THIS CLAUSE 1.5, THE “SELLER” SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUBCONTRACTORS, AFFILIATES AND ANY OF THEIR RESPECTIVE INSURERS.

1.6 Waiver, Release and Renunciation

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER (AS DEFINED BELOW FOR THE PURPOSES OF THIS CLAUSE) AND REMEDIES OF THE BUYER SET OUT IN THIS CLAUSE 1 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER CONDITIONS, WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND ALL RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW, CONTRACT OR OTHERWISE, WITH RESPECT TO ANY NON CONFORMITY OR DEFECT OF ANY KIND IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ITEM, ACCESSORY, PART, SOFTWARE, DATA OF ANY NATURE, OR SERVICE DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

1. ANY IMPLIED TERM AGAINST HIDDEN DEFECTS;
2. ANY IMPLIED TERM OF MERCHANTABILITY OR FITNESS;
3. ANY IMPLIED TERM ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OR TRADE;
4. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER IN CONTRACT OR IN TORT, WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
5. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM, OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ITEM, ACCESSORY, PART, SOFTWARE, ANY DATA OF ANY NATURE, OR SERVICE DELIVERED UNDER THIS AGREEMENT, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES,

PROVIDED THAT IF ANY OF THE AFORESAID PROVISIONS SHOULD FOR ANY REASON BE HELD UNLAWFUL OR OTHERWISE INEFFECTIVE THE REMAINDER OF THIS AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS CLAUSE 1.6, THE "SELLER" SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUB-CONTRACTORS, AFFILIATES AND ANY OF THEIR RESPECTIVE INSURERS.

1.7 No Duplicate Remedies

The Seller shall not be obliged to provide any remedy that duplicates any other remedy available to the Buyer in respect of the same defect under Clause 1.

1.8 Disclosure to Third Party Entity

If the Buyer wishes to designate a third party entity (a "**Third Party Entity**") to administer this Clause 1, then the Buyer shall notify the Seller of its intention to so designate prior to any disclosure of this Clause 1 to the selected Third Party Entity. The Buyer shall cause such Third Party Entity to enter into a confidentiality agreement (and or any other relevant documentation) with the Seller, in each case satisfactory to the Seller for the sole purpose of administering this Clause 1.

2 PATENT AND COPYRIGHT INDEMNITY

2.1 Indemnity

2.1.1 Subject to the provisions of this Clause 2, the Seller shall indemnify the Buyer from and against any damages, costs and expenses including legal costs (excluding damages, costs, expenses, loss of profits and other liabilities in connection with the loss of use of an or several Aircraft) resulting from any infringement or alleged infringement by the Aircraft (or any part or software installed on such Aircraft at Delivery) of:

- a) any patent issued under the laws of any country in which the Buyer lawfully operates the Aircraft, provided that, from the time of design of such Aircraft or part and until infringement claims are resolved, such country and the Country of Registration of the Aircraft are each a party to either:
 - (i) the Chicago Convention on International Civil Aviation of December 7, 1944, including, in particular, Article 27 thereof; or
 - (ii) the Paris Convention (the International Convention for the Protection of Industrial Property of March 20, 1883); and
- b) any copyright in respect of software installed on the Aircraft, provided that the Seller's obligation to indemnify shall be limited to infringements or alleged infringements in countries which, at the time of infringement or alleged infringements, are members of the Berne Union and recognise software as a "work" under the Berne Convention.

2.1.2 Clause 2.1.1 shall not apply to:

- a) Buyer Furnished Equipment; nor
- b) Propulsion Systems; nor
- c) software not created by the Seller or its Affiliates; nor
- d) any Aircraft or any part or software installed on such Aircraft used by the Buyer other than for its intended purpose.

2.1.3 If the Buyer is prevented from using the Aircraft (whether pursuant to a valid judgement of a court of competent jurisdiction or a settlement between the claimant, the Seller and the Buyer), then the Seller shall at its expense either:

- a) procure for the Buyer the right to use the Aircraft free of charge to the Buyer; or
- b) replace the infringing part of the Aircraft as soon as possible with a non-infringing substitute complying in all other respects with the requirements of this Agreement.

2.2 Administration of Patent and Copyright Indemnity Claims

2.2.1 If the Buyer receives a written claim or a suit is threatened or commenced against the Buyer for infringement of a patent or copyright referred to in Clause 2.1 (an "**IP Claim**"), then the Buyer shall:

- a) promptly notify the Seller and provide all details of such IP Claim;
- b) provide to the Seller all data and records in the Buyer's possession or under its control relating to such IP Claim;

- c) refrain from:
- (i) admitting any liability or making (or committing to make) any payment in respect of any expenses, damages, costs or royalties in connection with such IP Claim; or
 - (ii) acting in any manner prejudicial to the defence or denial of such IP Claim,
- provided that nothing in this Clause 2.2.1(c) shall prevent the Buyer from paying such sums as may be required in order to obtain the release of the Aircraft, subject to such payment being made without prejudice and being accompanied by a denial of liability;
- d) fully co-operate with and provide such assistance as may be requested by the Seller; and
- e) take actions to mitigate damages and/or to reduce the amount of royalties which may be payable as well as to minimise costs and expenses.

2.2.2 The Seller shall be entitled either in its own name or on behalf of the Buyer to conduct negotiations with the claimant(s) and may assume and conduct the defence or settlement of any IP Claim in the manner which the Seller considers appropriate.

2.2.3 The assumption of liability by the Seller under this Clause 2 is conditional upon the strict and timely compliance by the Buyer with the terms of this Clause. This Clause sets out the sole and exclusive remedies of the Buyer with respect to any infringement or alleged infringement of any patent or copyright and the Buyer hereby waives and releases any other rights, claims and remedies against the Seller it may have at law, contract or otherwise in respect thereof.

For the purposes of this Clause 2.2.3, the "Seller" shall be understood to include the Seller, any of its suppliers, subcontractors, Affiliates and any of their respective insurers.

**SCHEDULE 1
SELLER SERVICE LIFE POLICY – LIST OF ITEMS**

1 WINGS - CENTRE AND OUTER WING BOX (LEFT AND RIGHT)

1.1 Wing Structure

[***]

1.2 Fittings

[***]

1.3 Auxiliary Support Structure

[***]

1.4 Pylon

[***]

2 FUSELAGE

2.1 Fuselage structure

[***]

2.2 Fittings

[***]

3 STABILISERS

3.1 Horizontal Stabiliser Main Structural Box

[***]

3.2 Vertical Stabilizer Main Structural Box

[***]

4 EXCLUSIONS

[***]

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[***]

SCHEDULE 2

INHOUSE WARRANTY LABOUR RATE REVISION FORMULA

[***]

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[***]

**SCHEDULE 3
WARRANTY CLAIM DATA REQUIREMENTS**

1 Information for Warranty Claims and Seller Service Life Policy

Each claim filed by the Buyer in respect of a Warranted Part claimed to be defective or in respect of an Item claimed to be the subject of a Failure shall include the following data:

- a) the description of the defect and any action taken by the Buyer in relation thereto;
- b) the date on which the defect became apparent and the date on which the Warranted Part was removed (if applicable);
- c) the denomination of such Warranted Part;
- d) its part number;
- e) its serial number (if applicable);
- f) its position on the Aircraft;
- g) the Manufacturer Serial Number of the Aircraft or the registration mark; or both;
- h) if applicable, time since last shop visit at the date of defect appearance; and
- i) any other information as may be required by the Seller, based on the nature of the defect, at the time of submission of the claim or subsequently thereto.

2 Additional information for Inhouse Warranty Claims

In addition to the information set out in Clause 1 above, with respect to Inhouse Warranty claims, the Buyer shall submit the following information:

- a) a report of the technical findings with respect to the defect the subject of such claim;
- b) evidence that the in-house repair work has effectively been performed by the Buyer (e.g. work order, test reports);
- c) the identification and price of each part required to remedy such defect;
- d) the detailed number of Buyer Manhours; and
- e) the total amount of the Inhouse Warranty claim.

The Buyer shall provide any additional information as may be subsequently required by the Seller in connection with such Inhouse Warranty claim.

SCHEDULE 4

AIRBUS ON-BOARD CERTIFIED SOFTWARE LICENSE AGREEMENT

1 DEFINITIONS

[***]

2 LICENSE

[***]

3 ASSIGNMENT AND DELEGATION

3.1 Assignment

[***]

3.2 Delegation

[***]

4 COPIES

[***]

5 TERM

[***]

6 CONDITIONS OF USE

[***]

7 PROPRIETARY RIGHTS - RIGHT TO CORRECT AND MODIFY

7.1 [***]

7.2 [***]

8 COPYRIGHT INDEMNITY

[***]

9 CONFIDENTIALITY

[***]

10 WARRANTY

10.1 On-Board Certified Software

[***]

10.2 On-Board Software

[***]

10.3 [*]**

10.4 Waiver, release and renunciation

[***]

11 LIABILITY AND INDEMNITY

[***]

12 TERMINATION

[***]

13 GENERAL

13.1 [*]**

13.2 [*]**

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[***]

SCHEDULE 5

SUPPLIER SOFTWARE LICENSE AGREEMENT

1 DEFINITIONS

[***]

2 LICENSE

[***]

3 ASSIGNMENT AND DELEGATION

3.1 Assignment

[***]

3.2 Delegation

[***]

4 COPIES

[***]

5 TERM

[***]

6 CONDITIONS OF USE

[***]

7 TRAINING

[***]

8 PROPRIETARY RIGHTS - RIGHT TO CORRECT AND MODIFY

8.1 [***]

8.2 [***]

9 COPYRIGHT INDEMNITY

[***]

10 CONFIDENTIALITY

[***]

11 WARRANTY

[***]

12 LIABILITY AND INDEMNITY

[***]

13 EXCUSABLE DELAYS

13.1 [***]

13.2 [***]

14 TERMINATION

[***]

15 GENERAL

15.1 [***]

15.2 [***]

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[***]

APPENDIX 3
CUSTOMER SUPPORT

CLAUSES	TITLES
1	CUSTOMER SUPPORT
2	TECHNICAL DATA
3	SELLER REPRESENTATIVES SERVICES
4	TRAINING SUPPORT AND SERVICES
5	INITIAL PROVISIONING AND PURCHASE OF MATERIAL
6	INDEMNITY AND INSURANCE
SCHEDULES	TITLES
SCHEDULE 1	TECHNICAL DATA AND AVAILABILITY
SCHEDULE 2	TRAINING ALLOWANCES

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[***]

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1 CUSTOMER SUPPORT

In consideration of the Buyer purchasing and taking delivery of the Aircraft, the Seller shall provide, or cause to be provided, to the Buyer the customer support services set out in this Appendix 3 (collectively, the “**Customer Support**”).

The Customer Support is provided either (i) on a per Aircraft basis, or (ii) on a per fleet basis and represents the total allowances granted for the entire fleet of [***] Aircraft purchased under this Agreement.

If the Buyer does not take Delivery of any or all of the Aircraft, then, in addition to any other rights and remedies available to the Seller under this Agreement or at law, the Seller shall be entitled to:

- 1) with respect to Customer Support provided on a per Aircraft basis and for each undelivered Aircraft:
 - a) terminate any Customer Support which has not yet been provided; and/or
 - b) invoice to the Buyer the price of any Customer Support that has already been provided (at the price at which the Buyer would have purchased such Customer Support at the time it was provided); and
- 2) with respect to Customer Support provided on a per fleet basis and for each undelivered Aircraft, prorata the number of undelivered Aircraft:
 - a) reduce the amount of Customer Support to be made available to the Buyer under this Agreement; and/or
 - b) invoice to the Buyer the price of any Customer Support that has already been provided to the Buyer with respect to such undelivered Aircraft (at the price at which the Buyer would have purchased such Customer Support at the time it was provided).

The Buyer shall pay to the Seller any amounts pursuant to 1) and/or 2) above within [***] of receipt of the corresponding invoice by the Buyer from the Seller.

2 TECHNICAL DATA

2.1 Buyer’s access to Technical Data

The Buyer shall have access to the Technical Data, including any revisions thereto, and to the licence to use the PEP Package and the Browser (as defined below) on a free of charge basis for [***] following the Delivery of each Aircraft (the “**Revision Service Period**”).

At the end of the Revision Service Period, any of the above Technical Data and services shall be provided in accordance with the terms and conditions set forth in the CSC.

2.2 Supply

2.2.1 All Technical Data shall be available on-line through AirbusWorld, access to which is subject to the GTC.

Access to AirbusWorld shall be granted for an unlimited number of the Buyer’s users (including two (2) Buyer Administrators (as such term is defined in the GTC)).

- 2.2.2 No later than [***] prior to the Scheduled Delivery Period of the Aircraft scheduled to be delivered first, the Parties shall agree on the numerical identification to be allocated to each Aircraft for the sole purpose of identifying such Aircraft in the Customised Technical Data.
- 2.2.3 Certain Technical Data shall be provided through consultation tools which include the navigation software and viewer necessary to browse such Technical Data (together, a “**Browser**”).
- The use of the Browser and the PEP Package shall be subject to the EULA.
- 2.2.4 Technical Data shall be in the English language, using aeronautical terminology in common use.
- 2.2.5 The list of the Technical Data made available to the Buyer and the schedule of their respective availabilities are set out in Schedule 1 to this Appendix 3.
- 2.2.6 It shall be the responsibility of the Buyer to coordinate and satisfy the Buyer’s Aviation Authorities’ requirements with respect to Technical Data. Upon request from the Buyer’s Aviation Authorities, such Aviation Authorities shall be given on-line access to the Buyer’s Technical Data (excluding the PEP Package).

2.3 Integration of Equipment Data

2.3.1 Supplier Equipment

The Seller shall, to the extent necessary to perform the on-aircraft maintenance of the corresponding equipment, incorporate into the Customised Technical Data (including revisions) the information relating to Supplier equipment that is installed either on the Aircraft at Delivery or through Seller Service Bulletins after Delivery, subject to the Buyer having informed the Seller that it has implemented such Seller Service Bulletins. Such incorporation shall be performed on a free of charge basis during the Revision Service Period.

2.3.2 Buyer Furnished Equipment

Subject to the provisions of this Clause 2.3.2, the Seller shall, to the extent necessary to perform the on-aircraft maintenance of the corresponding equipment incorporate data relating to the Buyer Furnished Equipment that is installed on the Aircraft at Delivery (the “**BFE Data**”) into the Customised Technical Data. Such incorporation shall be performed on a free of charge basis during the Revision Service Period,

The Buyer shall cause the BFE Suppliers to supply the BFE Data to the Seller on its behalf and at its expense at least [***] prior to the Scheduled Delivery Period of the Aircraft scheduled to be delivered first. The Buyer shall further cause the BFE Suppliers to notify the Seller of any required change to such BFE Data and to provide the Seller with such BFE Data immediately upon its issuance.

The Seller shall not be liable for and the Buyer hereby indemnifies the Seller against all Losses, arising out of or in any way connected with any error, omission, non-conformity or defect in any Technical Data, resulting from the failure of a BFE Supplier to provide BFE Data as and when due, whether such Losses are asserted in contract or in tort.

BFE Data shall be in English and shall comply with the then applicable industry standards and shall be delivered in a digital format to be agreed in due time between the Parties.

The Buyer acknowledges that the Seller shall not be responsible for, and shall have no obligation to check the substance, accuracy and quality of such BFE Data.

The Seller may communicate directly with the BFE Suppliers with respect to such BFE Data.

2.4 Seller Service Bulletins Incorporation

Subject to the Buyer informing the Seller that it has implemented each Seller SB on each Aircraft (the “**SB Report**”), the Seller shall incorporate the information relative to such Seller SB into the Customised Technical Data applicable to such Aircraft.

If the prior implementation of one or several Seller SB(s) is a prerequisite to the implementation of a further Seller SB, then the SB Report shall confirm the implementation of such prior Seller SB(s) on the corresponding Aircraft.

The Buyer shall be solely responsible for providing the Seller with complete and accurate SB Reports. In case of incomplete or inaccurate SB Reports, the Seller may, in order to produce the Customised Technical Data, complete or correct the Buyer’s SB Report in order to reflect the Aircraft’s configuration as known by the Seller. The Buyer shall indemnify and hold the Seller harmless from and against any liabilities and claims arising from any non-conformities or errors in any Technical Data which result from the Buyer’s failure to provide accurate SB Reports.

2.5 Warranty

The Seller warrants that the Technical Data are prepared in accordance with the state of art at the date of their release. If any Technical Data contains any error or defect, then the sole and exclusive liability of the Seller shall be to take all reasonable and proper steps to correct such Technical Data. No warranties of any kind shall be given with respect to BFE Data.

2.6 Proprietary rights

All proprietary rights, including patent, design and copyrights related to Technical Data shall remain with the Seller and/or its Affiliates, as the case may be.

The supply of Technical Data by the Seller, or the fact that any Technical Data may contemplate manufacturing by the Buyer shall not be construed as providing any express or implied right to the Buyer to design or manufacture any aircraft (or part thereof) or any spare part.

2.7 Future Developments

The Buyer acknowledges that the Seller continuously monitors technological developments and applies them to Technical Data, document and information systems’ functionalities, production and methods of transmission and that the Seller may notify its customers from time to time of any such new developments, their application and the timeline for their implementation.

2.8 Confidentiality

The Technical Data are confidential and subject to the terms and conditions of Clause 14 of this Agreement. In addition, the Buyer hereby undertakes that it shall not reproduce them in whole or in part without the Seller’s prior consent.

Without prejudice to the foregoing, if the Buyer intends designating one or several third party(ies) to perform the maintenance of the Aircraft and/or data processing on its behalf (each a “**Buyer Third Party**”), then the Buyer shall, prior to any disclosure of Technical Data, cause such Buyer Third Party to enter into a non-disclosure and licensing agreement with the Seller (the “**Third Party License**”) and agrees that it shall be accountable to the Seller for the use such any Buyer Third Party makes of the Technical Data. Any Third Party Licenses shall include a representation from the Buyer Third Party that it shall use the Technical Data solely for the purposes of the maintenance of the Aircraft and/or data processing on behalf of the Buyer in respect of the Aircraft.

If the Buyer or the Buyer Third Party breaches the terms of this Clause 2.9 and/or the terms of the Third Party License, then, in addition to any rights and remedies available to the Seller under this Agreement or at law, the Seller shall have the right to:

- (i) invoice the Buyer an amount equal to the payments due by the Buyer Third Party under the Third Party License and the Buyer shall pay such amount within [***] after receipt of such invoice; and
- (ii) suspend the Buyer's access to the applications on AirbusWorld that enable it to a) download any Technical Data and b) provide access to Technical Data to the Buyer Third Parties.

3 SELLER REPRESENTATIVE SERVICES

3.1 Seller Representatives

The Seller shall provide free of charge to the Buyer the services of customer support representatives (each a "Seller Representative") for a total of:

[***] continuous person-months.

Except as otherwise agreed between the Parties, the number of such Seller Representatives shall not exceed [***] at any one time.

The above allocation includes the statutory vacation period of the Seller Representatives.

Each Seller Representative shall be acting in an advisory capacity only and shall at no time be deemed to be an employee or agent of the Buyer, either directly or indirectly.

3.2 Location

The Seller shall provide the services of Seller Representatives at the Buyer's facilities or such other locations as the Parties may agree from time to time.

If the Buyer requests any Seller Representative to travel on business to a location other than his usual place of assignment, then all related travel, accommodation and living expenses shall be borne by the Buyer.

3.3 Availability

3.3.1 The Parties hereby acknowledge and agree that during the period defined in Clause 3.1, each Seller Representative may provide support to airlines other than the Buyer.

3.3.2 If, following the end of the period set out in Clause 3.1 or during any statutory vacation period of the Seller Representative(s), the Buyer needs technical assistance in an AOG situation, then the Buyer shall have free of charge access to:

- 1) AIRTAC (Airbus Technical AOG Centre); and
- 2) the network of customer support representatives of the Seller closest to the Buyer's main base, the contacts of which shall be provided to the Buyer. Any such customer support representative providing services to the Buyer hereunder shall be deemed to be a Seller Representative for all purposes of this Clause 3.

3.4 Buyer's Support at the Buyer's facilities

- 3.4.1 If the Parties have agreed that one or more Seller Representative(s) will be based at the Buyer's facilities for all or part of the person-months set out in Clause 3.1, the conditions of this Clause 3.4 shall apply.
- 3.4.2 From the date of arrival of the first Seller Representative at the Buyer's facilities and for as long as one (1) Seller Representative is present at such facilities, the Buyer shall provide free of charge a suitable lockable office, conveniently located near the Buyer's maintenance facilities, with complete office furniture and equipment including telephone and internet connections for the sole use of the Seller Representative(s). All related direct communication costs shall be borne by the Seller upon receipt by the Seller of all relevant invoices.
- 3.4.3 The Buyer shall assist the Seller in obtaining from the authorities of the country in which the Buyer's facilities are located, those documents and/or authorisations that are necessary to permit each Seller Representative to live and work in such country. If such documents and/or authorisations are not obtained, then the Parties shall agree on another country from which the Seller Representative(s) shall provide the services set out in this Clause 3, failing which the Seller shall be relieved of any obligation to the Buyer hereunder.
- 3.4.4 The Buyer shall reimburse to the Seller all Taxes of any kind whatsoever imposed by the authorities of the country where the Buyer's facilities are located (or another country as per Clause 3.4.3) upon:
- 1) the entry into or exit from the relevant country of the Seller Representatives; and
 - 2) the entry into or the exit from the relevant country of such belongings of the Seller as are reasonably necessary for the purpose of providing the Seller Representatives services.

3.5 Withdrawal of the Seller Representative

The Seller shall have the right to withdraw its Seller Representatives as it sees fit if conditions arise that are, in the Seller's opinion, dangerous to their safety or health or prevent them from fulfilling their tasks.

4 TRAINING SUPPORT AND SERVICES

4.1 General

This Clause 4 sets out the terms and conditions under which the Seller shall provide training support and services to the Buyer's personnel under this Agreement to support the operation of the Aircraft.

4.1.1 The Seller shall provide to the Buyer, at no charge, the Training Allowances set out in Schedule 2 to this Appendix 3.

The training courses conducted pursuant to this Agreement are not "Ab Initio Training Courses" and shall be as described in the CSC current at the time of performance of such training courses.

Training courses shall be conducted in English, using training aids written in English and using aeronautical terminology in common use.

4.1.2 The Parties shall agree on the training courses to be provided to the Buyer, the location(s) at which they will be held and their scheduling during a training conference (the "**Training Conference**"), which shall be held, to the extent possible, no later than [***] prior to the Scheduled Delivery Period of the Aircraft scheduled to be delivered first.

4.2 Training Location

4.2.1 The Seller shall provide, or shall cause to be provided, training at a Seller Training Centre or, if the unavailability of facilities or scheduling difficulties makes training at any Seller Training Centre impractical, then the Seller shall ensure that the Buyer is provided with such training at another location chosen by the Seller (individually or collectively a "**Training Centre**").

4.2.2 Alternatively, if requested by the Buyer, the Seller may provide training at a location chosen by the Buyer, under terms and conditions to be agreed but subject always to the provisions of Clause 4.5.

4.2.3 If the Buyer requests an Airbus training course to be conducted at a location chosen by the Buyer, then the Buyer shall ensure that the training facilities at such location are suitably equipped with appropriate classroom space and equipment for such training. The Buyer shall to this effect provide all necessary access and information with respect to such training facilities to the representatives of the Seller and the competent Aviation Authority.

4.3 Training Courses

4.3.1 With respect to training performed at a Training Centre, the Seller shall make available all necessary training media and training equipment. Such training equipment shall not include aircraft.

The equipment and curricula used for the training of flight, cabin and maintenance personnel is not fully customised but is configured as necessary to obtain approval by the EASA. If further customisation is required to obtain approval by the Aviation Authority of the Country of Registration, then such further customisation shall be performed at the cost of the Buyer.

At the end of each training course provided at a Training Centre, each trainee shall receive either an attestation indicating that the trainee has attended such course or a certificate of course completion indicating the outcome of the relevant evaluation at the end of such training (as applicable). No such certificate or attestation shall constitute qualification by any Aviation Authority but may be presented to an Aviation Authority by the recipient in order to obtain the relevant formal qualification.

4.3.2 With respect to training courses performed at a location chosen by the Buyer, the Buyer shall provide training equipment, at its own cost, in accordance with the Seller's instructions. However, if requested by the Buyer, the Seller may provide such training material and equipment at the cost of the Buyer.

4.3.3 Training material shall be made available by the Seller to the trainees for the duration of the training course only and for the sole purpose of training, and shall remain the property of the Seller and shall be returned to the Seller at the end of any training course.

4.3.4 Exchange of Training Courses

The Buyer may exchange any remaining Training Allowances set out in Schedule 2 to this Appendix 3 against any training course set out in the Seller's "Training Course Exchange Matrix" current at the time of the exchange request. If the Buyer requests an exchange that is not contemplated under the Training Course Exchange Matrix, then the Seller may agree to such exchange subject to the terms and conditions set out in the CSC current at the time of exchange request.

4.3.5 Timing of Requests, Rescheduling and Cancellation of Training

Following a Training Conference, the Seller shall issue a training proposal to the Buyer, setting out the relevant training courses and associated dates (the "**Training Conference Proposal**").

With respect to any training request made outside of the Training Conference Proposal (including any training exchange request made under Clause 4.3.4), the Buyer shall submit the request at the latest [***] prior to the desired course start date and the Seller shall, subject to its commercial and planning constraints, issue to the Buyer a proposal with the earliest available training schedule (each, an "**Additional Training Proposal**").

The Buyer shall notify its acceptance of the Training Conference Proposal or the Additional Training Proposal(s) (as applicable) in writing within [***] of receipt thereof, failing which the Buyer shall be deemed to have refused such proposal.

The Buyer may, at no cost, cancel or reschedule (in whole or in part) any confirmed training course irrespective of its location, subject to advance notification of at least [***] prior to the start of the relevant training course.

After such deadline, if the Buyer gives notice to the Seller:

- 1) less than [***], but more than [***], prior to the start date of such training, then a cancellation or rescheduling fee corresponding to [***] of the price such training shall apply;
- 2) [***] or less prior to such training, then a cancellation or rescheduling fee corresponding to [***] of the price of such training shall apply.

The above cancellation or rescheduling fee shall be applied through deduction from the Training Allowance set out in Schedule 2 or invoicing at the price for the relevant training course, as set out in the then applicable CSC.

Any Additional Training Proposal issued by the Seller to the Buyer less than [***] prior to the start date of the relevant training shall remain subject to all of the terms of this Clause 4.3.

4.3.6 Any unused Training Allowances provided pursuant to this Clause 4 within the timeframe set out in Schedule 2 shall be cancelled and no compensation or credit of any nature shall be provided by the Seller to the Buyer.

4.4 Prerequisites and Conditions

4.4.1 The Buyer shall be responsible for ensuring that the trainees registered on a training course have the prerequisite knowledge and experience specified for such course in the CSC.

4.4.2 At the time of booking of a training course, and in no event later than [***] prior to the start of each course, the Buyer shall provide the Seller with a list of the trainees for each course together with evidence of the qualification, proficiency and professional experience of each trainee and such other information as the Seller may request.

If the Seller determines a) prior to the start of a course, that a trainee does not meet the prerequisites set out in the CSC, or b) at any time during a training course, that a trainee lacks the required level, then such trainee shall be withdrawn from such course.

Without prejudice to the above and with the aim of reintegrating the trainee into the course from which he/she has been withdrawn, the Parties shall discuss the possibility of directing the trainee to another more appropriate training module, at the Buyer's expense.

4.4.3 The Seller does not provide any warranty with respect to, and shall not be held liable for, any trainee's performance following any training provided hereunder. For the purposes of this Clause 4.4.3, the "Seller" shall be understood to include the Seller, any of its suppliers and subcontractors and any of its Affiliates.

4.5 Logistics

4.5.1 Travel and living expenses for the Buyer's trainees shall be borne by the Buyer.

The Buyer shall obtain all necessary authorisations, permits and visas necessary for its trainees to attend training courses and any rescheduling or cancellation of training courses due to the Buyer's failure to obtain any such authorisations, permits and visas shall be subject to the provisions of Clause 4.3.5.

4.5.2 For any training provided by the Seller at a location chosen by the Buyer, the Buyer shall bear the travel and living expenses of each of the Seller's Instructors in accordance with the conditions set out in the CSC.

4.6 Specific Conditions

4.6.1 Flight Support

If, during any period during which a Seller pilot Instructor is performing flight crew line initial operating experience at a location chosen by the Buyer, the Buyer requests that any such Instructor perform any other flight support (including line assistance, demonstration flight(s) and ferry flight(s)), then the Buyer agrees that:

- 1) any such flight support shall be subject to the Seller's prior consent;
- 2) such Instructors shall only perform the above flight support to the extent they bear the relevant qualifications to do so; and

3) such flight(s) shall be deducted from the remaining Training Allowance set out in Schedule 2 hereto.

4.6.2 Provision of Aircraft

During any on-aircraft training (whether flight or maintenance training) performed pursuant to this Clause 4, the Buyer shall provide, at its own cost, an aircraft it owns and/or operates for the performance of such training. The Buyer shall bear full responsibility for the aircraft upon which the training is performed, including any required maintenance, all expenses such as fuel, oil or landing fees and the provision of insurance in accordance with Clause 6 of this Appendix 3.

4.6.3 Validation of Licenses

The Buyer shall assist the Seller in obtaining the validation of the licenses of the Instructors performing base flight training or flight crew line initial operating experience by the Aviation Authority of the country of registration of the aircraft on which the training is to be performed.

5 INITIAL PROVISIONING AND PURCHASE OF MATERIAL

5.1 Expedite services and Material ordering

The Seller shall provide, or shall cause to be provided by its Affiliate(s), a [***] emergency service to provide for the supply of critically required parts (the “Expedite Service”).

The Expedite Service provided for the three (3) types of Expedite Types defined in the “2015 World Airlines and Suppliers Guide” (WASG) and the Buyer shall be notified of the action taken to satisfy an expedite order received from the Buyer as follows:

<u>Type of Expedite Order</u>	<u>Seller Notification Time</u>
[***]	[***]
[***]	[***]
[***]	[***]

For parts not critically required within less time than the Seller’s published or quoted lead-times, the Buyer agrees to preferentially resort to routine (RTN) orders.

The Buyer hereby agrees to communicate its Orders for Material to the Customer Order Desk either in electronic format (SPEC 2000) or via AirbusWorld.

The Seller shall maintain, or shall cause to be maintained by its distributors, a reasonable stock of Seller Spare Parts for the duration of the Term.

Except as expressly otherwise set out in this Clause 5, any Material purchased by the Buyer shall be subject to the terms and conditions set out in the CSC or the Spare Parts Price Catalogue(s) (as applicable).

5.2 Initial Provisioning

[***]

5.2.1 Initial Provisioning Conference

[***]

5.2.2 Provisioning Data

[***]

5.2.3 Commercial Conditions

[***]

5.3 Commitments of the Buyer

[***]

6 INDEMNIFICATION AND INSURANCE

6.1 Indemnities Relating to Ground Training

6.1.1 [***]

6.1.2 [***]

6.2 Indemnities Relating to Aircraft Training

6.2.1 [***]

6.2.2 [***]

6.3 Indemnities relating to Services provided by the Seller

[***]

6.3.1 [***]

6.3.2 [***]

6.4 Insurances

6.4.1 Insurance Relating to Ground Training

[***]

6.4.2 Insurance Relating to Aircraft Training

[***]

6.5 Notice of Claims

[***]

CXA A320NEO Family PA - 2022

[***]

SCHEDULE 1

TECHNICAL DATA AND AVAILABILITY

1 LIST OF TECHNICAL DATA

The exhaustive list of Technical Data provided to the Buyer hereunder is available for the aircraft type delivered under this Agreement via AirbusWorld in the relevant section of the CSC, under respectively:

[***]

2 SCHEDULE OF ACCESS TO TECHNICAL DATA

[***]

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[***]

SCHEDULE 2**TRAINING ALLOWANCES**

All Training Allowances indicated in this Schedule 2 are the total allowances granted for the entire fleet of [***] Aircraft, unless otherwise specified herein.

The Seller shall provide the training courses to the Buyer during the period starting [***] prior to the Scheduled Delivery Period of the Aircraft scheduled to be delivered first and ending [***] after Delivery of the Aircraft scheduled to be delivered first under this Agreement.

Notwithstanding the above, flight crew courses granted on a per Aircraft basis in this Schedule 2 shall be provided by the Seller within a period starting [***] before and ending [***] after Delivery of the corresponding Aircraft.

Any modification of the above periods shall be agreed between the Buyer and the Seller.

1 FLIGHT COURSES**1.1 Flight Crew Courses**

[***]

1.2 Cabin Crew Courses

[***]

1.3 Flight Operations Courses

[***]

2 MAINTENANCE COURSES

[***]

3 TRAINEE DAYS ACCOUNTING

3.1 The minimum and maximum number of trainees per course, when relevant, is set out in the CSC.

3.2 Trainee days are counted as follows:

[***]

**FRAMEWORK AGREEMENT ON
FINANCING AND LEASING SERVICES
(2023-2025)**

Party A: China Southern Airlines Co., Ltd.

Legal representative: Ma Xulun

Address: China Southern Airlines Building, No.68, Qixin Road, Baiyun District, Guangzhou City

Party B: CSA International Finance Leasing Co., Ltd.

Legal representative:

Address: 15/F, China Southern Airlines Building, No.68, Qixin Road, Baiyun District, Guangzhou City

Party A hereto refers to China Southern Airlines Co., Ltd. (hereinafter referred to as "China Southern Airlines") and its wholly-owned and majority-controlled subsidiaries, as well as the wholly-owned and majority-controlled subsidiaries of such subsidiaries. "Party B" refers to China Southern Air Leasing Co., Ltd. (hereinafter referred to as "China Southern Air Leasing") and its wholly-owned subsidiaries or wholly-owned project subsidiaries.

Party A and Party B, in accordance with the principles of equality and mutual benefit, reach the following Framework Agreement in respect of the financing and leasing services of Party B for Party A after consultation:

Chapter I General Provisions

Article 1 Party B agrees to provide Party A with financing or operating lease services for some aircraft, simulators, engines and special equipment (including special vehicles, storage, transportation and loading, security and safety, communication and navigation, flight training, maintenance and testing equipment, kitchen equipment, process equipment, aviation materials, etc., hereinafter collectively referred to as "special equipment") required by Party A for the purpose of operation in 2023-2025.

Chapter II Specific Provisions

Article 2 In accordance with the Framework Agreement, Party A and Party B will conclude separate financing agreements in respect of specific transactions of aircraft, simulators and special equipment, the main contents of which are as follows:

Lessor: China Southern Air Leasing or its wholly-owned subsidiaries or wholly-owned project subsidiaries.

Lessee: China Southern Airlines, its wholly-owned and majority-controlled subsidiaries, or the wholly-owned and majority-controlled subsidiaries of such subsidiaries.

Subject matter: Aircraft, simulators and special equipment.

Leasing method: Financial lease.

Financing amount: Not more than 100% of the total purchase price of the subject matter.

Lease rate: The interest rate agreed by the lessor and the lessee.

Total rent: Principal and interest.

Rent payment method: From the date of delivery of the subject matter, the rent shall be paid on a monthly, quarterly or semi-annual basis, of which the principal shall be returned in accordance with the equal reimbursement of principal, principal/interest equal reimbursement or other specific principal reimbursement principle agreed between the lessor and the lessee. The lessor shall issue special VAT invoices to the lessee for the full amount of the principal and interest of the financial lease for the lessee's VAT deduction.

Lease fee: The lessee will pay the lessor the lease fee of aircraft, simulators or special equipment within the agreed working days before or after the delivery date, and such fee shall not exceed 1% of the financing amount;

Ownership of leased equipment: During the lease period, the ownership of such subject matter shall belong to the lessor. Upon the lessee's payment of the last instalment of rent and the nominal repurchase price at the end of the period to the lessor, such ownership shall transfer to the lessee, and the lessor shall carry out the relevant procedures for such transferring.

Article 3 In accordance with the Framework Agreement, Party A and Party B will conclude separate operating lease agreements in respect of specific transactions of aircraft, engines and special equipment, the main contents of which are as follows:

Lessor: China Southern Air Leasing or its wholly-owned project subsidiaries.

Lessee: China Southern Airlines, its wholly-owned and majority-controlled subsidiaries, or the wholly-owned and majority-controlled subsidiaries of such subsidiaries.

Subject matter: Aircraft, engines and special equipment.

Leasing method: Operating lease.

Rent: Specifically agreed by the lessor and the lessee.

Payment method: The rent shall be paid monthly or quarterly in advance from the date of delivery or subrogation of aircraft, engines and special equipment.

Ownership of leased equipment: During the lease period, the lessor has the ownership of the aircraft, engine and equipment, and the lessee enjoys the right to use. At the end of the lease period, the lessee shall return the aircraft, engine and equipment to the lessor.

Chapter III Special Provisions

Article 4 The parties shall, based on the market price, abide by the principals of fairness and rationality.

Article 5 The prerequisites for Party A to select Party B to provide financial leasing arrangements for its introduction of aircraft, simulators and special equipment include:

(1) Party B is stable in operation, with the qualification and ability to engage in large-scale financial leasing transactions of aircraft, simulators and special equipment.

(2) Party B shall, with reference to Party A's invitation to bid or request for quotation, provide Party A with the financing solution to aircraft and simulators and financial lease quotation at a comprehensive cost not higher than that of Party A for the same type of transaction in the same period, or not higher than that of the third parties shortlisted, and such third parties with quotations shall be not less than two. The comprehensive cost of the special equipment financing solution and financial lease quotation provided to Party A shall not be higher than that of bank loans for the same type of equipment in the same period.

(3) Party B shall be able to issue VAT invoices for the full amount of the principal and interest of the financial lease for the lessee's VAT deduction.

Article 6 The prerequisites for Party A to select Party B's aircraft or engines for operating lease include:

(1) The ownership of such aircraft or engines shall belong to Party B.

(2) The quotation of operating lease of aircraft, engines and special equipment provided by Party B to Party A shall be not higher than the comprehensive cost of the same type of transaction of Party A in the same period, or shall be not higher than that of operating lease quotations of third parties shortlisted, and such third parties with quotations shall be not less than two. The comprehensive cost of the medium-age and old aircraft disposed of by Party A through sale and leaseback and the spare engines leased by way of operating lease shall be not higher than that of other quotations shortlisted, or shall be not higher than the current lease price of the same type of asset of Party A, on a basis of the lease price of the same type of aircraft with the same age in the Chinese market or the same type of engine in the Chinese market in the current period. The lease price shall be adjusted according to the condition and utilization rate of the aircraft and engines and shall be determined after fair consultation between the parties.

Article 7 The total rent amount paid by Party A to Party B for the introduction of aircraft, simulators and special equipment through financial lease during the lease term shall not exceed the maximum amount each year: USD4.1 billion or its equivalent in RMB in 2023, USD4.1 billion or its equivalent in RMB in 2024, and USD3.6 billion or its equivalent in RMB in 2025. The total amount of fees paid by Party A to Party B for financial lease of aircraft, simulators and special equipment shall not exceed the maximum amount each year: USD33.27 million or equivalent in RMB in 2023, USD32.98 million or equivalent in RMB in 2024, and USD28.68 million or equivalent in RMB in 2025.

Party A and Party B confirm that, in accordance with the relevant recognition conditions of IFRS 16 and China's Accounting Standards for Business Enterprises No. 21 and the Agreement, the financial lease of Party A (lessee) shall be regarded as a right-of-use asset. The annual cap hereunder shall be USD3,361 million, USD3,331 million and USD2,896 million or the equivalent in RMB, respectively.

The operating lease rent of aircraft, engines and special vehicles paid by Party A to Party B shall not exceed the maximum amount each year: USD197 million or its equivalent in RMB in 2023, USD356 million or its equivalent in RMB in 2024, and USD486 million or its equivalent in RMB in 2025.

The total amount of operating lease rent of aircraft, engines and special vehicles paid by Party A to Party B during the lease term shall not exceed the maximum amount each year: USD1,524 million or its equivalent in RMB in 2023, USD1,436 million or its equivalent in RMB in 2024, and USD1,119 million or its equivalent in RMB in 2025.

Party A and Party B confirm that, in accordance with the relevant recognition conditions of IFRS 16 and China's Accounting Standards for Business Enterprises No. 21, the operation lease of Party A (lessee) shall be regarded as a right-of-use asset. The annual cap hereunder shall be USD1,262 million, USD1,174 million and USD916 million or the equivalent in RMB, respectively.

Chapter IV Liability for Breach

Article 8 Party A and Party B shall strictly fulfill their respective obligations hereunder. Any breach of the Agreement by either party shall be deemed to breach the Agreement. The party in breach shall bear the liability in accordance with the relevant provisions of the *Civil Code of the People's Republic of China*, and the other party shall be entitled to terminate the Agreement.

Article 9 In case Party A and Party B only violate the specific agreements signed under this Framework Agreement, such breach shall be handled in accordance with the specific agreements and shall not affect the continued performance of the Framework Agreement and other specific agreements thereunder.

Chapter V Validity and Effective Period of the Agreement

Article 10 The Agreement shall be effective from January 1, 2023 to December 31, 2025, and shall be subject to the approval of the Board of Directors and the General Meeting of Shareholders of China Southern Airlines. The Agreement shall be legally binding on both parties as of the date of entry into force.

Article 11 An extension agreement may be signed after mutual written consent of both parties and the approval of the Board of Directors and the General Meeting of Shareholders of China Southern Airlines within thirty days prior to the expiration of the effective period, unless otherwise provided or required by the listing rules applicable to Party A.

Chapter VI Supplementary Provisions

Article 12 The Agreement shall not be changed or amended by either party without the prior written consent of both parties. The supplementary agreement is legally binding on both parties only if it is supplemented and modified by mutual agreement and formed in writing.

Article 13 Any matters not covered in the Agreement shall be resolved by the parties hereto through negotiation with a written supplementary agreement. Such written supplementary agreement shall have the equal legal effect as the Agreement.

Article 14 Any dispute arising from the interpretation, validity and implementation of the Agreement shall be resolved through friendly consultation between the parties. Where the consultation fails, either party may submit the dispute to the Baiyun District People's Court of Guangzhou for resolution through litigation.

Article 15 The Agreement is made in six copies, with three copies for each party, and each copy shall have the equal legal effect.

Party A:

Authorized representative:

Date

Party B:

Authorized representative:

Date

FINANCIAL SERVICES FRAMEWORK AGREEMENT

The Agreement is signed in Guangzhou on [date], by and between:

China Southern Airlines Co., Ltd. (hereinafter referred to as "Party A")

Address: Unit 301, 3/F, Office Tower, Guanhao Science Park Phase I, No. 12, Yuyan Street, Huangpu District, Guangzhou City, Guangdong Province

Legal representative: Ma Xulun

China Southern Airlines Group Finance Company Limited (hereinafter referred to as "Party B")

Address: 13A/F, China Southern Airlines Building, No. 68, Qixin Road, Baiyun District, Guangzhou City, Guangdong Province

Legal representative: Yao Yong

Party A and Party B, in accordance with the principles of equality and mutual benefit, reach the following Framework Agreement in respect of deposits, lending operation and other related financial services provided by Party B to Party A (Party A hereto refers to China Southern Airlines Co., Ltd. and its wholly-owned and majority-controlled subsidiaries) after consultation:

Article I Deposit Service

1. Party A shall, in accordance with the Agreement, deposit part of its temporarily idle working capital and proceeds of business into its account opened with Party B based on the principle of free access.

2. The interest rate of the deposit shall comply with the related regulations of the People's Bank of China on such type of deposit, and Party B shall pay the corresponding interest to Party A regularly at a rate not lower than that of the same class of deposit of major commercial banks in China.

3. Party B shall provide Party A with the transfer and settlement services in its normal business activities as per Party A's needs and the relevant regulations of the State.

4. Party B shall provide online financial services to Party A in order to speed up Party A's fund settlement and improve settlement efficiency.

Article II Loan Services

1. Party B shall give priority to meet Party A's loan demands as far as possible in light of its financial capacity. The loan services herein provided by Party B to Party A shall include loans, discounting of commercial bill of exchange and other credit services.
2. Party A shall sign a loan contract with Party B to specify the amount, purpose and term of the loan and other matters in case Party A applies for a loan from Party B.
3. The interest rate of the loan that Party A obtained from Party B shall comply with the related regulations of the People's Bank of China on such type of loan, and Party A shall pay the corresponding interest to Party B at a rate not higher than that of major commercial banks in China in the same period.
4. Party A shall return the principal and pay interest as scheduled in accordance with the loan service contract signed by and between the parties.

Article III Other Financial Services

1. According to the needs of Party A's normal business activities, Party B may accept Party A's commission to provide Party A with the following financial services, provided that the parties hereto shall sign a separate contract to make specific agreements before providing the actual services, and where the specific agreements conflict with the Agreement, the Agreement shall prevail.
 - (1) Guarantee business;
 - (2) Finance and financing-related advisory services, credit investigation and other relevant consultancy and agent services;
 - (3) Other businesses that Party B may engage in as approved by the China Banking and Insurance Regulatory Commission and the People's Bank of China.
2. In the event that Party A is permitted to issue bonds, Party B may accept Party A's commission to provide services in bond issuance or underwriting to Party A, provided that the parties hereto shall sign a separate contract to make specific agreements before providing the actual services.

3. Where the People's Bank of China or the China Banking and Insurance Regulatory Commission and other regulatory bodies have stipulated the fees, the fees of aforesaid services charged by Party B shall comply with the relevant provisions; and such fees shall be not higher than the fees for equivalent financial services charged by independent third parties.

Article IV Special Provisions

1. Party B shall undertake that the idle funds can only be deposited in state-owned commercial banks and listed joint-stock commercial banks for better control on the risk of funds. In addition, Party B shall undertake to ensure Party A's deposit using needs at any time within Party A's deposit amounts.

2. In order to ensure the implementation of the Agreement, Party B shall agree that the total loan amount to China Southern Air Holding Company and its subsidiaries (except for Party A) shall not exceed the sum of Party B's equity capital, provident fund and the total amount of deposits of other companies (except for Party A).

3. The pricing of both parties hereto shall comply with the principles of fairness and rationality, and shall be based on the fair market price. The price or fee standard shall be not higher than that of an independent third party.

4. The relevant terms of the specific agreement to be signed by and between the parties shall be agreed in accordance with general business terms or better terms, and shall satisfy the relevant requirements of the listing rules at the listing place.

Article V Liabilities for Breach

Where Party A or Party B violates the Agreement and fails to perform or fully perform its obligations hereunder, it shall constitute a breach of agreement. The party in breach shall bear the liability in accordance with the relevant provisions of the *Civil Code of the People's Republic of China*, and the other party shall be entitled to terminate the Agreement; for the avoidance of doubt, the Agreement shall not impose obligation to Party A on making any deposits to or apply for any loans from Party B.

Article VI Dispute Resolution

Any dispute arising from the interpretation, validity and implementation of the Agreement shall be resolved through friendly consultation between the parties. Where the consultation fails, either party may submit the dispute to the competent people's court in Guangzhou for resolution through litigation.

Article VII Validity and Effective Period of the Agreement

1. The Agreement shall be valid for a period of three years from January 1, 2023 to December 31, 2025, and shall be legally binding on both parties as of the date of entry into force.
2. Both parties agree that from the effective date of the Agreement, any relevant financial service framework agreements previously entered into by the parties shall be automatically ceased.

Article VIII Transaction Cap

1. The parties hereto agree that, from the effective date of the Agreement, Party A's maximum daily deposit balance (including total interest income) with Party B for the next three years (2023-2025) shall be capped at RMB20 billion, RMB21 billion and RMB22 billion, and the maximum daily loan balance (including total interest expenses) shall be capped at RMB20 billion, RMB21 billion and RMB22 billion, respectively.
2. The parties hereto agree that the total transaction amount paid by Party A to Party B for other financial services shall not exceed RMB7.5 million per accounting year for the next three years (2023-2025) from the effective date of this Agreement.
3. During the term of the Agreement, the comprehensive credit line provided by Party B to Party A shall not exceed RMB30 billion per year (including loans and other financial services), among which the credit line involved in other financial services (including letter of guarantee, factoring, bill acceptance, etc.) shall not exceed RMB10 billion per year.

Article IX Risk Control

In order to control the risk of funds, Party B shall be obliged to provide assistance to Party A in completing the following measures:

1. Party A has the right to check whether Party B has valid *Financial License* and *Business License of Enterprise Legal Person* before carrying out related transactions with Party B. In case of no relevant license or expiration thereof, Party A shall cease various business cooperations with Party B.

2. Before depositing funds with Party B, Party A has the right to obtain and review the annual report of Party B for the latest accounting year audited by an accounting firm qualified in securities and futures business. After confirming the controllability of risks, Party A may carry out business cooperation with Party B .

3. Party A is entitled to regularly know the operation and financial status of Party B and pay attention to the occurrence of any violation by Party B of the provisions of the *Measures for the Administration of Enterprise Group Finance Companies* promulgated by the China Banking and Insurance Regulatory Commission. Party A has the right to request the provision of Party B's various regulatory indicators to Party A's finance department within fifteen working days after the end of each quarter. If the indicators thereof are not in compliance with the relevant provisions of the *Measures for the Administration of Enterprise Group Finance Companies*, Party A shall stop the cooperation with Party B in deposit business.

4. Party A has the right to take such risk response measures as full or partial transfer of Party A's deposits in Party B, suspension of deposits to Party B, requesting Party B to rectify and reform within a certain period to ensure the safety of Party A's deposits in Party B in the event of the following circumstances:

(1) When Party B's regulatory indicators fail to comply with the provisions of the *Measures for the Administration of Enterprise Group Finance Companies*;

(2) When Party B suffers from such major matters as a run, failure to pay debts due, overdue of large loans, serious failure of important information systems, robbery or fraud and directors or senior management involved in serious disciplinary or criminal cases;

(3) Party B suffers huge losses in its securities investment business, with the loss amount reaching 50% of Party B's registered capital;

(4) In the event of major institutional changes, equity transactions or operational risks that may affect the normal operation of Party B;

(5) When Party B has or may have a payment crisis;

(6) Party B has been subject to administrative penalties by the China Banking and Insurance Regulatory Commission or other regulatory authorities for violation of laws and regulations;

(7) Other matters Party A considers that may pose security risks to Party A's deposits.

5. Party A has the right to transfer its full or part of deposit in Party B from time to time to ensure the safety and liquidity thereof.

Article X Miscellaneous

1. Except for the purpose of complying with the mandatory requirements of laws or statutory regulatory bodies, neither party shall disclose any information of the other party known herefrom and any content hereof without the consent of the other party.

2. The parties hereto shall strictly abide by the *Anti-Money Laundering Law of the PRC*, *Anti-money Laundering of Financial Institutions*, *Measures for the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions*, *Measures for the Administration of Anti-money Laundering Work in the Insurance Sector* and other relevant laws, regulations and administrative rules on anti-money laundering, and shall not participate in the money laundering or facilitate such activity of others.

3. The Agreement shall not be changed or amended by either party without the prior written consent of both parties. The supplementary agreement is legally binding on both parties only if it is supplemented and modified by mutual agreement and formed in writing.

4. Any matters not covered in the Agreement shall be resolved by the parties hereto through negotiation with a written supplementary agreement. Such written supplementary agreement shall have the equal legal effect as the Agreement.

5. This Agreement is made in duplicate, with two copies for each party, and each copy shall have the equal legal effect.

Party A: China Southern Airlines Co., Ltd.

Authorized representative:

Party B: China Southern Airlines Group Finance Company Limited

Authorized representative:

**PROPERTY AND LAND LEASE
FRAMEWORK AGREEMENT**

The Agreement is signed in Guangzhou on December 28, 2022, by and between

Party A: China Southern Air Holding Company

Address: Guangzhou Baiyun International Airport, Guangzhou City, Guangdong Province

Party B: China Southern Airlines Co., Ltd.

Address: Unit 301, 3/F, Office Tower, Guanhao Science Park Phase I, No. 12, Yuyan Street, Huangpu District, Guangzhou City, Guangdong Province

Party A and Party, in accordance with the principles of equality, voluntariness and compensation for use, and through friendly consultations, reach the following Framework Agreement in respect of the leasing of property and land in Beijing, Shenyang, Chaoyang, Dalian, Changchun, Harbin, Urumqi, North China Marketing Center and overseas offices:

Chapter I General Provisions

Article 1 With respect to the lease of the property and land leased by Party A to Party B in accordance with this Agreement, the ownership of the land shall belong to the People's Republic of China (the "PRC") and the right to use the land shall belong to Party A. Any underground resources, buried objects and municipal utilities shall be not included in the leasing scope of such right to use the land.

Article 2 The legitimate rights and interests of Party B in the property leasing hereunder and the activities of using and operating land with the scope of the right to use the land shall be protected by the PRC laws.

Article 3 Party A hereto shall refer to China Southern Air Holding Company and its wholly-owned and majority-controlled subsidiaries, and Party B hereto shall include China Southern Airlines Co., Ltd. and its wholly-owned and majority-controlled subsidiaries.

Chapter II Specific Provisions

Article 4 The parties shall, based on the fair market price, abide by the principle of fairness and rationality to set the price for the right to use the land and the property leased by Party A to Party B.

Article 5 Party A and Party B shall sign a separate specific agreement with respect to the scope and relevant details of the lease in accordance with the Framework Agreement.

Article 6 The purpose of use of the leased property and land hereunder shall not violate the relevant regulations of the PRC or exceed the scope agreed by the parties. If Party B intends to change such purpose of use during the lease term, Party B shall obtain approval from Party A.

Chapter III - Validity and Effective Period of the Agreement

Article 7 The Agreement shall be valid for a period of three years from January 1, 2023 to December 31, 2025, and shall be legally binding for both parties as of the date when this Agreement becomes effective.

Chapter IV Special Provisions

Article 8 The pricing for the transaction shall be in accordance with the principle of fairness and rationality, and shall be based on the fair market price in accordance with the fee regulations of central and local governments and with reference to the asset appraisal report. Party A shall undertake to give Party B a transaction price no higher than the price or fee standard of an independent third party.

Article 9 It is mutually agreed that the transaction amount during the term hereof shall be not more than RMB105,400,000 per year. Party A and Party B shall satisfy the requirements of the relevant Listing Rules in respect of the above maximum amount during the performance of the Agreement.

Party A and Party B confirm that, in accordance with the relevant recognition conditions of IFRS 16 and China's Accounting Standards for Business Enterprises No. 21 and the annual rent measured by appraisal, the operating lease of the lessee, China Southern Airlines Co., Ltd., shall be regarded as a right-of-use asset with an estimated amount of RMB281,086,012.70 from the commencement of the lease term.

Article V Liabilities for Breach

Article 10 Any violation to the agreements under the Agreement by either party shall be deemed to be a breach of the Agreement. The party in breach shall bear the liability in accordance with the relevant provisions of the *Civil Code of the People's Republic of China*, and the other party shall be entitled to terminate the Agreement.

Article 11 In case Party A or Party B only violates a specific agreement signed in accordance with this Framework Agreement, such breach shall be handled in accordance with such specific agreement and shall not affect the continued performance of this Framework Agreement and other specific agreements thereunder.

Chapter VI Supplementary Provisions

Article 12 The Agreement shall not be changed or amended by either party without the prior written consent of both parties. The supplementary agreement is legally binding on both parties only if it is supplemented and modified by mutual agreement and formed in writing.

Article 13 Any matters not covered in the Agreement shall be resolved by the parties hereto through negotiation with a written supplementary agreement. Such written supplementary agreement shall have the equal legal effect as the Agreement.

Article 14 Any dispute arising from the interpretation, validity and implementation of the Agreement shall be resolved through friendly consultation between the parties. Where the consultation fails, either party may submit the dispute to the competent people's court in Guangzhou for resolution through litigation.

Article 15 The Agreement is made in six copies, with three copies for each party, and each copy shall have the equal legal effect.

(No text below)

Party A: China Southern Air Holding Company

Authorized representative:

Date:

Party B: China Southern Airlines Co., Ltd.

Authorized representative:

Date:

SUBSIDIARIES OF CHINA SOUTHERN AIRLINES COMPANY LIMITED

The particulars of the Company's principal subsidiaries as of December 31, 2022 are as follows:

Name of Company	Jurisdiction of Incorporation
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
China Southern Air Logistics Co., Ltd.	PRC

CERTIFICATION

I, Han Wensheng, 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 27, 2023

By: /s/ Han Wensheng

Name: Han Wensheng

Title: Vice 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 27, 2023

By: /s/ Yao Yong

Name: Yao Yong

Title: Executive Vice President, Chief Accountant and Chief Financial Officer

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, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Han Wensheng, Vice 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 27, 2023

By: /s/ Han Wensheng

Name: Han Wensheng

Title: Vice 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, 2022 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 27, 2023

By: /s/ Yao Yong

Name: Yao Yong

Title: Executive Vice President, Chief
Accountant and Chief Financial Officer

- * 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.