

CHINA SOUTHERN AIRLINES CO LTD

Form 20-F

April 26, 2019

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**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, 2018**

**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 1-14660

(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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**GUANGZHOU, 510403**

**PEOPLE'S REPUBLIC OF CHINA**

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

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

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

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

**None**

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

**None**

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: 8,600,723,089 A Shares of par value RMB1.00 per share and 3,666,449,197 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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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.

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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

Other

by the International Accounting Standards Board

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

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

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**FORWARD-LOOKING STATEMENTS**

This Annual Report includes forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements appear in a number of different places in this Annual Report. A forward-looking statement is usually identified by the use in this Annual Report of certain terminology such as estimate, project, expect, intend, believe, plan, anticipate, 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;

actions by government authorities, including changes in government regulations, and changes in CAAC's regulatory policies;

our relationship with China Southern Air Holding Limited Company (CSAH);

uncertainties associated with 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.

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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 Limited Company, our Company's parent company which directly and indirectly holds a 50.54% interest in our Company as of April 26, 2019.

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

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

Solely for the convenience of the readers, this Annual Report contains conversions of certain Renminbi into U.S. dollars at the rate of US\$1.00 = RMB6.8632, which is the average of the buying and selling rates as quoted by the People's Bank of China at the close of business on December 28, 2018. 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 tonne kilometers or ATK	the tonnes 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 tonne kilometers or RTK	i.e. total traffic volume, the load (passenger and cargo) in tonnes multiplied by the kilometers flown
revenue tonne 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 tonne kilometers-passenger tonne	the load for passenger in tonnes multiplied by the kilometers flown 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
rotables	aircraft parts that are ordinarily repaired and reused

*Others*

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
CAAC	Civil Aviation Administration of China
CAOSC	China Aviation Oil Supplies Company
CSAH	China Southern Air Holding Limited Company
CSRC	China Securities Regulatory Commission

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Hong Kong Stock Exchange	Stock Exchange of Hong Kong Limited
H Shares	Shares issued by our Company, listed on The Stock Exchange of Hong Kong Limited and subscribed for and traded in Hong Kong dollars, with par value of RMB1.00 each
Nan Lung	Nan Lung Holding Limited (a wholly-owned subsidiary of CSAH)
NDRC	National Development and Reform Commission of China
SAFE	State Administration of Foreign Exchange of China
SA Finance	Southern Airlines Group Finance Company Limited
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SEC	United States Securities and Exchange Commission
SPVs	special purpose vehicles exclusively set up by China Southern Airlines and its subsidiaries for leased aircraft
ton	a metric ton, equivalent to 2,204.6 pounds

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## 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, 2018. The selected consolidated income statement data (other than ADS data) for the three-year period ended December 31, 2016, 2017 and 2018 and selected consolidated statement of financial position data as of December 31, 2017 and 2018 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, 2014 and 2015 and selected consolidated statement of financial position data as of December 31, 2014, 2015 and 2016 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 our 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.

	2018 US\$	Year ended December 31,				
		2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
<b>Consolidated Income Statement Data</b>						
Operating revenue	20,927	143,623	127,806	114,981	111,652	108,584
Operating expenses	(20,434)	(140,242)	(123,098)	(106,204)	(101,492)	(106,026)
Operating profit	1,285	8,819	9,156	12,612	13,438	4,748
Profit before income tax	636	4,364	8,874	7,661	6,118	3,066
Profit for the year	490	3,364	6,898	5,898	4,818	2,398
Profit attributable to:						
Equity shareholders of our Company	422	2,895	5,961	5,044	3,736	1,777
Non-controlling interests	68	469	937	854	1,082	621

Basic and diluted earnings per share	0.04	0.27	0.60	0.51	0.38	0.18
Basic and diluted earnings per ADS <sup>(1)</sup>	2.00	13.50	30.03	25.69	19.03	9.05

**Other Financial Data**

Cash dividends declared per share	0.01	0.05	0.10	0.10	0.08	0.04
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- (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 domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 50 H shares.



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	Year ended December 31,					
	2018 US\$	2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
<b>Consolidated Statement of Financial Position</b>						
<b>Data:</b>						
Cash and cash equivalents	1,009	6,928	6,826	4,152	4,560	15,414
Total current assets, excluding cash and cash equivalents	2,498	17,144	11,058	9,612	9,553	12,127
Property, plant and equipment, net	24,871	170,692	158,926	146,746	142,870	134,453
Total assets	35,982	246,949	218,718	200,442	185,989	189,688
Current borrowings	5,645	38,741	27,568	26,746	30,002	20,979
Current portion of obligations under finance leases	1,392	9,555	8,341	8,695	6,416	5,992
Non-current borrowings	2,284	15,676	20,719	18,758	15,884	42,066
Obligations under finance leases, excluding current portion	9,131	62,666	59,583	53,527	49,408	43,919
Total equity	11,433	78,469	62,543	54,976	49,624	44,493
Number of shares (in million)	12,267	12,267	10,088	9,818	9,818	9,818
<b>Selected Operating Data</b>						

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,				
	2018	2017	2016	2015	2014
<b>Capacity</b>					
ASK (million)	314,421	280,646	255,992	235,616	209,807
ATK (million)	42,728	38,332	34,980	32,205	28,454
Kilometers flown (thousand)	1,762,920	1,623,014	1,504,310	1,408,500	1,275,570
Hours flown (thousand)	2,773	2,567	2,375	2,238	2,026
Number of landing and take-offs	1,069,430	1,010,460	959,110	936,750	884,070
<b>Traffic</b>					
RPK (million)	259,194	230,697	206,106	189,588	166,629
RTK (million)	30,334	27,321	24,387	22,388	19,780
Passengers carried (thousand)	139,885	126,299	114,619	109,422	100,919
Cargo and mail carried (tons)	1,732,280	1,672,162	1,612,550	1,511,550	1,433,250
<b>Load Factors</b>					
Passenger load factor (RPK/ASK) (%)	82.4	82.2	80.5	80.5	79.4
Overall load factor (RTK/ATK) (%)	71.0	71.3	69.7	69.5	69.5
<b>Yield</b>					
Yield per RPK (RMB)	0.49	0.49	0.50	0.53	0.58
Yield per RFTK (RMB)	1.33	1.30	1.16	1.21	1.42
Yield per RTK (RMB)	4.55	4.46	4.50	4.78	5.27
<b>Fleet</b>					

- Boeing	460	407	372	351	311
- Airbus	354	321	304	290	276
- Others	26	26	26	26	25
Total aircraft in service at period end	840	754	702	667	612
Average daily utilization rate (hours per day)	9.73	9.79	9.53	9.6	9.6

### Exchange Rate Information

The following table sets forth certain information concerning exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies, as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate ), between Renminbi and U.S. dollars for the five most recent financial years.

Period	Renminbi per U.S. Exchange Rate (1)			
	Average(2)	Low	High	Period-end
<b>Exchange Rate</b>				
2014	6.1704	6.0402	6.2591	6.2046
2015	6.2869	6.1870	6.4896	6.4778
2016	6.6400	6.4480	6.9580	6.9430
2017	6.7569	6.4773	6.9575	6.5063
2018	6.6090	6.2649	6.9558	6.8755
October	6.9191	6.8680	6.9737	6.9737
November	6.9367	6.8894	6.9558	6.9558
December	6.8837	6.8343	6.9077	6.8755
2019				
January	6.7863	6.6958	6.8708	6.6958
February	6.7367	6.6822	6.7907	6.6912
March	6.7119	6.6916	6.7381	6.7112
April (through 19, 2019)		6.6870	6.7223	6.7032

(1) Source: The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

(2) The source of annual averages is the G.5A statistical release of the Federal Reserve Board. The source of monthly averages is the G.5 statistical release of the Federal Reserve Board.

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**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

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

Not applicable.

**D. RISK FACTORS**

**Risks Relating to our Business**

*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.*

Major Chinese airlines are wholly or majority owned by either the Chinese government or provincial or municipal governments in China. CSAH, an entity wholly-owned by the Chinese government, directly and indirectly holds and exercises the rights of ownership of 50.54 % of our equity stake. The interests of the Chinese government in us and in other Chinese airlines could conflict with the interests of the holders of the ADSs, H Shares and A Shares. The public policy considerations of the Chinese government in regulating the Chinese commercial aviation industry could also conflict with its indirect ownership interest in us. In addition, we may accept further capital injections from CSAH through non-public subscriptions, which may dilute the stakes of other holders of ADSs, H Shares and A Shares.

*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.*

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 revenues 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. Moreover, as we have substantial obligations 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. Our net foreign exchange gains were RMB1,801 million in 2017, whereas our net foreign exchange losses were RMB1,853 million in 2018, primarily due to the translation of balances of borrowings and obligations under finance leases which are denominated in 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 obligations in the future. As of December 31, 2018, our current liabilities exceeded our current assets by RMB59,615 million. We generated net cash inflow from operating activities of RMB17,732 million and RMB15,388 million for the years ended December 31, 2017 and 2018, respectively. However, our substantial indebtedness and other obligations 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 2018 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, 2018, we had committed banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB243,910 million, of which approximately RMB193,871 million was unutilized. Our directors believe that sufficient financing will be available to our Group in 2019. However there can be no assurance that such loan financing will be available on terms acceptable to our Group or at all.

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***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, provision of air ticket sales services, property management services, leasing of properties 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, we periodically place certain amount of demand deposits after independent shareholders approval with SA Finance, a PRC authorized financial institution controlled by CSAH and one of our associates. We have taken certain measures to monitor the fund flows between us and SA Finance and the placement of funds by SA Finance. Such monitoring measures may help to keep our deposits with SA Finance safe. In addition, we have received a letter of undertakings from CSAH dated March 31, 2009, in which, among other things, CSAH warranted that our deposits and loans with SA Finance were secure and that SA Finance would continue to operate in strict compliance with the relevant rules and regulations. However, the deposits may be exposed to risks associated with SA Finance's business over which we do not have control. As of December 31, 2017 and 2018, we had deposits of RMB6,095 million and RMB5,583 million, respectively, with SA Finance.

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

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. 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. If unfavorable economic conditions occur, particularly for an extended period, our business, financial condition and results of operations may be adversely affected.

Following a referendum in June 2016 in which voters in the U.K. approved an exit from the EU, the U.K. government has initiated a process to leave the EU (often referred to as Brexit) and begun negotiating the terms of the U.K.'s future relationship with the EU. Currently, the new deadline for the proposed exit is October 31, 2019. The airline industry faces substantial uncertainty regarding the impact of the exit of the U.K. from the EU. Adverse consequences such as deterioration in economic conditions, volatility in currency exchange rates, or adverse changes in regulation of the airline industry or bilateral agreements governing air travel could have a negative impact on our operations, 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. As a result, our business and results of our operations may be adversely affected by the changing economic situations and Chinese macroeconomic controls.

***We could be adversely affected by an outbreak of a disease, a similar public health threat or a large-scale natural disaster.***

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.

The outbreak of the H1N1 swine flu in March 2009 had an adverse impact on the aviation industry globally and our international routes operations in 2009 were adversely affected by the spread of the swine flu. In 2011, a number of large-scale natural disasters occurred, such as the nuclear meltdown in Japan caused by earthquakes and subsequent tsunami, the hurricane on the East Coast of the United States, the flooding in Thailand and the typhoon in the Philippines, materially and adversely affected the aviation industry.

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

We leased certain properties and buildings, which are located in Guangzhou, Haikou and other PRC cities from CSAH. However, CSAH lacks adequate documentation evidencing CSAH's rights to such land and buildings, and, as a result, 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. 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.

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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 you 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 adversely affected. CSAH has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use such land and buildings.

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

The restrictions on direct flights between Taiwan and Mainland China has been further loosened in the past few years, but there has been no further negotiations on the expansion of such arrangement between Taiwan and Mainland China since mid-2016. As of April 26, 2019, there were 80 cross-Strait direct passenger flights per week. We were the first Chinese carrier to operate non-stop flights between Mainland China and Taiwan and have benefited from the operation of such flights. However, given the cross-Strait flight arrangement is subject to the political relationship between Taiwan and Mainland China, any deterioration in such political relationship may cause the discontinuity or disruption in the flight arrangement, and lead to a material adverse impact on our results of operations.

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

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

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

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

On March 11, 2019, the CAAC issued the notice *CAAC Request Domestic Transportation Airlines to Suspend the Commercial Operation of the Boeing 737-8 Aircraft*, requiring domestic transportation airlines to suspend the commercial operation of the Boeing 737-8 aircraft. As of December 31, 2018, we owned some Boeing 737-8 aircraft and currently suspend commercial operations in accordance with the requirements of the CAAC. At this point, the effects of such suspension on us still remain unclear, and our operations may be affected.



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***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. In particular, to enhance our management of flight operations, we launched the computerized flight operations control system in May 1999. The system utilizes advanced computer and telecommunications technology to manage our flights on a centralized, real-time basis. We believe that the system will enhance the efficiency of flight schedule, increase the utilization of aircraft and improve the coordination of our aircraft maintenance and ground servicing functions. However, the computer and communications systems on which we rely could suffer 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 you 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.

***We may lose investor confidence in the reliability of our financial statements if we fail to achieve and maintain effective internal control over financial reporting, which in turn could harm our business and negatively impact the trading prices of our ADSs, H Shares or A Shares.***

The United States Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company, including us, in the United States to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting.

Since 2011, in accordance with the Basic Standard for Enterprise Internal Control jointly issued by the Ministry of Finance, China Securities Regulatory Commission ( CSRC ) and other three PRC authorities on May 22, 2008, and its application guidelines and other relevant regulations issued subsequently (collectively, PRC internal control requirements ), we have carried out a self-assessment of the effectiveness of its internal control and issued a self-assessment report annually in accordance with the PRC internal control requirements, and our auditor for our PRC GAAP financial statements (the PRC Auditor ) is required to report on the effectiveness of our internal control over financial reporting.

However, our independent registered public accounting firm or PRC Auditor may not be satisfied with our internal controls, the level at which our controls are documented, designed, operated and reviewed. Our independent registered public accounting firm or PRC Auditor may also interpret the requirements, rules and regulations differently, and reach a different conclusion regarding the effectiveness of our internal control over financial reporting. Although our management have concluded that our internal control over financial reporting as of December 31, 2018 was effective, we may discover deficiencies in the course of our future evaluation of our internal control over financial reporting and may be unable to remediate such deficiencies in a timely manner. If we fail to maintain the adequacy of our internal control over financial reporting, we may not be able to conclude that we have effective internal control over financial reporting on an ongoing basis, as required under the above mentioned rules and regulations. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively

impact the trading prices of our ADSs, H Shares or A Shares.

***We could be classified as a passive foreign investment company by the United States Internal Revenue Service and may therefore be subject to adverse tax impact.***

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 2018. However, there can be no assurance that we will not be a PFIC for the taxable year 2019 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year.

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

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

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

We are dependent on the experience and industry knowledge of our senior management team and other key employees, and we cannot assure you that we will be able to retain them. 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 exit from Sky Team Alliance may result in claims against us during the transition period, due to lack of detailed implementation rules regarding member passenger s rights and interests .***

During the reporting period, given the requirements from our own development strategy and the new trend of cooperation model in the global air transport industry, we decided not to renew the Sky Team Alliance Agreement from January 1, 2019. We and Sky Team Alliance will continue to work closely during the transition period (January 1, 2019 - December 31, 2019) to ensure a smooth transition for passengers and partners. At this point, we and Sky Team Alliance have reached some agreements on the member passenger s rights and interests during the transition period. However, due to lack of detailed implementation rules regarding member passenger s rights and interests, claims may arise against us during the transition period.

***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 polices, which encompass substantially all aspects of the Chinese commercial aviation industry, such as the approval of route allocation, the administration of certain airport operations and air traffic control. As a result, we may face significant constraints on our flexibility and ability to conduct our business or maximize our profitability.

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

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

Domestic price for jet fuel has experienced fluctuations in the past few years and may continue to fluctuate in the future due to various factors including changes of fuel surcharge. In 2018, our jet fuel cost for 2018 accounted for 56.32% of our flight operation expenses. Therefore, any foregoing fluctuation in the fuel price may affect our financial performance due to our sensitivity to fuel prices. For more information on the jet fuel prices, please see Item 4, Information on the Company - Business Overview - Jet Fuel section below for further discussion.

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In 2018, a reasonable possible increase or decrease of 10% in average jet fuel price with volume of fuel consumed and all other variables held constant, would have increased or decreased our annual fuel costs by approximately RMB4,292 million. Accordingly, even if the jet fuel supply remains stable, increases in jet fuel prices will nevertheless adversely impact our financial results.

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

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

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

The aviation industry is characterized by annual high and low travel seasons. Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. In particular, our airline revenue is generally higher in the second half of the year than in the first half of the year due to the greater demand for air travel during the summer months. 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 Chinese commercial aviation industry.***

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

aimed at improving the safety record of the industry. The ability of us 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.

***We face increasingly intense competition in both domestic and international market, as well as from alternative means of transportation.***

Competition has become increasingly intense in recent years in domestic market, due to relaxation of certain regulations by the CAAC, increase in the capacity, routes and flights of Chinese airlines, etc. Such intense competition has led to widespread price-cutting practices, which do not comply with applicable regulations in all respects . Until CAAC finalizes and strictly enforces the interpretation of relevant regulations limiting such price-cutting, discounted tickets from competitors will continue to have an adverse effect on our sales.

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We face varying degrees of competition on regional routes from certain Chinese airlines and Cathay Pacific, Cathay Dragon 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 name recognition than us. In addition, the public's perception of the safety and service records of Chinese airlines could adversely affect our ability to compete against our regional and international competitors. 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.

Furthermore, for short-distance transportation, airplanes, trains and buses are alternatives to each other. Given the recent development of high-speed trains (as discussed below), the construction of nationwide high-speed railway network and the improvement of inter-city expressway network, the commercial aviation sector as a whole faces increasingly competition from alternative means of transportation aforementioned.

### ***We expect to face substantial competition from the rapid development of the Chinese rail network.***

The PRC government is aggressively expanding its high-speed rail network. The mileage of new railway lines put into operation in 2018 reached 4,600 kilometers. In 2018, the Harbin-Jiamusi Rapid Railway, Jianmeng-Zhanjiang, and Kunming Chuxiong Dali Intercity Railway commenced operation. As of December 31, 2018, China's railway traffic mileage reached 131,000 kilometers, among which 29,000 kilometers are covered by high-speed railway, accounting for more than 60% of the world's total high-speed railway traffic mileage. According to the latest development goal of the China Railway, China's railway traffic mileage will reach 175,000 kilometers by 2025, among which 38,000 kilometers are covered by high-speed railway. The operating results of our air routes, which overlap with the high-speed railway corridors (especially air routes with a distance of less than 800 kilometers), will be affected in the future.

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

The current Chinese government policies limit foreign ownership of Chinese airlines. Under these policies, non-PRC, Hong Kong, Macau, Taiwan residents can only hold up to 49% of equity interest in a Chinese airline. As of December 31, 2018, we estimate that 29.89% of our total outstanding ordinary shares were held by non-PRC, Hong Kong, Macau, Taiwan residents. According to The Provisions on Domestic Investment in Civil Aviation Industry, effective on January 19, 2018, Chinese government has loosen up restrictions on state ownership of our total outstanding ordinary shares, which allows the percentage of state-owned shares to be under 50%. However, for so long as the limitation on foreign ownership is in force, we will have limited access to funding in the international equity capital markets.

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

Starting on January 1, 2012, aviation sector has been included in the European Emissions Trading Scheme (ETS), EU's mandatory cap-and-trade system for reduction of greenhouse gas emissions. Airline operators in the EU will receive tradable emission permits (aviation allowances) covering a certain level of their CO<sub>2</sub> 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 CO<sub>2</sub> emissions allowances from other greener industries. Pursuant to this policy, the 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, the CAAC issued instructions to various airlines announcing that without approval from the relevant government authorities, the major airlines are prohibited from joining the ETS and the transport airlines are also prohibited from raising the freight price or increasing fee items by adducing this reason. On November 12, 2012, EU announced to temporarily suspend the implementation of the ETS in the aviation sector in 2013 in order to forge a positive negotiation environment for all parties. In 2016, our Company had finished 2015 compliance cycle and in 2017, our Company had finished 2016 compliance cycle. In March 2018, the CAAC issued another notification on the ETS. The notification provided that the 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 2017 and 2018. By the end of reporting period, our Company has finished 2017 compliance cycle and now is performing 2018 compliance cycle. On 2019-2020 compliance cycle, our Company will be subject to the requirements of relevant PRC laws and the ETS. There can be no assurance that the new implementation proposal will not have negative impact on our financial condition and results of operations.



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

While we have not entered into any fuel hedging transactions since the fourth quarter of 2008, we may in the future consider to 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. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, while we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

## **Risks Relating to the PRC**

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

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

We have significant exposure to foreign currency risk as substantially all of our obligations under leases, certain bank and other loans and operating lease commitment 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.

***Our operations are subject to immature development of legal system in China. Lack of uniform interpretation and effective enforcement of laws and regulations may cause significant uncertainties to our operations.***

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

***The 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). 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.

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

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

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

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

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

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

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

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

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

Economic conditions in China are sensitive to global economic conditions. The global financial markets have experienced significant disruptions in the past, including the recent international trade disputes and tariff actions announced by the United States, the PRC and certain other countries. The U.S. administration has imposed significant amount of tariffs on Chinese goods, and the PRC government has imposed tariffs on certain goods manufactured in the United States. There is no assurance that the list of goods impacted by additional tariffs will not be expanded or the tariffs will not be increased materially. It is difficult to predict how PRC or U.S. government policy, in particular, the outbreak of a trade war between the PRC and the United States and the imposition in 2018 of additional tariffs on bilateral imports, may continue to impact the PRC. 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. Demand for air travel as well as cargo and mail volume may also be impacted.

## **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 8612 4462 and our website is [www.csair.com](http://www.csair.com).

In July 1997, we issued 1,174,178,000 H Shares, par value RMB1.00 per share, and completed the listing of our H Shares on the Hong Kong Stock Exchange and the ADSs representing our H shares on the New York Stock Exchange.

On March 13, 2003, we obtained an approval certificate from the Ministry of Commerce to change to a permanent limited company with foreign investments, and on October 17, 2003, we obtained a business license for our new status, as a permanent limited company with foreign investments issued by the State Administration of Industry and Commerce of the People's Republic of China.

In July 2003, we issued 1,000,000,000 A Shares, par value RMB1.00 per share, and completed the listing of our A shares on the Shanghai Stock Exchange.

Pursuant to a sale and purchase agreement dated November 12, 2004 between our Company, CSAH, China Northern Airlines (CNA) and Xinjiang Airlines (XJA), which was approved by our shareholders in an extraordinary general meeting held on December 31, 2004, we acquired the airline operations and certain related assets of CNA and XJA with effect from December 31, 2004 at a total consideration of RMB1,959 million.

On May 30, 2007, we, together with an independent third party, established Chongqing Airlines Company Limited (Chongqing Airlines). As of December 31, 2012, four aircraft were transferred to Chongqing Airlines by us as a capital contribution. We own a total of 60% equity interest in Chongqing Airlines.

On August 14, 2007, we acquired a 51% equity interest in Nan Lung International Freight Limited beneficially owned by and registered in the name of Nan Lung Travel & Express (Hong Kong) Limited, and a 100% equity interest in

China Southern Airlines Group Air Catering Company Limited, both a wholly-owned subsidiary of CSAH, for a total consideration of RMB112 million.

In December 2008, we acquired a 26% equity interest in China Southern West Australian Flying College Pty Ltd. ( Flying College ) from CSAH, and Flying College became a 91% owned subsidiary of our Company.

In June 2009, we acquired a 50% equity interest in Beijing Southern Airlines Ground Services Company Limited ( Beijing Ground Service ) from the other shareholder, and Beijing Ground Service became a wholly-owned subsidiary of our Company.

On September 28, 2009, we entered into an agreement with CSAH to sell our 50% equity interest in MTU Maintenance Zhuhai Co., Ltd ( Zhuhai MTU ), a jointly controlled entity of our Company, to CSAH at a consideration of RMB 1,607,850,000. The transfer was completed in February 2010.

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On June 2, 2010, a third party company injected capital to Flying College, which diluted our interest in Flying College from 91% to 48.12%. Flying College became a jointly controlled entity of our Company since then. The retained non-controlling equity interest in Flying College is re-measured to the fair value at the date when control was lost and a gain on deemed disposal of a subsidiary of RMB17 million was recorded in 2010.

In December 2010, we entered into an agreement with Xiamen Jianfa Group Co., Ltd. and Hebei Aviation Investment Group Corporation Limited ( Hebei Investment ), pursuant to which Hebei Investment agreed to inject a cash capital of RMB1,460 million into Xiamen Airlines Company Limited ( Xiamen Airlines ). In March 2011, the capital injection was received in full and our equity interest in Xiamen Airlines was diluted from 60% to 51%. Xiamen Airlines remains a subsidiary of our Company.

On June 29, 2012, Xiamen Airlines, a subsidiary of our Company and Southern Airlines Culture and Media Co., Ltd. ( SACM ) entered into an agreement, pursuant to which Xiamen Airlines agreed to sell and SACM agreed to purchase a 51% equity interest in Xiamen Airlines Media Co., Ltd.( XAMC ), at a consideration of approximately RMB43.12 million. Immediate prior to the transaction, XAMC was wholly owned by Xiamen Airlines and primarily engaged in providing advertising, corporate branding, publicity and exhibition services and was responsible for the overall brand building and publicity of Xiamen Airlines.

On September 24, 2012, we entered into a joint venture agreement with Henan Civil Aviation Development and Investment Co., Ltd. ( Henan Aviation Investment ) for the establishment of China Southern Airlines Henan Airlines Company Limited ( Henan Airlines ), a joint venture company with a total registered capital of RMB6 billion, which is owned as to 60% and 40% by us and Henan Aviation Investment, respectively. On September 28, 2013, Henan Airlines was established.

On October 13, 2014, Xiamen Airlines and Hebei Airlines Investment Group Company Limited (the Hebei Airlines Investment ) entered into an agreement, pursuant to which Hebei Airlines Investment agreed to sell and Xiamen Airlines agreed to purchase a 95.4% equity interest in Hebei Airlines at the consideration of RMB680 million. The acquisition was completed in December 2014.

On July 14, 2015, we and Xiamen Jianfa entered into an agreement, pursuant to which Xiamen Jianfa agreed to sell and we agreed to purchase a 4% equity interest in Xiamen Airlines at the consideration of RMB586,666,670. The acquisition was completed in December 2015.

On February 2, 2016, we and CSAH entered into an agreement, pursuant to which CSAH agreed to sell and we agreed to purchase a 100% equity interest in Southern Airlines (Group) Import And Export Trading Co. Ltd. at the consideration of RMB400,570,400. The acquisition was completed in August 2016.

On March 27, 2017, according to the authorization under the general mandate approved by the 2015 annual general meeting and as approved by the Board, we entered into a share subscription agreement with American Airlines, pursuant to which American Airlines agreed to subscribe for 270,606,272 new H Shares of us, at the consideration of HK\$1,553.28 million, representing a subscription price of HK\$5.74 per share. The closing price of the H Shares as at the date of the share subscription agreement was HK\$5.49. The subscription was completed on August 10, 2017.

On May 18, 2017, we entered into a joint venture agreement regarding Guangzhou Nanland Air Catering Company Limited with Hong Kong Sharpland Investments Ltd., Servair S.A and Hong Kong Ginkgo Group Company Limited, pursuant to which we contributed RMB76,206,300 cash and the equity interests in a subsidiary with a valuation of RMB513,727,300 into Guangzhou Nanland Air Catering Co., Ltd.. After the capital contribution, we held 70.5% equity interest in Guangzhou Nanland Air Catering Co., Ltd..

On July 10, 2017, we entered into a share transfer agreement with CAE International Holdings Limited for an acquisition of 49% equity interest in Zhuhai Xiang Yi Aviation Technology Company Limited held by CAE with an amount of US\$99.52 million (equivalent to approximately RMB678 million). After the completion of this acquisition, Zhuhai Xiang Yi Aviation Technology Company Limited became our wholly-owned subsidiary.

On October 13, 2017, Xiamen Airlines entered into a share transfer agreement with SACM for an acquisition of 51% equity interest in Xiamen Airlines Media Co., Ltd. held by SACM with an amount of RMB47 million. After the completion of this acquisition, Xiamen Airlines Media Co., Ltd. became a wholly-owned subsidiary of Xiamen Airlines.



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On June 29, 2018, we established a wholly-owned subsidiary, Xiongan Airlines in Xiong an New Area. We intend to make a total contribution of RMB10 billion by stages, among which RMB2.5 billion will be made in cash, and RMB7.5 billion will be made in kind. This investment is conducive to promoting the development of the Company's main aviation industry and enhancing our competitiveness in the aviation market.

On September 29, 2018, we completed the non-public issuance of A shares, and CSAH participated in the non-public issuance of A shares subscription with its 50.00% equity interest in Zhuhai MTU and part of cash. The appraisal value of 50% equity interest in Zhuhai MTU assessed and filed by the SASAC is the benchmark, and the asset consideration is determined to be RMB1,741,080,000 after the adjustment of 2016 annual dividend of Zhuhai MTU. As of the end of the reporting period, transfer of all 50.00% of equity interest of Zhuhai MTU and the procedures and the registration with Administration for Industry and Commerce had been completed, and we hold 50.00% of equity interest in Zhuhai MTU.

On September 11, 2018, we issued 600,925,925 H shares to Nan Lung with the proceeds of approximately HK\$3.626 billion. On September 27, 2018, we, by way of non-public issuance, issued 1,578,073,089 A shares to seven investors including CSAH. The proceeds is approximately RMB9.5 billion. After the completion of our non-public issuance, our total share capital increased to 12,267,172,286 shares.

## **Aircraft Acquisitions**

Pursuant to an A320 series aircraft purchase agreement dated January 20, 2010 between our Company and Airbus SNC, we will acquire 20 Airbus 320 series aircraft from Airbus SNC. According to the information provided by Airbus SNC, the catalogue price of an Airbus 320 aircraft, including airframe and engines, is around US\$76.9 million. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The Airbus aircraft were delivered in stages to our Company during the period from 2011 to 2013.

On September 30, 2010, Xiamen Airlines entered into a supplemental agreement with Boeing to purchase additional 10 Boeing B737 series aircraft. The aggregate catalogue price for those aircraft, including airframe and engines, is around US\$699 million. According to the information provided by Boeing, the aggregate consideration for the acquisition was partly paid in cash by Xiamen Airlines, and partly through financing arrangements with banking institutions. The Boeing aircraft were delivered in stages to Xiamen Airlines during the period from 2015 to October 2016.

On November 4, 2010, we entered into an A320 series aircraft purchase agreement and an A330-300 aircraft purchase agreement with Airbus S.A.S. to purchase 30 Airbus A320 series aircraft and six Airbus A330 series aircraft. According to the information provided by Airbus S.A.S., the catalogue price of six Airbus A330 series aircraft and 30 Airbus A320 series aircraft, including airframe and engines, is US\$1.205 billion and US\$2.575 billion, respectively. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The six Airbus A330 aircraft were delivered in stages to our Company during the period from 2013 to 2014 and the 30 Airbus A320 series aircraft were delivered in stages to our Company during the period from 2012 to 2015.

On May 31, 2011, we entered into an aircraft acquisition agreement with Boeing to purchase six Boeing B777F freighters. According to the information provided by Boeing, the catalogue price of six Boeing B777F aircraft, including airframe and engines, is US\$1,584 million. The aggregate consideration for the Acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The six Boeing B777F freighters were delivered in stages to us during the period from 2013 to 2015.

On May 9, 2011, Xiamen Airlines entered into an aircraft acquisition agreement to purchase six Boeing B787 series aircraft. According to the information provided by Boeing, the aggregate catalogue price, including airframe and engines, for the six Boeing B787 series aircraft is US\$1,098 million. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The Boeing aircraft were delivered in stages to Xiamen Airlines during the period from 2014 to 2015.

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On February 28, 2012, we entered into an agreement with the Boeing Company to purchase 10 Boeing 777-300ER aircraft. According to the information provided by Boeing, the catalogue price of one Boeing B777-300ER aircraft, including airframe and engines, is around US\$298 million. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The Boeing aircraft were delivered in stages to our Company during the period from 2014 to 2016.

On August 3, 2012, Xiamen Airlines entered into an agreement with Boeing to purchase 40 Boeing B737 series aircraft from Boeing. The aggregate catalogue price of the 40 Boeing B737 series aircraft is US\$3.36 billion. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The 27 Boeing737 series aircraft were delivered in stages to Xiamen Airlines during the period from 2016 to 2017 and the 13 Boeing737 series aircraft will be delivered in stages to Xiamen Airlines during the period from 2018 to 2019.

On December 5, 2012, we entered into the Airbus aircraft acquisition agreement with Airbus S.A.S. to purchase 10 Airbus A330-300 aircraft. The catalogue price of one Airbus A330-300 aircraft is US\$188 million. The aggregate consideration for the acquisition was partly paid in cash and partly through financing arrangements with banking institutions. The Airbus aircraft were delivered in stages to our Company during the period from 2014 to 2016.

On May 16, 2014, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 30 Airbus A320 series aircraft and 50 A320 NEO series aircraft. The catalogue price of one Airbus A320 series aircraft and one A320 NEO series aircraft differs, ranging from US\$85.8 million to US\$110.1 million and US\$94.4 million to US\$120.5 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal resources of our Company and partly through commercial loans by commercial banks. The 30 Airbus320 aircraft were delivered in stages to our Company during the period from 2016 to 2017 and the 50 Airbus320 NEO aircraft will be delivered in stages to our Company during the period from 2018 to 2020.

On December 17, 2015, we entered into the aircraft acquisition agreement with Boeing to purchase 30 B737NG series aircraft and 50 B737 MAX series aircraft. The catalogue price of each B737NG series aircraft and B737 MAX series aircraft is about US\$81.2 million and US\$96.1 million, respectively. The aggregate consideration for the acquisition will be funded partly payable in cash and partly through financing arrangements with banking institutions. The 30 Boeing737NG aircraft were delivered in stages to our Company in 2017 and the 50 Boeing737 MAX aircraft will be delivered in stages to our Company during the period from 2018 to 2021.

On December 23, 2015, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 10 Airbus A330-300 series aircraft. The catalogue price of one Airbus A330-300 series aircraft is about US\$227.4 million. The aggregate consideration for the acquisition will be funded partly payable in cash and partly through financing arrangements with banking institutions. The Airbus aircraft will be delivered in stages to our Company during the period from 2017 to 2019. The 3 Airbus A330-300 aircraft were delivered in stages to our Company in 2017 and the 7 Airbus A330-300 aircraft will be delivered in stages to our Company during the period from 2018 to 2019.

On April 26, 2016, Xiamen Airlines entered into the aircraft acquisition agreement with Boeing to purchase 10 B737-800 series aircraft. The catalogue price of one B737-800 series aircraft is about US\$85.06 million. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The four Boeing787-800 series aircraft were delivered in stages to Xiamen Airlines g in 2017 and the six Boeing787-800 series aircraft were delivered in stages to Xiamen Airlines in 2018.

On July 27, 2016, Xiamen Airlines entered into the aircraft acquisition agreement with Boeing to purchase six B787-9 series aircraft. The catalogue price of one is about US\$230 million. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing 787-9 series aircraft were delivered in stages to Xiamen Airlines during the period from 2016 to 2018.

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

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On April 26, 2017, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 20 A350-900 series aircraft. The catalogue price of one A350 series aircraft is about US\$299 million. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Airbus aircraft will be delivered in stages to us during the period from 2019 to 2022.

On October 20, 2017, we entered into the aircraft acquisition agreement with Boeing to purchase 8 B777-300ER and 30 B737-8 series aircraft. The catalogue price of each B777-300ER series aircraft and B737-8 series aircraft is about US\$318 million and US\$104 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing aircraft will be delivered in stages to our Company during the period from 2019 to 2020. On February 28, 2019, we entered into the supplemental Boeing aircraft acquisition agreement with Boeing to amend the terms of the aforesaid aircraft acquisition agreement to change the 2 B777-300ER aircraft originally agreed to be acquired by the Company to 2 B777F aircraft.

On March 21, 2018, Xiamen Airlines entered into the Boeing Aircraft Acquisition 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 about US\$104 million and US\$116 million, respectively. The aggregate consideration for the acquisition will be funded partly by internal sources of our Company and partly through commercial loans by commercial banks. The Boeing aircraft will be delivered in stages to Xiamen Airlines during the period from 2019 to 2022.

**Capital Expenditure**

We expended RMB37,210 million, RMB31,129 million and RMB29,454 million in capital expenditures in 2018, 2017 and 2016, respectively. Of such capital expenditures in 2018, RMB13,290 million was financed by capital leases, RMB22,499 million was financed by bank borrowings while the remaining RMB1,421 million was financed by internal resources. The capital expenditures were primarily incurred on the additional investments in aircraft and flight equipment under our fleet expansion plans and, to a small extent, additional investments in other facilities and buildings for operations. As of December 31, 2018, we had total capital commitments for aircraft, engines and related equipment of approximately RMB82,199 million.

**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 one of the 55 large-scale enterprises designated by the Chinese government to play a leading role in their respective industries.

CSAH was restructured in 1994 and 1995 in anticipation of our initial public offering. The restructuring was effective through the establishment of our Company and the execution of the De-merger Agreement on March 25, 1995 by and between CSAH and our Company. Upon the restructuring, our Company assumed substantially the entire airline and airline-related businesses, assets and liabilities of CSAH, and CSAH retained its non-airline-related businesses, assets and liabilities. All interests, rights, duties and obligations of CSAH, whenever created or accrued, were divided between our Company and CSAH based on the businesses, assets and liabilities assumed by each of them under the De-merger Agreement. Under the De-merger Agreement, CSAH agreed not to conduct, participate or hold any interest in, either directly or indirectly, any business, activity or entity in or outside China that competes or is likely to

compete with the commercial interests of our Group, 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 associates. Under the De-merger Agreement, CSAH and our Company also agreed to indemnify each other against any losses, claims, damage, debts or expenses arising out of or in connection with the restructuring. As of the date of this Annual Report, no indemnity has been provided by either CSAH or us.

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

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

## **Share Reform Scheme**

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

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

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

## **Non-Public Subscriptions**

On December 10, 2008, we entered into an A Shares subscription agreement with CSAH, pursuant to which CSAH conditionally agreed to subscribe and we conditionally agreed to allot and issue 721,150,000 new A Shares for a consideration of RMB2,278,834,000, equivalent to the subscription price of RMB3.16 per new A Share. Separately and on the same date, our Company and Nan Lung (a wholly-owned subsidiary of CSAH) entered into an H Shares subscription agreement, pursuant to which Nan Lung conditionally agreed to subscribe and our Company conditionally agreed to allot and issue 721,150,000 new H Shares for a consideration of RMB721,150,000, equivalent to the subscription price of RMB1.00 (equivalent to approximately HK\$1.13) per new H Share. The subscription agreements were approved in the extraordinary general meeting and the respective class meetings of shareholders of A and H Shares on February 26, 2009. On June 3, 2009, we received the formal approval from CSRC for the proposed non-public issuance of H Shares. On August 14, 2009, we received the formal approval from CSRC for the proposed non-public issuance of A Shares. The issuance of 721,150,000 new A Shares to CSAH and 721,150,000 new H Shares to Nan Lung were completed on August 20, 2009 and August 21, 2009, respectively.

On March 8, 2010, our board approved the placement of up to 1,766,780,000 new A shares to not more than 10 specific investors including CSAH and the placement of not more than 312,500,000 new H shares to Nan Lung, a wholly-owned subsidiary of CSAH. On the same date, we entered into the A shares subscription agreement with CSAH, pursuant to which CSAH conditionally agreed to subscribe and our Company conditionally agreed to allot and issue new A shares of not more than 132,510,000 at the subscription price of not less than RMB5.66 per A share. In addition, our Company and Nan Lung entered into the H shares subscription agreement, pursuant to which Nan Lung conditionally agreed to subscribe and our Company conditionally agreed to allot and issue new H shares of not more than 312,500,000 at the subscription price of not less than HK\$2.73 per H share. The above placement and subscription agreements were approved in the extraordinary general meeting and the respective class meetings of shareholders of A and H shares on April 30, 2010. On September 8, 2010, we received the formal approval from CSRC for the proposed non-public issuance of H Shares. On September 15, 2010, we received the formal approval from CSRC for the proposed non-public issuance of A Shares. In November 2010, we completed the placements of 1,501,500,000 new A shares and 312,500,000 H shares, among which 123,900,000 new A shares were issued to

CSAH at the subscription price of RMB6.66 per share, and 312,500,000 H shares were issued to Nan Lung at the subscription price of HK\$2.73 per share.

On June 11, 2012, we entered into an A Shares subscription agreement with CSAH, pursuant to which CSAH conditionally agreed to subscribe and we conditionally agreed to allot and issue up to 487,804,878 A Shares for a consideration of not more than RMB2 billion, equivalent to the subscription price of approximately RMB4.10 per new A Share. The subscription agreement was approved in the extraordinary general meeting on August 10, 2012, which remained effective for a period of twelve months from the date of approval of the resolution at the general meeting. As of August 9, 2013, the relevant work regarding the 2012 Non-public A Share Issuance of our Company was not completed. The proposal for the 2012 Non-public A Share Issuance of our Company and A Shares subscription agreement therefore lapsed automatically due to the expiration of the resolution passed at the general meeting.



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On March 27, 2017, we entered into an H Shares subscription agreement as well as a framework agreement with American Airlines, Inc. ( "American Airlines" ), pursuant to which American Airlines conditionally agreed to subscribe and we conditionally agreed to issue 270,606,272 H Shares for a consideration of HK\$1,553.28 million, equivalent to the subscription price of HK\$5.74 per new H Share. In July 2017, we received the formal approval from CSRC for the proposed non-public issuance of H Shares. The issuance of 270,606,272 new H Shares American Airlines was completed on August 10, 2017. Key principles of the above mentioned framework agreement include: (i) except for certain permitted transfers, American Airlines shall not dispose of any of the subscription shares for a period of three years (the "Lock-up Period" ) following the purchase of the subscription shares unless any Lock-up termination event occurs; (ii) after the expiry of Lock-up Period, American Airlines shall have the right to dispose of the subscription shares, and we shall have a right of first refusal to purchase such subscription shares; after the Lock-Up Period, American Airlines shall notify us of its first disposal of subscription shares within three business days following the consummation of such sale, and shall announce any subsequent disposals as and if required by applicable law; (iii) whilst the Framework Agreement is in effect, in the event we or any of our subsidiaries intends to sell or issue, or enter into any agreement to sell or issue, equity or equity linked securities or any such subsidiary to any airline that is then a member of or is participating in an airline alliance as agreed by American Airlines and us (other than a PRC Mainland airline company), or any affiliate of any such airline, American Airlines shall have a right of first refusal to purchase such securities; and (iv) subject to applicable laws (including the Hong Kong Listing Rules), our Board will appoint one person to serve as an observer to our Board at the request of American Airlines (the "Board Observer" ), and the Board Observer is allowed to attend all meetings of our Board whether in-person or by telephone or video-conference but will not be entitled to vote as a director; the Board Observer will be subject to the same non-disclosure, insider trading restrictions and conflicts of interest policies and procedures as and to the extent the same apply to the members of our Board from time to time, and the Board Observer will no longer serve as the observer to our Board if any Board Observer termination event occurs.

On June 26, 2017, our board proposed to put forward to the extraordinary general meeting and the class meetings to approve and authorize our board (i) to issue not more than 1,800,000,000 new A Shares to not more than 10 specific investors including CSAH, and as part of such A Share issuance, to enter into the A Share subscription agreement with CSAH, pursuant to which CSAH subscribes for no less than 31% of such new A Shares, the consideration of which shall be satisfied by transfer 50% of the Zhuhai MTU shares to our Company and cash; and (ii) to issue no more than 590,000,000 new H Shares to Nan Lung at the subscription price of HK\$6.27 per H Share (subject to adjustments) and to enter into the H Share subscription agreement with Nan Lung. The total funds to be raised from the aforesaid A Share issuance and the H Share issuance will be not more than RMB12,737.00 million, which will be used for procurement of aircraft, the project for selection and installation of lightweight seats for A320 series aircraft and the supplemental to the general working capital. The aforesaid A Share issuance and the H Share issuance are inter-conditional upon each other. On September 19, 2017, our board considered and approved that (i) our Company to enter into the supplemental agreement I to the A Share subscription agreement with CSAH, pursuant to which 50% of the Zhuhai MTU shares as partial consideration payable by CSAH for its subscription of new A Shares under the A Share subscription agreement has been adjusted to RMB1,741.08 million according to the final assessment results as filed and approved by the SASAC; and (ii) the subscription price and the number of H Shares to be issued pursuant to the H Share subscription agreement shall be adjusted to HK\$6.156 and not more than 600,925,925 new H Shares, respectively due to the implementation of the 2016 dividend distribution plan of our Company. On November 8, 2017, the aforesaid A Share issuance and the H Share issuance were approved in the extraordinary general meeting and the respective class meetings of shareholders of A and H shares on November 8, 2017. We have received the approval from CSRC for the aforesaid H Share issuance in March 2018, and the aforesaid A Share issuance in August 2018.

On August 30, 2018, as our 2017 profit distribution plan was completed, the issue price of the H Shares was adjusted to HK\$6.034 per H Share.

On September 11, 2018, we issued 600,925,925 H shares in to Nan Lung at the issue price of HKD6.034 per share.

On September 27, 2018, we published the announcement of results of non-public issuance of A shares by the Company and change in shareholdings . We, in accordance with the issuance proposal, issued 1,578,073,089 domestically listed RMB ordinary shares (A shares) through non-public issuance, at the issue price of RMB6.02 per share, to a total of seven investors, including CSAH, China National Aviation Fuel Group Corporation, Spring Airlines Co., Ltd., Guo Xin Central Enterprise Operation (Guangzhou) Investment Fund (LLP), China Structural Reform Fund Co., Ltd., Hotland Innovation Asset Management Co., Ltd. and China Life Asset Management Company Limited, with a total proceeds of RMB9,499,999,995.78.

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**Table of Contents****Issuance of Corporate Bonds**

On November 13, 2015, we were approved by the CSRC to publicly issue corporate bonds (the Corporate Bonds ) in the amount of not more than RMB19 billion to qualified investors. The issuance of the Corporate Bonds shall be conducted 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. On November 20, 2015, we issued the first tranche of 2015 corporate bonds of RMB3,000 million with an interest rate of 3.63% per annum due 2020. On March 3, 2016, we issued the first tranche of 2016 corporate bonds of RMB5,000 million with an interest rate of 2.97% per annum due 2019. On May 25, 2016, we issued the second tranche of 2016 corporate bonds of RMB5,000 million with an interest rate of 3.12% per annum due 2021. On November 26, 2018, we issued the first tranche of 2018 corporate bonds of RMB2,000 million with an interest rate of 3.92% per annum due 2021.

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

**B. BUSINESS OVERVIEW****General**

We provide commercial airline services throughout Mainland China, Hong Kong, Macau and Taiwan regions, Southeast Asia and other parts of the world. Based on the statistics of the CAAC, we are one of the largest Chinese airlines and, as of December 31, 2018, ranked the first in terms of number of passengers carried, number of scheduled flights per week, number of hours flown, number of routes and size of aircraft fleet. During the three years ended December 31, 2018, our RPKs increased at a compound annual growth rate of 8.71 % from 206,106 million in 2016 to 230,697 million in 2017 and 259,194 million in 2018 while its capacity, measured in terms of ASKs, increased at a compound annual growth rate of 8.65%, from 255,992 million in 2016 to 280,646 million in 2017 and 314,421 million in 2018. In 2018, our Group carried 139.89 million passengers and had passenger revenue of RMB128,038 million (approximately US\$18,656 million).

We conduct a portion of our airline operations through our airline subsidiaries, namely Xiamen Airlines, Shantou Airlines Company Limited ( Shantou Airlines ), Zhuhai Airlines Company Limited ( Zhuhai Airlines ), Guizhou Airlines Company Limited ( Guizhou Airlines ), Chongqing Airlines Company Limited ( Chongqing Airlines ) and China Southern Airlines Henan Airlines Company Limited ( Henan Airlines ), (collectively, the Airline Subsidiaries ). In 2018, the Airline Subsidiaries carried 54.58 million passengers and had passenger revenue of RMB41,521 million (approximately US\$6,050 million) and accounted for 39.02% and 32.43% of our passengers carried and passenger revenue, respectively.

We also provide air cargo and mail services. Our cargo and mail revenue increased by 10.39% to RMB10,026 million (approximately US\$1,461 million) in 2018 as compared with that of 2017. Our airline operations are fully integrated with our airline-related businesses, including aircraft maintenance, ground services and air catering operations.

Our operations primarily focus on the domestic market. In addition, we also operate regional routes and international flights. As of December 31, 2018, we operated 950 routes, of which 772 were domestic, 154 were international and 24

were regional. We operate the most extensive domestic route network among all Chinese airlines. Our route network covers commercial centers and rapidly developing economic regions in Mainland China. Our regional operations include flights between destinations in Mainland China, Hong Kong, Macau and Taiwan. Our international operations include scheduled services to cities in Australia, Azerbaijan, Bangladesh, Cambodia, Canada, Dutch, France, German, India, Indonesia, Iran, Italy, Japan, Kenya, Kazakhstan, Kyrgyzstan, Malaysia, Maldives, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Tajikistan, Thailand, Turkmenistan, United Arab Emirates (UAE), United Kingdom, United States of American (USA), Uzbekistan and Vietnam, Mexico, Laos, and Sri Lanka.

We focused on building the Guangzhou-Beijing Dual Hub strategic layout and acceleration of all the preparation work for stationing in Beijing's new Airport. On October 10, 2017, we held the opening ceremony of Beijing's new airport's base project. During 2018, we continued to optimize the Guangzhou hub and completed the transfer operation to T2 terminal of Guangzhou Baiyun Airport. Meanwhile, we were fully committed to building the Beijing hub, and launched Beijing-Istanbul and other new routes, and Xiongan Airlines was approved for establishment. We built the base project of Beijing Daxing International Airport with high standards, and actively prepared for the operation and studied the transfer plan in advance. This new base will be completed simultaneously with Beijing's new airport. Through Beijing's new airport base, we will spare no effort to make Beijing core hub. By 2025, it is estimated to station 250 aircraft to build the network covering international and domestic destinations.

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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.

As of December 31, 2018, we had a fleet of 840 aircraft, consisting primarily of Boeing 737, 747, 777, 787 series, Airbus 320, 330, 380 series, etc. The average age of our registered aircraft was 6.5 years as of December 31, 2018.

**Route Network****Overview**

We operate the most extensive route network among all Chinese airlines. As of December 31, 2018, we operated 950 routes consisting of 772 domestic routes, 24 regional routes and 154 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 acquisition of domestic, regional and international routes is subject to approval of the CAAC, and the acquisition of regional and international routes is also subject to agreements between the Chinese government and the government of the Hong Kong SAR, the government of the Macau SAR, the government of Taiwan province and the government of the proposed foreign destination.

In order to expand our international route network, we have entered into code-sharing agreements with several international airlines, including American Airlines, INC., Japan Airlines International Company Ltd., British Airways PLC, Qantas Airways Limited., Aeroflot Russian Airlines, Air France, AlitaliaLinee Aeree Italiane, China Airlines, China Eastern Airlines, CSA Czech Airlines, Delta Air Lines, Kenya Airways, KLM Royal Dutch Airline, Korean Air, Mandarin Airlines, PT Garuda Indonesia (Persero) Tbk., Saudi Arabian Airlines, Vietnam Airlines, Xiamen Airlines., Asiana Airlines, Chongqing Airlines Company Limited, Etihad Airways PJSC, Pakistan International Airlines, Sichuan Airlines Co., Ltd., 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 CZ code. The code-sharing agreements help increase the number of our international sales outlets. At present, we share codes with 31 international and domestic airlines in 790 routes, including trunk routes and beyond routes, and serve more than 253 destinations in more than 41 countries. This further enlarged our sales channels and flight route network.

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 arrived (tons)		Total traffic (tons kilometres)	
	Total (in millions)	Increase (decrease) over previous	Total (in millions)	Increase (decrease) over previous	Total (in millions)	Increase (decrease) over previous

	year (%)			year (%)		year (%)
				(%)		
2016	114.62	4.8	1,613	6.7	24,387	8.9
2017	126.30	10.2	1,672	3.7	27,321	12.03
2018	139.89	10.76	1,732	3.6	30,334	11.03

**Route Bases**

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

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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 and Xinjiang, and serves all four centrally-administered municipalities in China, namely, Beijing, Shanghai, Tianjin, and Chongqing. In 2018, our most profitable domestic routes were: Beijing-Shenzhen, Shanghai-Shenzhen, Guangzhou-Shanghai, Guangzhou-Haikou, Beijing-Guangzhou, Beijing-Changsha, Beijing-Changchun, Beijing-Dalian, Beijing-Guiyang, and Guangzhou-Hangzhou.

### ***Regional Routes***

We offer scheduled service between Hong Kong and Beijing, Shenyang, Meixian, Wuhan, Yiwu, Shantou, Xiamen, Wuyishan, and Quanzhou; and between Taipei and Guangzhou, Shanghai, Fuzhou, Hangzhou, Xiamen, Shenyang, Changsha, Wuhan, Dalian, Guilin, Harbin, Guiyang, Zhengzhou, Changchun, Zhangjiajie, Nanning, Shantou, Yiwu, Quanzhou, Yanji and Shenzhen. In 2018, the most profitable scheduled regional routes were: Shenzhen-Taipei, Guangzhou-Taipei, Shanghai-Taipei, Changsha-Taipei, Wuhan-Hong Kong, Guiyang-Taipei, Zhengzhou-Taipei, Nanning-Taipei, Guilin-Taipei, and Wuhan-Taipei.

In 2018, we conducted a total of 19,440 flights on our regional routes, accounting for approximately 22.4% of all passengers carried by Chinese airlines on routes between Hong Kong, Macau or Taiwan and destinations in Mainland China according to CAAC statistics briefing.

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Other than that, travelers between Taiwan and Mainland China had to make use of intermediate stops in Hong Kong or elsewhere. Since July 2008, however, the ban on direct flights was further liberalized to allow direct charter flights on weekends. We were the first Chinese carrier to fly nonstop to Taiwan. On November 4, 2008, the Mainland China and Taiwan agreed to have regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan increased the number of regular cross-Strait direct passenger flights from 108 to 270 a week. Cross-Strait direct passenger flights were further increased in the following years. As of April 26, 2019, there were 80 cross-Strait direct passenger flights a week.

### ***International Routes***

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

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

In 2018, our most profitable international routes were: Guangzhou-Tokyo, Yanji-Seoul, Shenyang-Seoul, Guangzhou-Dhaka, Shanghai-Seoul, Haikou-Guangzhou-Seoul, Shanghai-Osaka, Guangzhou-Manila, Sanya-Guangzhou- Osaka, and Dalian-Seoul.

***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, 2018, we operated a fleet of 840 aircraft with an average age of 6.5 years. Most aircraft of our Group are Boeing and Airbus aircraft. We have the largest fleet among Chinese airline companies. Among all the aircraft, 558 aircraft operated by our Group are leased pursuant to various types of leasing arrangements. Please see the table below for an analysis of our aircraft in terms of average age and respective passenger capacity.



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<b>Model</b>	<b>Number of Aircraft</b>	<b>Passenger Capacity</b>
Airbus 380 series	5	506
Airbus 330 series	50	218/258/259/260/278/283/284/286
Airbus 320 series	299	94/122/130/138/152/160/166/168/179/189/195
Boeing 787 series	30	228/237/266/276/287/297
Boeing 777 series	10	309/361
Boeing 757 series	4	174/180
Boeing 737 series	402	128/134/159/161/164/169/170/172/178/184
EMB190	26	98
Boeing 747 series	2	N/A
Boeing 777 series Freighter	12	N/A
<b>Total</b>	<b>840</b>	<b>N/A</b>

In 2018, we continued to expand and modernize our aircraft fleet. During 2018, we (i) took scheduled delivery of 46 aircraft under purchase agreements, including 1 A320neo, 1 A321, 1 A321neo, 5 A330-300, 18 B737-8, 13 B737-800, 7 B787-9 aircraft; (ii) took scheduled delivery of 12 A320neo, 13 A321neo, 8 B737-8, 22 B737-800, 3 B787-9 aircraft under operating leases; (iii) returned 3 B737-700 and 11 B737-800 aircraft under operating leases upon expiry; and (iv) disposed of 2 B757-200 and 2 B777-200A aircraft.

In specific, Xiamen Airlines (i) took scheduled delivery of 12 B737-800 aircraft under operating leases; and (ii) took scheduled delivery of 9 B737-8, 4 B737-800, 2 B787-9 aircraft under financing leases.

On March 21, 2018, Xiamen Airlines entered into the aircraft acquisition agreement with Boeing for the acquisition of 20 B737-8 and 10 B737-10 aircraft, to be delivered from 2019 to 2022.

**Aircraft Financing Arrangements****Overview**

A significant portion of our aircraft is acquired under long-term capital or operating leases or long-term mortgage loans with remaining terms to maturity mainly ranging from one to eleven years. As of December 31, 2018, of our Group's 840 aircraft, 232 aircraft were operated under capital leases, 326 were operated under operating leases, and 282 were either owned aircraft financed by long-term mortgage loans, or acquired either with cash proceeds or acquired by exercising the purchase options upon expiry of the respective capital leases. Our planned acquisition of aircraft in the foreseeable future will generally be made through acquisition by bank loans and our own funds, and in accordance with operating leases or capital leases. 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, 2018, the number of aircraft operated by our Group pursuant to capital and operating leases and the average remaining terms, of such leases.

<b>Model</b>	<b>Capital Lease Number of Aircraft</b>	<b>Operating Lease Number of Aircraft</b>	<b>Average Remaining Lease Term Year</b>
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Boeing 787-8	11	2	6.11
Boeing 787-9	10	3	9.62
Boeing 737-800	64	157	6.31
Boeing 777-200F	5	0	7.82
Boeing 777-300ER	9	0	7.64
Airbus 380	2	0	4.66
Airbus 330-300	23	8	6.35
Airbus 330-200	7	2	3.56
Airbus 321-200	42	22	5.62
Airbus 320-200	41	55	4.45
Airbus 319-100	0	17	1.62
Airbus 320-200 NEO	0	19	11.25
Airbus 321-200 NEO	0	13	11.60
Boeing 737-8 MAX	18	8	10.11
EMB190	0	20	1.33
<b>Total</b>	<b>232</b>	<b>326</b>	<b>6.12</b>

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**Table of Contents*****Capital leases***

The majority of the capital leases in respect to aircraft and related equipment have terms of 10 to 15 years expiring during the years 2019 to 2030. As of December 31, 2018, our aggregate future minimum lease payments (including future finance charges) required under its capital leases were RMB82,765 million. Our capital leases typically cover a significant portion of the relevant aircraft's useful life and transfer the benefits and risks of ownership to our Group. Under its capital leases, we generally have an option to purchase the aircraft at or near the end of the lease term. As is customary in the case of capital leases, our obligations are secured by the related aircraft, as well as other collaterals.

***Operating Leases***

As of December 31, 2018, our aggregate future minimum lease payments required under its operating leases were RMB75,729 million. As of December 31, 2018, our operating leases had original terms generally ranging from 5 to 15 years from the date of delivery of the relevant aircraft, and the remaining terms of these leases ranged from 1 to 12 years. Pursuant to the terms of the operating leases, we are obligated to make rental payments based on the lease term, with no termination payment obligations or purchase option, and the lessor bears the economic benefits and risks of ownership. Under our operating leases, we have no option to purchase the aircraft and is required to return the aircraft in the agreed condition at the end of the lease term. Although title to the aircraft remains with the lessor, we are responsible during the lease term for the maintenance, service, insurance, repair and overhaul of the aircraft.

For capital leases or operating leases, we are obligated to indemnify the lessors against any withholding or similar taxes that may be imposed on the lessors by taxing authorities in China with regard to payments made pursuant to such leases. In accordance with relevant PRC tax regulations, a PRC lessee is liable to withhold PRC withholding tax in respect of any lease payments regularly made to an overseas lessor. Depending on the circumstances, this tax is generally imposed at a fixed rate ranging from 6% to 10% of the lease payments, or in certain cases, the interest components of such payments for capital lease. The PRC withholding tax payable in respect of the lease arrangements amounting RMB240 million, RMB234 million, and RMB237 million during 2018, 2017 and 2016, has been included as part of the lease charges.

**Aircraft Flight Equipment**

The jet engines used in our aircraft fleet are manufactured by General Electric Corporation, Rolls-Royce plc, United Technologies International, Inc., CFM International, Inc. and International Aviation Engines Corporation. We had 90 and 94 spare jet engines for our fleet as of December 31, 2018 and 2017, respectively. We determine our requirements for jet engines based on all relevant considerations, including manufacturers' recommendations, the performance history of the jet engines and the planned utilization of its aircraft. Acquisition of rotables and certain of the expendables for our aircraft are generally handled by Southern Airlines (Group) Import and Export Trading Company Limited (SAIETC), a subsidiary we acquired from CSAH in August 2016, in consideration of an agency fee. We arrange the ordering of aircraft, jet engines and other flight equipment for the Airline Subsidiaries and keep an inventory of rotables and expendables for the Airline Subsidiaries.

**Aircraft Maintenance**

A major part of the maintenance for our fleet other than overhauls of jet engines is performed by Guangzhou Aircraft Maintenance Engineering Company Limited (GAMECO), an entity jointly controlled by our Company, Hutchison Whampoa (Hutchison) and South China International Aircraft Engineering Company Limited, consistent with our strategy to achieve fully integrated airline operations and to assure continued access to a stable source of high quality maintenance services. The remaining part of the maintenance for our fleet other than overhauls of jet engines is

performed by service providers in China and overseas. GAMECO performs all types of maintenance services, ranging from maintenance inspections performed on aircraft ( line maintenance services ) to major overhaul performed at specified intervals. GAMECO was the first of three aircraft maintenance facilities in China that has been certified as a repair station by both the CAAC and the Federal Aviation Administration. In March 1998, GAMECO received the Joint Civil Aviation Authorities certificate, which was transferred to European Aviation Safety Agency certification in November 2004, for the repair and maintenance of aircraft and aircraft engines.

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We believe that GAMECO performs major maintenance checks on our aircraft within time periods generally consistent with those of large international airline maintenance centers. GAMECO's repair and maintenance capacity include overhaul of more than 36% of our aircraft. 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 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), and by overseas qualified service providers in USA, Germany, Korea, Singapore, France, Malaysia, Netherlands and UK. On September 19, 2017, our Company entered into an agreement with CSAH to buy its 50% equity interest in Zhuhai MTU. The transfer was completed in August 2018.

The amounts incurred by our Group for comprehensive maintenance services provided by GAMECO and Zhuhai MTU were RMB4,521 million, RMB3,925 million, and RMB3,897 million for the years ended December 31, 2018, 2017 and 2016, 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 0.005, 0.01, and 0.005 in 2018, 2017 and 2016, respectively. In comparison, CAAC's published maximum acceptable Air Transportation Incidents Per Ten Thousands Hours Ratio was 0.6, 0.5, and 0.14 in 2018, 2017 and 2016, 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, 2018, our continuous safe flight span were 21.265 million hours.

## **Jet Fuel**

Jet fuel costs typically represent a major component of an airline's operating expenses. Our jet fuel costs accounted for 30.6%, 25.9%, and 22.4% of our operating expenses for the years ended December 31, 2018, 2017 and 2016, respectively. Like other Chinese airlines, we are generally required by the Chinese government to purchase our jet fuel from regional branches of CAOSC and Bluesky Oil Supplies Company, except at the Shenzhen, Sanya, Haikou, Shanghai Pudong where jet fuel is supplied by Sino-foreign joint venture in which CAOSC is a joint venture partner. CAOSC is a State-owned organization controlled and supervised by the CAAC that controls the importation and distribution of jet fuel throughout China.

Jet fuel obtained from CAOSC's regional branches is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of the CAAC and the pricing department of the NDRC based on market conditions and other factors. 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, as well as by insufficient storage facilities for jet fuel in certain regions of China.

Prior to 1994, domestic jet fuel prices were generally below international jet fuel prices. The Chinese government had gradually increased domestic jet fuel prices in order to reflect more accurately the costs of supplying jet fuel in China. As a result, domestic jet fuel prices have become higher than those in the international market since the beginning of 1994. For 2007 and the first half of 2008, the crude oil prices in the international market reached historic highs. In response to the pressure imposed by such soaring prices, on November 1, 2007 and June 20, 2008, respectively, the NDRC increased the domestic jet fuel prices. Thereafter, in order to reduce fuel cost pressure faced by Chinese airlines, the NDRC approved reductions in domestic jet fuel prices in 2008 and 2009. However, during a period from February 2009 to 2013, the crude oil price in the international market continued to increase and maintained at a high level. However, influenced by excessive oil supply, global economic weakness and the strong US\$, the international oil prices have been trending downward since 2014. Our jet fuel costs increased from RMB 31,895 million in 2017 to RMB42,922 million in 2018 as a result of the increase in average jet fuel prices from 2017 to 2018.

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In addition to purchases of jet fuel from CAOSC, we are also permitted by the Chinese government to purchase a portion of our jet fuel requirements for our international flights from foreign fuel suppliers located outside China at prevailing international market prices. Jet fuel purchased from such sources accounted for approximately 17.55% and 17.31% of our total jet fuel consumption in 2018 and 2017, respectively.

## **Fuel Surcharge**

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

From April 1, 2015, the NDRC adjusted the benchmark oil price to RMB5,000 per ton, for every RMB100 by which the cost of jet fuel exceeds that price, the airlines are allowed to charge RMB0.00002566 per kilometer for the flight distance. Based on that rate, for every RMB100 by which the cost of jet fuel exceeds RMB5,000 per ton, the airlines are allowed to charge RMB 0.0002566 per kilometer for the flight distance. The NDRC decreased the rate of fuel surcharge from RMB 0.00002641 per kilometer to RMB 0.00002566 per kilometer, from April 1, 2017 to March 31, 2018.

## **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 general dispatch offices 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, our computerized flight operations control system (SOC) began operation in May 1999. The system utilizes advanced computer and telecommunications technology to manage our flights on a centralized, real-time basis. We believe that the system will assist us to (i) compile flight schedules more efficiently; (ii) increase the utilization of aircraft; (iii) allow real-time tracking of all of our flights; and (iv) improve coordination of our aircraft maintenance and ground servicing functions.

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

We believe that our pilot training program, which was established in cooperation with the CAAC affiliated Beijing University of Aeronautics and Astronautics (the BUAA), has significantly improved the quality of the training received by our pilots and has helped maintain the quality of our staff of pilots at a level consistent with the expansion of operations called for by our business strategy.

As part of the pilot training program, trainee pilots receive their initial training in the operation of a specific aircraft with Zhuhai Xiang Yi Aviation Technology Company Limited ( Zhuhai Xiang Yi ), a wholly-owned subsidiary of the

Company, which also provides training to pilots from other Chinese airlines. Zhuhai Xiang Yi is equipped with simulators for majority models of aircraft currently operated by us and provides flight simulation training services to us.

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

We funded the training of our recruited pilots in previous years and, as a result, incurred significant costs over the years. Recently, there is a trend in the financing of pilot training worldwide from employer-sponsored to self-sponsored scheme. Such a change does not only cut down our training expenses significantly, but also ensures the long-term dedicated service of the pilots. Starting from 2007, we began to recruit pilots under the self-sponsored training arrangement.



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Under the program, the self-sponsored pilots are bound to enter into service contracts with us when they finish their training courses. They have the choice to repay their loans in advance or in installments.

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

## **Ground Services**

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

At Guangzhou Baiyun 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 Airport.

Ground services at the airports, such as those in Shenzhen, Changsha, Wuhan, Zhengzhou, Haikou, Zhuhai, Guilin, Jieyang, Guiyang, Shenyang, Harbin, Dalian, Changchun, Sanya, Nanning, Chongqing, Shanghai Hongqiao, Shanghai Pudong and Urumqi, are operated directly by us. Ground services at the airport in Beijing have been primarily provided by Beijing China Southern Airlines Ground Services Co., Ltd, which became a wholly-own subsidiary of the Company in June 2009. Ground services at other airports in China are provided to us by local airport authorities or local airlines in accordance with relevant service agreements. Ground services 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 in Guangzhou and substantially all other flights departing from Guangzhou Baiyun Airport. We 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 2018, we had 2 Boeing 747 freighters and 12 Boeing 777 freighters, mainly servicing 13 international cargo routes, including Guangzhou Chongqing Amsterdam Guangzhou, Guangzhou Amsterdam Guangzhou, Guangzhou London Frankfurt Guangzhou, Guangzhou London Guangzhou, Guangzhou Frankfurt Guangzhou, Guangzhou Anchorage Los Angeles Guangzhou, Guangzhou Ho Chi Minh City Hanoi Guangzhou, Shanghai Pudong Amsterdam Chongqing Shanghai Pudong, Shanghai Pudong Amsterdam Shanghai Pudong, Shanghai Pudong Frankfurt Shanghai Pudong, Shanghai Pudong Anchorage Chicago Shanghai Pudong, Shanghai Pudong Los Angeles Shanghai Pudong, and Shanghai Pudong Luxembourg Shanghai Pudong. We conduct our cargo business primarily through our cargo hubs in

Guangzhou and Shanghai.

## **Sales, Reservations and Marketing**

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

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

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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 2018, over 50.63% of all ticket sales for our scheduled flights were made by our network of sales offices and CSAH's affiliates. We also sell tickets and accept reservations through an extensive network of non-exclusive independent sales agents. Under the agency agreements with them, we pay commissions based on the value of tickets sold. In 2018, sales by independent sales agents accounted for less than 49.37% of our ticket sales of our scheduled flights.

Substantially all of our sales offices and agents in China are linked electronically to the TravelSky Technology Limited's computerized ticketing and reservations system, which is in turn linked to all domestic airlines for flights throughout China. We have also entered into membership agreements with several international reservation systems, including ABACUS in Southeast Asia, SABRE and GALILEO in the United States, AMADEUS in Europe and INFINI in Japan. These systems facilitate reservations and sales of tickets for our international flights. Since 2016, we have been focusing on improving the digitalization and intelligence level. We have launched the "China Southern e Travel" strategy, which aims to explore the needs of passengers and plan and design products from the perspective of passengers. We have built a number of quality products such as flight dynamics, seat selection and check-in, electronic invoices, face recognition, full-channel self-service refund, and meal service. The grand vision of "one machine in hand, the whole journey worry-free" 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. Intelligence has become our core competitiveness.

***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, we employ a number of cargo agents in the Pearl River Delta region. In 2018, we generally pay the cargo agents an average commission of 0.39% of the relevant cargo freight rate for domestic and international services, and a commission of 0.70% to cargo agents in the Pearl River Delta region.

***Promotional and Marketing Activities***

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

We seek to increase our name recognition by offering new services to passengers. For example, we were the first Chinese airline to provide off-airport check-in services. We also offered transfer and baggage through-handling services to passengers connecting to other airlines, including passengers connecting in Hong Kong for flights to Taiwan. We widened our use of information technology and introduced new services such as cell phone check-in, SMS platforms and online meal booking. In 2017, our Company reached a strategic cooperation agreement with American Airlines. According to this agreement, American Airlines subscribed our Company's shares in August 2017 by 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. During the reporting period, given the demand from our own development strategy and the new trend of cooperation model in the global air transport industry, we decided not to renew the SkyTeam Alliance Agreement from January 1, 2019. 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 British Airways, 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 31 international and domestic airlines, such as, France Airlines, KLM Royal Dutch Airlines, American Airlines, Qantas Airways, Finnair in 790 routes (including trunk routes and beyond routes). This further enlarged our sales channels and flight route network.

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On the wake of permitted direct flights on weekends between Taiwan and Mainland China starting from July 4, 2008, our Company became the first Chinese carrier to fly nonstop to Taiwan. By taking advantage of such further liberalized air travel policy between Taiwan and Mainland China, our Company has taken measures to explore opportunities presented by and increase our name recognition in Taiwan market. On June 23, 2008, our Company entered into a memorandum of cooperation with China Airlines, which is the largest carrier in Taiwan by route network. Based on the memorandum, the scope of cooperation between the parties will cover passenger, cargo, maintenance and ground handling services. We believe that our strategic collaboration with China Airlines will be beneficial to both parties, expand their route network worldwide, increase their freight load factors, reduce labor and operating costs, and enhance the competitiveness of both airlines in the global air travel market.

To enhance relationships with our passengers, we have launched two major frequent flyer programs, namely the China Southern Airlines Sky Pearl Club and the Xiamen Airlines Egret Card Frequent Flyer Program. By the end of 2018, we had approximately 39.78 million members (including those of Xiamen Airlines) under these programs.

**Regulation**

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

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

**Route Rights**

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

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

*Regional Routes.* Hong Kong and Macau routes and landing rights are derived from agreements between the Chinese government and the government of the Hong Kong SAR, and between the Chinese government and the government of Macau SAR. The rights to fly between Beijing and Hong Kong, Beijing and Macau, Shanghai and Hong Kong and Shanghai and Macau are allocated by the CAAC among the four 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 further liberalized to allow direct charter flights on weekends. On November 4, 2008, the Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan extended the number of regular cross-Strait direct passenger flights from 108 to 270 a week. Cross-Strait direct passenger flights were further increased in the following years. As of April 26, 2019, there were 80 cross-Strait direct passenger flights a week.

*International Routes.* International route rights, as well as the corresponding landing rights, are derived from air services agreements negotiated between the Chinese government, through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled service between certain destinations within each of such countries. Upon entering into an air services agreement, the CAAC determines the airline to be awarded such routes based on various criteria, including the availability of appropriate aircraft, flight and management personnel, safety record, the overall size of the airline, financial condition and sufficiency of assets to bear civil liabilities in international air services. These route rights may be terminated by the CAAC under special circumstances.

***Air Fare Pricing Policy***

In recent years, there were a series of air fare reform to deregulate the control on the air fare pricing policy step by step. Pursuant to Pricing Reform of Domestic Civil Aviation as approved by the State Council of the PRC effective on April 20, 2004, prices on domestic routes fluctuate freely within a predetermined range. Instead of direct supervision by setting prices of air tickets through a local price bureau, the government provides guidance on domestic flights and domestic civil aviation is controlled by the government indirectly. Market-oriented pricing policy was introduced and pricing system has been adjusted as a result of the above pricing reform. The CAAC and NDRC issued a notice on April 13, 2010, pursuant to which, effective on June 1, 2010, airlines may set first-class and business-class airfares freely in accordance with market prices, subject to relevant PRC laws. The economy-class airfares remain to be subject to the predetermined range. The CAAC and NDRC further issued a notice, pursuant to which, effective on October 20, 2013, airlines are free to set domestic flights airfares not exceeding up to 25% above the 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 further expand the scope of the routes with the market-oriented pricing policy: airfares for the routes below 800 kilometers or the routes above 800 kilometers and in the competing relationship with the high-speed rail EMU trains can be freely determined by airlines. Airlines may raise the non-discounted announced airfares for a certain amount of routes with the market-oriented pricing policy. In principle, such amount shall be no more than 10 per flight season, and the accumulative increase rate of airfares shall be no more than 10 percent per route per flight season. On December 17, 2017, the CAAC further issued the Notice on Further Deepening the Pricing Reform of Domestic Civil Aviation, pursuant to which the airlines will be allowed to decide their own prices on domestic routes that have at least five carriers competing. Price increases of no more than 10 percent would be also allowed for each travel season.

On December 17, 2017, the CAAC further issued the Notice on Further Deepening the Pricing Reform of Domestic Civil Aviation, pursuant to which the airlines will be allowed to decide their own prices on domestic routes that have at least five carriers competing. For each airline, the total number of the routes which the airline can decide itself shall be no less than 10 but shall generally not exceed 15 percent of the total number of the market-oriented routes operated by such airline in one flight season. On April 13, 2018, CAAC issued the Notice on Distributing the Catalog of Domestic Routes adopting Market Regulation Price. The catalog of domestic routes is published together with such notice.

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

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



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

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

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

CAOSC and Bluesky Oil Supplies Company, companies supervised by the CAAC, are the only jet fuel supply companies in China, with the exception of the joint venture jet fuel supply companies that supply Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports. Airlines are generally not permitted to buy jet fuel from other suppliers in their domestic operations, since the direct import of jet fuel for domestic purposes is prohibited. 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 uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of the CAAC and the pricing department of the NDRC based on market conditions and other factors.

### ***Safety***

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

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

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

### ***Security***

The CAAC establishes and supervises the implementation of security standards and regulations for the Chinese commercial aviation industry. Such standards and regulations are based on Chinese laws, as well as standards developed by international commercial aviation organizations. Each airline and airport in China is required to submit to the CAAC an aviation security handbook describing specific security procedures established by such airline or

airport for the day-to-day operations of commercial aviation and procedures for staff training on security. Such security procedures must be based on relevant CAAC regulations and international commercial aviation treaties. Chinese airports and airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements.

***Noise and Environmental Regulation***

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

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

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

### ***Competition***

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

In the Chinese aviation industry, the three dominant airlines are our Group, Air China Limited (the "Air China") and China Eastern Airlines Corporation Limited (the "China Eastern Airlines"). In 2018, these three airlines together controlled approximately 60.1% of the commercial aviation market in China as measured by passengers carried.

Most major Chinese airlines in recent years significantly expanded their fleets, while at the same time passenger traffic may not increase proportionately. In some years, this resulted in a reduction in our passenger load factors. As a result, we are required to be more competitive with respect to, for example, quality of service, including ticketing and reservations, in-flight services, flight scheduling and timeliness.

In the next few years, the target customers of high-speed railway and airline will gradually differentiate, so passengers of airline will not be massively redirected to high-speed railway. However, the positive changes in the high-speed railway will continue to erode the aviation market. First of all, the eight horizontal and eight vertical high-speed railway corridors are gradually being perfected. The advantages of scale are becoming obvious. Secondly, in the future, the railway system will gradually release its own pricing, adopt flexible pricing and market pricing. Passengers can get discounts on more routes. Hence, the competition that aviation industry faces will become more intense. Thirdly, one-third of high-speed railway will speed up, which may attract more passengers. The competition on passengers whose trip distance are from 750 kilometers to 1000 kilometers is intense. Following the increase of speed, high-speed railway may attract passengers who travel longer than 1000 kilometers. In addition, the operational efficiency of high-speed railways and train capacity will increase.

We believe that our Company possesses certain competitive advantages as compared to other Chinese airlines. We have the most extensive route network and the largest number of regional route bases among Chinese airlines, which we believe places us in a favorable position in the route allocation process. We also have the largest aircraft fleet among all Chinese airlines, which, together with our planned aircraft acquisitions, will permit us to expand our operations and to improve the deployment of the aircraft in our fleet. We also believe that our dominant presence in the populous and economically developed southern and central regions of China provides us with a competitive advantage in attracting new customers, and our fully integrated flight training, aircraft and engine maintenance and air catering operations enable us to achieve and maintain high quality service to our customers. In light of increasing competition from high-speed trains, we intend to place more flight fleet to the international routes, where we will make an effort for a stronger market position. We also believe that our optimized route network, increased operational efficiency and improved service quality will attract more customers. The proposed cooperation between us and the high speed trains operators will also enable us to render a seamless air-ground service to customers and bring a win-win situation for both us and the high speed trains operators.

According to CAAC statistics briefing, 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.

Year	Passenger Carried		Cargo and Mail Carried (tons)		Total Traffic (tons kilometers)	
	Industry		Group s Industry		Group s Industry	
	Total (in millions)	Group s Share (%) of total)	Total (in millions)	Share (%) of total)	Total (in millions)	Group s Share (%) of total)
2014	391.7	25.8	5,933	24.2	74.9	26.4
2015	435.6	25.1	6,253	24.2	85.0	26.3
2016	487.8	23.5	6,669	22.7	96.1	25.4
2017	551.6	25.2	7,058	23.7	108.3	22.9
2018	611.7	22.9	7,385	23.5	120.7	25.1

**Table of Contents****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 Limited and China Eastern Airlines Corporation Limited, which are owned or controlled by the Chinese government.

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 2018 according to passenger volume data from CAAC statistics briefing.

<b>Airport</b>	<b>Passenger Carried (% of total)</b>	<b>Cargo and Mail Carried (% of total)</b>	<b>Departing Flight (% of total)</b>
Beijing	16.4	9.3	16.7
Shanghai Pudong	9.1	7.4	9.8
Guangzhou	48.5	32.4	49.0
Chengdu	11.2	10.9	10.5
Shenzhen	28.2	15.4	26.4
Kunming	11.0	15.4	10.2
Xi an	13.1	11.2	13.2
Shanghai Hongqiao	13.3	24.2	13.3
Chongqing	21.9	19.1	23.3
Hangzhou	25.7	13.2	24.8

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 2018 according to passenger volume data from CAAC statistics briefing.

<b>Airport</b>	<b>Passenger Carried (% of total)</b>	<b>Cargo and Mail Carried (% of total)</b>	<b>Departing Flight (% of total)</b>
Zhengzhou	28.6	9.3	29.1
Changsha	31.0	31.7	31.5
Wuhan	36.0	28.9	35.7
Haikou	21.7	28.5	20.9
Sanya	23.8	31.7	25.0
Nanning	20.5	22.1	21.2
Zhuhai	29.3	37.0	29.0
Guilin	18.5	22.4	19.5

**Regional Routes**

In 2018, we conducted a total of 19,440 flights on our regional routes, accounting for approximately 22.40 % of all passengers carried by Chinese airlines on routes between Hong Kong, Macau or Taiwan and destinations in China. We face less competition on regional routes than that on domestic and international routes, and earn higher operating margin. Air China, China Eastern Airlines, Air Macau, Cathay Dragon, 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 name recognition than us. In addition, the public's perception of the safety and service records of Chinese airlines may adversely affect our ability to compete against our regional and international competitors. 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 and 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, 2018, our Company owns a 55% or 60% equity interest in each of our Airline Subsidiaries.

As of December 31, 2018, Xiamen Airlines operated under the MF code with a fleet of 210 aircraft. In 2018, Xiamen Airlines carried a total of about 35.89 million passengers, or approximately 25.66% of the passengers carried by our Group in that year, and had RMB28,727 million in traffic revenue.

As of December 31, 2018, Shantou Airlines operated under CZ code with a fleet of 16 aircraft. In 2018, under the centralized allocation of flight routes of our Group, Shantou Airlines carried a total of about 3.22 million passengers, or 2.30 % of the passengers carried by our Group in that year. Total traffic revenue of Shantou Airlines for the year ended December 31, 2018 was RMB 2,271 million.

As of December 31, 2018, Zhuhai Airlines operated under the CZ code with a fleet of 13 aircraft. In 2018, under the centralized allocation of flight routes of our Group, Zhuhai Airlines carried a total of about 2.19 million passengers, or approximately 1.57% 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, 2018 was RMB1,670 million.

As of December 31, 2018, Guizhou Airlines operated under the CZ code with a fleet of 20 aircraft. In 2018, under the centralized allocation of flight routes of our Group, Guizhou Airlines carried a total of about 3.57 million passengers, or approximately 2.55% of the total number of passengers carried by our Group in that year. Total traffic revenue of Guizhou Airlines was approximately RMB2,767 million for the year ended December 31, 2018.

As of December 31, 2018, Chongqing Airlines operated under the OQ code with a fleet of 27 aircraft. In 2018, under the centralized allocation of flight routes of our Group, Chongqing Airlines carried a total of about 3.66 million passengers, or 2.62% 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, 2018 was RMB2,635 million.

As of December 31, 2018, Henan Airlines operated under the CZ code with a fleet of 31 aircraft. In 2018, under the centralized allocation of flight routes of our Group, Henan Airlines carried a total of about 6.05 million passengers, or approximately 4.32% of the total number of passengers carried by our Group in that year. Total traffic revenue of Henan Airlines was approximately RMB4,508 million for the year ended December 31, 2018.

## **Insurance**

The CAAC maintains fleet and legal liability insurance on behalf of us and all other Chinese airlines with PICC Property and Casualty Company Limited, or PICCP&C, and China Pacific Property Insurance Company Ltd., Ping An

Property and Casualty Insurance Company of China, Ltd. under the PICCP&C master policy. We maintain aviation hull all risks, spares and airline liability insurance, aircraft hull all risks and spare engines deductible insurance, aviation hull war and allied perils policy of the type and in the amount customary in the Chinese aviation industry.



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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\$64,538) per passenger. As of July 31, 2006, 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 100,000 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 CAAC allocates insurance premiums payable in respect of the PICCP&C master policy to each participating airline based on the value of the airline's insured aircraft or, in the case of leased aircraft, based on the amount required by the terms of the lease. Insurance claims made by any participating airline may cause the premiums paid by us under the PICCP&C master policy to increase. PICCP&C's practice has been to reinsure a substantial portion of its aircraft insurance business through reinsurance brokers on the London reinsurance market.

## **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 as our logo a stylized rendition of a kapok plant. 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 has been 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 2018, 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. During 2018, our Company operated air services to and from Iran through the specifically designated route of

Beijing - Tehran - Beijing (the Iran Route ) and engages in international traffic in passengers, cargo and mail.

In order to provide our aviation service in Iran, our Company has entered into certain grounding service agreement with Iran Air, whereby Iran Air provides our Company with grounding 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 service rendered by our Company to Iran is limited to the provision of international traffic in passengers, cargo and mail and those services provided by our local offices and agents to customers. Our Company does not operate flights within Iran.

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Our Company's 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 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 service 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, 2018, the asset of Iran office and revenue generated from the air services to Iran amounted to US\$17,465.39 and US\$3.72million, representing only 0.000049% and 0.017765% of the total asset and total revenue generated by our Group for the year ended December 31, 2018, respectively. Therefore, our Company believes that our operations in Iran for the year ended December 31, 2018 are 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, 2018 and the aggregate effective equity interest of our Company in each of our principal subsidiaries, associates and jointly controlled entities.

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The particulars of our principal subsidiaries as of December 31, 2018 are as follows:

<b>Name of Company</b>	<b>Place and Date of Establishment/Operation</b>	<b>Proportion of Ownership Interest Held by our Company</b>
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 Airlines Xiong'an Airlines Company Limited	PRC June 29, 2018	100%
Southern Air Cargo Logistics (Guangzhou) Co., Ltd.	PRC June 8, 2018	100%
Southern Airlines General Aviation Company Limited	PRC November 17, 2014	100%
Guangzhou Nanland Air Catering Company Limited	PRC November 21, 1989	70.5%
Beijing Southern Airlines Ground Services Company Limited	PRC April 1, 2004	100%
Southern Airlines Group Import and Export Trading Company	PRC June 8, 1993	100%

The particulars of our principal associates and joint ventures as of December 31, 2018 are as follows:

<b>Name of Company</b>	<b>Place and Date of Establishment/Operation</b>	<b>Proportion of Ownership Interest Held by</b>		
		<b>Group Effective Interest</b>	<b>Our Company</b>	<b>Subsidiaries</b>
Guangzhou Aircraft Maintenance Engineering Co., Ltd.	PRC October 28, 1989	50%	50%	
Southern Airlines Group Finance Company Limited	PRC June 28, 1995	33.98%	25.28%	8.7%
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, PLANT AND EQUIPMENT**

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

Our headquarters in Guangzhou occupy an area of approximately 1,532,491 square meters of land and a total gross floor area of approximately 1,016,105 square meters. We lease the land in Guangzhou on which our headquarters and other facilities are located from CSAH. We also lease from CSAH certain buildings mainly at the 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.

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	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Guangzhou	1,443,562	88,929	933,974	82,131
Shenzhen	256,280		124,505	5,730
Zhuhai	152,993	81,413	20,124	3,601
Changsha	255,422	6,238	81,293	12,536
Haikou	346,820		58,443	4,763
Wuhan	284,339	32,579	36,429	18,669
Nanyang		1,140,015	11,936	16,439
Sanya	106,680		64,698	
Shenyang	142,199	31,226	28,743	60,002
Dalian		158,240	64,226	33,322
Jilin	150,246	65,076	85,274	9,332
Harbin	30,969	267,871	51,832	32,372
Xinjiang	3,754	540,493	137,932	3,497
Guangxi	73,787		52,554	
Beijing	85,453		91,124	8,195
Shanghai	42,292		37,013	6,360
Chengdu			1,964	
Qingdao			767	
Hefei			2,321	
Sydney			1,151	
Amsterdam			555	
Xi an			4,364	

The following table sets forth certain information with respect to the properties of the Airline Subsidiaries as of the date hereof.

	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Xiamen Airlines	710,181		543,367	10,229
Shantou Airlines	137,075	2,660	73,419	5,891
Zhuhai Airlines	99,306		54,971	
Guizhou Airlines	254,871		53,717	
Chongqing Airlines	82,449		68,242	
Henan Airlines	364,255		64,892	
Zhuhai Xiang Yi Aviation Technology Co., Ltd..	213,973		52,323	3,570

The land in Guangzhou on which our headquarters and other facilities are located and the buildings that our Company uses at our route bases in Wuhan and Haikou are leased by our Company from CSAH. However, CSAH lacks adequate documentation evidencing CSAH's rights to such land and buildings, and, as a consequence, the lease agreements between CSAH and our Company for such land may not be registered with the relevant authorities. Lack of registration may affect the validity of such lease agreements. 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 December 31, 2018, we were in the process of applying for the land use right certificates and property title certificates in respect of the properties located in Guangzhou (including Guangzhou Baiyun International Airport), Guangxi,

Guizhou, Chengdu, Xiamen, Heilongjiang, Jilin, Dalian, Hunan, Beijing, Zhuhai, Shenyang, Shenzhen, Henan, Shantou, Xinjiang, Hainan, Shanghai, Hubei and Chongqing , in which we have 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.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

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

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

#### **Critical Accounting Policies**

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

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

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

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognized in accordance with IAS 36, Impairment of Assets. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In particular, in determining the value in use of the Group's aircraft fleet, expected future cash flows to be generated by the asset are discounted to their present value, which requires significant judgement relating to forecast traffic revenue, forecast operating costs and discount rate applied. 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 application of discount rate.

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

Provision for the cost of major overhauls to fulfil the lease return conditions for airframes and engines held under operating leases are accrued and charged to the income statement over the estimated overhaul period. This requires 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.

#### ***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, anticipated redemption patterns and the frequent flyer programs' design. Different estimates could significantly affect the estimated contract liabilities and the results of operations.



In the comparative periods, the amount of revenue attributable to the mileage earned by the members of the Group's frequent flyer award programs was estimated based on the fair value of the mileage awarded and the expected redemption rate. The fair value of mileage awarded was estimated by reference to external sales. The method to estimate the expected redemption rate remains unchanged.

***Depreciation***

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

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### ***Provision for consumable spare parts and maintenance materials***

Provision for consumable spare parts and maintenance materials is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and the Group's future operation plan for the consumable spare parts and maintenance materials. The net realizable value may be adjusted due to the change of market condition and the future plan for the consumable spare parts and maintenance materials.

### ***Income tax***

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

### ***Loss allowances***

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. The ECLs 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. Different estimates could significantly affect the results of operations.

In the comparative periods, when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables, a provision for impairment of trade receivables is established based on the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### ***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.

In the comparative periods, ticket breakage revenue was recognized when the tickets expired, and such revenue recognition did not involve significant accounting estimates.

### ***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 Company believes the payments of welfare subsidy to those retirees who retired before the establishment of Pension Scheme (as defined in Note 52(a)) 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 (Note 13).

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

Information relating to the recently pronounced IFRSs is presented in Note 60 to the consolidated financial statements.

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### **Key Factors Affecting Results of operations**

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

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

Like most airlines, we are subject to a high degree of financial and operating leverage. A significant percentage of our operating expenses are fixed costs that do not vary proportionally to our yields or the load factors. These fixed costs include depreciation expense, jet fuel costs, landing and navigation fees, financing costs, operating lease payments, aircraft maintenance costs and labor costs for flight crew, cabin crew and ground personnel. Thus, a minor change in our yields or load factors could have a material effect on our results of operations. In addition, certain of these expenses, primarily financing costs and operating lease payments, labor costs and depreciation do not vary proportionally to the number of flights flown. Thus, even minor change in aircraft utilization rates may affect our results of operations. We are and will continue to be highly leveraged with substantial obligations denominated in foreign currencies and, accordingly, the results of our operations are significantly affected by fluctuations in foreign exchange rates, particularly for the U.S. dollar. Our net exchange loss of RMB1,853 million was recorded in 2018 mainly due to the translation of balances of borrowings and obligations under finance lease which are denominated in USD and the depreciation of RMB against USD.

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

A number of other 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 revenues 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 capital leases or bank loans in U.S. dollars, and have a substantial amount of transactions and obligations 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.

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.

**Table of Contents****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, 2018, 2017 and 2016.

<b>Traffic</b>	<b>Year ended December 31,</b>			<b>2018 vs.</b>	<b>2017 vs.</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2017 % increase (decrease)</b>	<b>2016 % increase (decrease)</b>
<b>RPK (million)</b>					
Domestic	178,972.96	160,427.72	144,979.57	11.56	10.66
Regional	3,304.83	2,934.65	3,083.71	12.61	(4.83)
International	76,916.01	67,334.50	58,042.36	14.23	16.01
<b>Total</b>	<b>259,193.80</b>	<b>230,696.87</b>	<b>206,105.64</b>	<b>12.35</b>	<b>11.93</b>
<b>RTK (million)</b>					
Domestic	17,437.56	15,833.96	14,551.2	10.13	8.82
Regional	315.39	282.52	292.46	11.63	(3.40)
International	12,580.72	11,204.15	9,542.9	12.29	17.41
<b>Total</b>	<b>30,333.67</b>	<b>27,320.63</b>	<b>24,386.56</b>	<b>11.03</b>	<b>12.03</b>
<b>Passengers carried (thousand)</b>					
Domestic	119,494.01	108,616.65	98,463.43	10.01	10.31
Regional	2,527.08	2,329.80	2,340.68	8.47	(0.46)
International	17,863.96	15,352.29	13,814.52	16.36	11.13
<b>Total</b>	<b>139,885.04</b>	<b>126,298.75</b>	<b>114,618.63</b>	<b>10.76</b>	<b>10.19</b>
<b>Cargo and mail carried (thousand tons)</b>					
Domestic	1,043.91	1,048.18	1083.68	(0.41)	(3.28)
Regional	21.85	22.01	19.73	(0.71)	11.56
International	666.52	601.97	509.14	10.72	18.23
<b>Total</b>	<b>1,732.28</b>	<b>1,672.16</b>	<b>1612.55</b>	<b>3.60</b>	<b>3.70</b>
<b>Capacity</b>					
<b>ASK (million)</b>					
Domestic	216,160.94	194,354.34	179655.46	11.22	8.18
Regional	4,383.59	3,843.89	4193.19	14.04	(8.33)
International	93,876.41	82,447.49	72143.29	13.86	14.28
<b>Total</b>	<b>314,420.95</b>	<b>280,645.72</b>	<b>255991.94</b>	<b>12.03</b>	<b>9.63</b>
<b>ATK (million)</b>					
Domestic	24,549.52	22,168.17	20740.93	10.74	6.88
Regional	503.53	446.80	491.23	12.70	(9.04)
International	17,674.93	15,717.21	13748.02	12.46	14.32
<b>Total</b>	<b>42,727.99</b>	<b>38,332.18</b>	<b>34980.18</b>	<b>11.47</b>	<b>9.58</b>
<b>Load Factors</b>					
<b>Passenger load factor (RPK/ASK) (%)</b>					
Domestic	82.80	82.5	80.7	0.25	1.84
Regional	75.39	76.4	73.5	(0.96)	2.81
International	81.93	81.7	80.5	0.26	1.22
<b>Overall</b>	<b>82.44</b>	<b>82.2</b>	<b>80.5</b>	<b>0.23</b>	<b>1.69</b>

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Overall load factor (RTK/ATK) (%)					
Domestic	71.03	71.4	70.2	(0.40)	1.27
Regional	62.63	63.2	59.5	(0.60)	3.69
International	71.18	71.3	69.4	(0.11)	1.88
Overall	70.99	71.3	69.7	(0.28)	1.55
Yield					
Yield per RPK (RMB)					
Domestic	0.54	0.53	0.53	1.89	/
Regional	0.74	0.78	0.72	(5.13)	8.33
International	0.39	0.37	0.4	5.41	(7.50)
Overall	0.49	0.49	0.5	/	(2.00)
Yield per RTK (RMB)					
Domestic	5.60	5.52	5.45	1.45	1.28
Regional	8.13	8.45	7.92	(3.79)	6.69
International	3.00	2.87	2.94	4.53	(2.38)
Overall	4.55	4.46	4.5	2.02	(0.89)
Financial					
Passenger revenue (RMB million)					
Domestic	95,773	85,392	77,257		10.53
Regional	2,446	2,281	2,230		2.29
International	29,819	25,118	23,015		9.14
Total	128,038	112,791	102,502		10.04
Cargo and mail revenue (RMB million)	10,026	9,082	7,191		26.30

**Table of Contents****A. OPERATING RESULTS**

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

**2018 compared with 2017**

The profit attributable to our equity shareholders was RMB2,895 million in 2018, compared to RMB5,961 million in 2017. Our operating revenue increased by RMB15,817 million or 12.38% from RMB127,806 million in 2017 to RMB143,623 million in 2018. Passenger load factor was 82.44% in 2018, compared to 82.2% in 2017. Passenger yield (in passenger revenue per RPK) remained RMB0.49 in 2018. Average yield (in traffic revenue per RTK) increased by 2.02% from RMB4.46 in 2017 to RMB4.55 in 2018. Operating expenses increased by RMB17,144 million or 13.93% from RMB123,098 million in 2017 to RMB140,242 million in 2018. Operating profit decreased by RMB337 million from RMB9,156 million in 2017 to RMB8,819 million in 2018.

**Operating Revenue**

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

	2018		2017		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	138,064	96.13	121,873	95.36	13.29
Including: Passenger revenue	128,038		112,791		13.52
Domestic	95,773		85,392		12.16
Hong Kong, Macau and Taiwan	2,446		2,281		7.23
International	29,819		25,118		18.72
Cargo and mail revenue	10,026		9,082		10.39
Other operating revenue	5,559	3.87	5,933	4.64	(6.30)
Mainly including:					
Commission income	2,619		2,781		(5.83)
Hotel and tour operation income	676		547		23.58
General aviation income	476		467		1.93
Ground services income	429		429		
Expired sales in advance of carriage			396		(100.00)
Total operating revenue	143,623	100.00	127,806	100.00	12.38
Less: fuel surcharges income	(7,454)		(5,355)		39.20
Total operating revenue excluding fuel surcharges	136,169		122,451		11.20

	2018		2017		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	



Passenger Revenue	128,038	92.74	112,791	92.55	13.52
Cargo and Mail Revenue	10,026	7.26	9,082	7.45	10.39
Traffic revenue	138,064	100.00	121,873	100.00	13.29

	2018		2017		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	95,773	74.80	85,392	75.71	12.16
Hong Kong, Macau and Taiwan	2,446	1.91	2,281	2.02	7.23
International	29,819	23.29	25,118	22.27	18.72
Total	128,038	100.00	112,791	100.00	13.52

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Substantially all of our operating revenue is generated from airlines transport operations. Traffic revenue accounted for 96.13% and 95.36% of total operating revenue in 2018 and 2017, respectively. Passenger revenue and cargo and mail revenue accounted for 92.74% and 7.26% of the total traffic revenue in 2018, respectively. During the reporting period, our total traffic revenue was RMB138,064 million, representing an increase of RMB16,191 million or 13.29% from prior year, mainly due to the increase in traffic capacity and traffic volume. The other operating revenue is mainly derived from commission income, hotel and tour operation income, general aviation income and ground services income.

The increase in operating revenue was primarily due to a 13.52% increase in passenger revenue from RMB112,791 million in 2017 to RMB128,038 million in 2018. The total number of passengers carried increased by 10.76% from 2017 to 13,989 million passengers in 2018. RPKs increased by 12.35% from 230,697 million in 2017 to 259,194 million in 2018, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK remained RMB0.49 in 2017 and 2018.

Domestic passenger revenue, which accounted for 74.80% of the total passenger revenue in 2018, increased by 12.16% from RMB85,392 million in 2017 to RMB95,773 million in 2018. Domestic capacity in ASKs increased by 11.22%, while passenger traffic in RPKs increased by 11.56%, resulting in an increase in passenger load factor by 0.25 percentage points from 82.54% in 2017 to 82.80% in 2018. Domestic passenger yield per RPK was RMB0.54 in 2018, compared to RMB0.53 in 2017.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 1.91% of total passenger revenue, increased by 7.23% from RMB2,281 million in 2017 to RMB2,446 million in 2018. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs increased by 12.61%, while passenger capacity in ASKs increased by 14.04%, resulting in an decrease in passenger load factor by 0.96 percentage points from 76.35% in 2017 to 75.39% in 2018. Passenger yield per RPK decreased from RMB0.78 in 2017 to RMB0.74 in 2018.

International passenger revenue, which accounted for 23.29% of total passenger revenue, increased by 18.72% from RMB25,118 million in 2017 to RMB29,819 million in 2018. For international flights, passenger traffic in RPKs increased by 14.23%, while passenger capacity in ASKs increased by 13.86% resulting in 0.26 percentage points increase in passenger load factor from 81.67% in 2017 to 81.93% in 2018. Passenger yield per RPK increased from RMB0.37 in 2017 to RMB0.39 in 2018.

Cargo and mail revenue, which accounted for 7.26% of the Group's total traffic revenue and 6.98% of total operating revenue, increased by 10.39% from RMB9,082 million in 2017 to RMB10,026 million in 2018. The increase was attributable to the increase in cargo and mail carried.

Other operating revenue decreased by 6.30% from RMB5,933 million in 2017 to RMB5,559 million in 2018. The decrease was primarily due to the reclassification of expired sales in advance of carriage and fees, totaling amounted to RMB1,353 million, from other operating revenue to traffic revenue, as a result of the adoption of IFRS 15.

***Operating Expenses***

Total operating expenses in 2018 amounted to RMB140,242 million, representing an increase of 13.93% or RMB17,144 million over 2017, primarily due to the increase in flight operation expenses and aircraft and transportation service expenses, as a result of the increase in traffic volume. Total operating expenses as a percentage of total operating revenue increased from 96.32% in 2017 to 97.65% in 2018.

The table below sets forth operating expense for the years indicated:

	2018		2017		Change in Operating expenses %
	Operating expense RMB million	Percentage %	Operating expense RMB	Percentage %	
Flight operation expenses	76,216	54.35	62,978	51.16	21.02
Mainly including:					
Jet fuel costs	42,922		31,895		34.57
Aircraft operating lease charges	8,726		8,022		8.78
Flight personnel payroll and welfare	11,467		10,574		8.45
Maintenance expenses	12,704	9.06	11,877	9.65	6.96
Aircraft and transportation service expenses	24,379	17.38	22,935	18.63	6.30

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Promotion and selling expenses	7,036	5.02	6,881	5.59	2.25
General and administrative expenses	3,770	2.69	3,391	2.75	11.18
Depreciation and amortization	14,308	10.20	13,162	10.69	8.71
Impairment on property, plant and equipment			324	0.26	(100)
Hotel and tour operation expenses	587	0.42	467	0.38	25.70
External air catering service expenses	326	0.23	265	0.21	23.02
Financial institution charges	289	0.21	254	0.21	13.78
Cargo handling expenses	236	0.17	235	0.19	0.43
Others	319	0.28	329	0.27	(0.03)
Total operating expenses	140,242	100.00	123,098	100.00	13.93

Flight operation expenses, which accounted for 54.35% of total operating expenses, increased by 21.02% from RMB62,978 million in 2017 to RMB76,216 million in 2018, primarily due to the drastic increase in jet fuel costs. Jet fuel costs, which accounted for 56.32% of flight operation expenses, increased by 34.57% from RMB31,895 million in 2017 to RMB42,922 million in 2018.

Maintenance expenses, which accounted for 9.06% of total operating expenses, increased by 6.96% from RMB11,877 million in 2017 to RMB12,704 million in 2018. The increase was mainly due to the expansion of our aircraft fleet.

Aircraft and transportation service expenses, which accounted for 17.38% of total operating expenses, increased by 6.30% from RMB22,935 million in 2017 to RMB24,379 million in 2018. The increase was primarily due to a 7.78% increase in landing and navigation fee and ground service fees from RMB15,540 million in 2017 to RMB16,749 million in 2018, which resulted from the increase in the number of flights.

Promotion and selling expenses, which accounted for 5.02% of total operating expenses, increased by 2.25% from RMB6,881 million in 2017 to RMB7,036 million in 2018, mainly due to the increase in handling charges and ticket office expenses.

General and administrative expenses, which accounted for 2.69% of the total operating expenses, increased by 11.18% from RMB3,391 million in 2017 to RMB3,770 million in 2018, mainly due to the increase in general corporate expenses.

Depreciation and amortization, which accounted for 10.20% of the total operating expenses, increased by 8.71% from RMB13,162 million in 2017 to RMB14,308 million in 2018, mainly due to the expansion of aircraft fleet of the Company.

**Operating Profit**

Operating profit was RMB8,819 million and RMB9,156 million in 2018 and 2017, respectively. The decrease in operating profit was mainly due to the increase of operating revenue netted off by the increase of operating expense. The increase in operating revenue by RMB15,817 million or 12.38% compared with that of 2017, as a result of the increase in transport capacity and traffic volume; and the increase in operating expenses by RMB17,144 million or 13.93% compared with that of 2017, due to the increase in jet fuel costs and traffic volume.

**Other Income or Expenses**

Other net income increased by RMB990 million from RMB4,448 million in 2017 to RMB5,438 million in 2018, mainly due to the increase in government grants. Details of other net income of the Group are set out in note 14 to the

financial statements prepared under IFRS.

Interest expense increased by RMB455 million from RMB2,747 million in 2017 to RMB3,202 million in 2018, which was mainly due to the increase in the interest rate and the weighted average balance of obligations under finance leases during the year. Net exchange loss of RMB1,853 million was recorded in 2018, compared with net exchange gain of RMB1,801 million in 2017, mainly due to the translation of balances of borrowings and obligations under finance lease which are denominated in USD and the depreciation of RMB against USD.

***Income Tax***

Income tax expense decreased by RMB976 million from RMB1,976 million in 2017 to RMB1,000 million in 2018, mainly due to the decrease of profit before income tax in the reporting period.

**Table of Contents****2017 compared with 2016**

The profit attributable to equity shareholders of our Company of RMB5,961 million was recorded in 2017 as compared to the profit attributable to equity shareholders of our Company of RMB5,044 million in 2016. Our operating revenue increased by RMB12,825 million or 11.15% from RMB114,981 million in 2016 to RMB127,806 million in 2017. Passenger load factor was 82.2% in 2017 and 80.51% in 2016. Passenger yield (in passenger revenue per RPK) decreased by 2.00% from RMB0.50 in 2016 to RMB0.49 in 2017. Average yield (in traffic revenue per RTK) decreased by 0.89% from RMB4.50 in 2016 to RMB4.46 in 2017. Operating expenses increased by RMB16,894 million or 15.91% from RMB106,204 million in 2016 to RMB123,098 million in 2017. Operating profit of RMB9,156 million was recorded in 2017 as compared to operating profit of RMB12,612 million in 2016, decreased by RMB3,456 million.

**Operating Revenue**

	2017		2016		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	121,873	95.36	109,693	95.4	11.10
Including: Passenger revenue	112,791		102,502		10.04
Domestic	85,392		77,257		10.53
Hong Kong, Macau and Taiwan	2,281		2,230		2.29
International	25,118		23,015		9.14
Cargo and mail revenue	9,082		7,191		26.30
Other operating revenue	5,933	4.64	5,288	4.6	12.20
Mainly including:					
Commission income	2,781		2,518		10.44
Hotel and tour operation income	547		625		(12.48)
General aviation income	467		461		1.30
Ground services income	429		384		11.72
Expired sales in advance of carriage	396		376		5.32
Total operating revenue	127,806	100.00	114,981	100.0	11.15
Less: fuel surcharges income	(5,355)		(5,798)		(7.64)
Total operating revenue excluding fuel surcharges	122,451		109,183		12.15

	2017		2016		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger Revenue	112,791	92.55	102,502	93.4	10.04
Cargo and Mail Revenue	9,082	7.45	7,191	6.6	26.30
Traffic revenue	121,873	100.00	109,693	100.0	11.10

	2017		2016		Change in passenger revenue %
	Passenger revenu RMB million	Percentage %	Passenger revenu RMB million	Percentage %	
Domestic	85,392	75.71	77,257	75.4	10.53
Hong Kong, Macau and Taiwan	2,281	2.02	2,230	2.2	2.29
International	25,118	22.27	23,015	22.4	9.14
Passenger revenue	85,392	75.71	102,502	100.00	10.04

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Substantially all of our operating revenue is attributable to airlines transport operations. Traffic revenue accounted for 95.36% and 95.4% of total operating revenue in 2017 and 2016 respectively. Passenger revenue and cargo and mail revenue accounted for 92.55% and 7.45% respectively of the total traffic revenue in 2017. During the reporting period, our total traffic revenue was RMB121,873 million, representing an increase of RMB12,180 million or 11.10% from prior year, mainly due to the increase in traffic capacity and traffic volume. The other operating revenue is mainly derived from commission income, hotel and tour operation income, general aviation income, ground services income and expired sales in advance of carriage.

The increase in operating revenue was primarily due to a 10.04% increase in passenger revenue from RMB102,502 million in 2016 to RMB112,791 million in 2017. The total number of passengers carried increased by 10.19% to 126.3 million passengers in 2017. RPKs increased by 11.93% from 206,106 million in 2016 to 230,697 million in 2017, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK decreased from RMB0.50 in 2016 to RMB0.49 in 2017, which is mainly due to the drop of average ticket price.

Domestic passenger revenue, which accounted for 75.71% of the total passenger revenue in 2017, increased by 10.53% from RMB77,257 million in 2016 to RMB85,392 million in 2017. Domestic capacity in ASKs increased by 8.18%, while passenger traffic in RPKs increased by 10.66%, resulting in an increase in passenger load factor by 1.84 percentage points from 80.70% in 2016 to 82.54% in 2017. Domestic passenger yield per RPK was RMB0.53 in 2017 which is consistent with the same in 2016.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 2.02% of total passenger revenue, increased by 2.29% from RMB2,230 million in 2016 to RMB2,281 million in 2017. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs decreased by 4.83%, while passenger capacity in ASKs decreased by 8.33%, resulting in an increase in passenger load factor by 2.81 percentage points from 73.54% in 2016 to 76.35% in 2017. Passenger yield per RPK increased from RMB0.72 in 2016 to RMB0.78 in 2017.

International passenger revenue, which accounted for 22.27% of total passenger revenue, increased by 9.14% from RMB23,015 million in 2016 to RMB25,118 million in 2017. For international flights, passenger traffic in RPKs increased by 16.01%, while passenger capacity in ASKs increased by 14.28% resulting in 1.22 percentage points increase in passenger load factor from 80.45% in 2016 to 81.67% in 2017. Passenger yield per RPK decreased from RMB0.40 in 2016 to RMB0.37 in 2017.

Cargo and mail revenue, which accounted for 7.45% of the Group's total traffic revenue and 7.11% of total operating revenue, increased by 26.30% from RMB7,191 million in 2016 to RMB9,082 million in 2017. The increase was attributable to the increase in cargo and mail carried.

Other operating revenue increased by 12.20% from RMB5,288 million in 2016 to RMB5,933 million in 2017. The increase was primarily due to the increase of commission income.

***Operating Expenses***

Total operating expenses in 2017 amounted to RMB123,098 million, representing an increase of RMB16,894 million or 15.91% over 2016, primarily due to the increase in staff cost, fuel cost and aircraft and transportation service expense. Total operating expenses as a percentage of total operating revenue was 96.32% in 2017 and 92.37% in 2016.



	2017		2016		Change in Operating expenses %
	Operating expense RMB million	Percentage %	Operating expense RMB million	Percentage %	
Flight operation expenses	62,978	51.16	51,461	48.4	22.38
Mainly including:					
Jet fuel costs	31,895		23,799		34.02
Aircraft operating					
lease charges	8,022		7,330		9.44
Flight personnel					
payroll and welfare	10,574		9,215		14.75
Maintenance expenses	11,877	9.65	11,318	10.7	4.94
Aircraft and transportation service expenses	22,935	18.63	20,215	19.0	13.46
Promotion and selling expenses	6,881	5.59	6,304	5.9	9.15
General and administrative expenses	3,391	2.75	2,815	2.7	20.46

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Depreciation and amortization	13,162	10.69	12,619	11.9	4.30
Impairment on property, plant and equipment	324	0.26	71	0.1	356.34
Others	1,550	1.27	1,401	1.3	10.64
Total operating expenses	123,098	100.00	106,204	100.0	15.91

Flight operations expenses, which accounted for 51.16% of total operating expenses, increased by 22.38% from RMB51,461 million in 2016 to RMB62,978 million in 2017, primarily as a result of increase in RTK due to the increase of capacity and the increase in jet fuel costs because of increase in average fuel prices. Jet fuel costs, which accounted for 50.64% of flight operations expenses in 2017, increased by 34.02% from RMB23,799 million in 2016 to RMB31,895 million in 2017.

Maintenance expenses, which accounted for 9.65% of total operating expenses, increased by 4.94% from RMB11,318 million in 2016 to RMB11,877 million in 2017. The increase was mainly due to fleet expansion.

Aircraft and transportation service expenses, which accounted for 18.63% of total operating expenses, increase by 13.46% from RMB20,215 million in 2016 to RMB22,935 million in 2017. The increase was primarily due to a 13.74% rise in landing and navigation fees from RMB13,109 million in 2016 to RMB 14,910 million in 2017, resulted from the increase in the number of take-off and landings for international flights.

Promotion and selling expenses, which accounted for 5.59% of total operating expenses, increased by 9.15% from RMB6,304 million in 2016 to RMB6,881 million in 2017, mainly due to the decrease in ticket office expenses.

General and administrative expenses, which accounted for 2.75% of the total operating expenses, increased by 20.46% from RMB2,815 million in 2016 to RMB3,391 million in 2017, mainly due to the increase in general corporate expenses.

Depreciation and amortization, which accounted for 10.69% of total operating expenses, increased by 4.30% from RMB12,619 million in 2016 to RMB13,162 million in 2017, mainly due to fleet expansion.

**Operating Profit**

Operating profit of RMB9,156 million was recorded in 2017 (2016: RMB12,612 million). The decrease in operating profit was mainly due to the net effect of increase in operating revenue by RMB12,825 million or 11.15% and increase in operating expenses by RMB16,894 million or 15.91% compared with 2016.

**Other Income or Expenses**

Other net income increased by RMB613 million from RMB3,835 million in 2016 to RMB4,448 million in 2017, mainly due to the increase in gain on transfer of aircraft purchase quota.

Interest expense increased by RMB282 million from RMB2,465 million in 2016 to RMB2,747 million in 2017 was mainly due to the increase in the interest rate and the weighted average balance of obligations under finance leases during the year. Net exchange gain of RMB1,801 million was recorded in 2017, compared with net exchange loss of RMB3,276 million in 2016, mainly due to the translation of balances of borrowings and obligations under finance lease which are denominated in USD and the appreciation of RMB against USD.

**Income Tax**

Income tax expense of RMB1,976 million was recorded in 2017, increased by RMB213 million from RMB1,763 million in 2016, mainly due to the increase of profit before income tax in the reporting period.

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

Generally, we meet our working capital and capital expenditure requirements through cash from our operations, the proceeds of certain long-term and short-term bank loans, capital lease financing and rebates available under certain of our aircraft leases.

As of December 31, 2018, we had banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB243,910 million to our Group. As of December 31, 2018, approximately RMB193,871 million was unutilized. As of December 31, 2018 and 2017, our cash and cash equivalents were RMB6,928 million and RMB6,826 million, respectively.

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Net cash generated from operating activities in 2018, 2017 and 2016 were RMB15,388 million, 17,732 million, and RMB23,764 million, respectively. Our Group's operating cash inflows are primarily derived from the provision of air transportation and related service to customers. Operating cash outflows primarily are related to the recurring operating expenses, including flight operation, maintenance, aircraft and transportation service, etc. The decrease of net operating cash inflows from our Group from 2016 to 2018 was primarily due to the increase of jet fuel cost.

Net cash used in investing activities in 2018, 2017 and 2016 were RMB20,517 million, RMB8,236 million, RMB15,750 million, respectively. Cash capital expenditures in 2018, 2017 and 2016 were RMB24,033 million, 13,846 million, RMB18,967 million, respectively, reflecting predominantly additional investments in aircraft and flight equipment under our fleet expansion plans and additional investments in other facilities and buildings used in operations.

Net cash generated from financing activities were RMB5,220 million in 2018, as compared to net cash used in financing activities of RMB6,976 million and RMB8,459 million in 2017 and 2016, respectively. Net cash inflow from borrowings and repayments of borrowings amounted to RMB5,780 million and 2,557 million in 2018 and 2017, respectively, and net cash outflow from borrowings and repayments of borrowings amounted to RMB481 million in 2016. The borrowings were used for capital expenditures and general working capital. Repayment of capital leases in 2018, 2017 and 2016 were 10,433 million, RMB9,835 million, RMB6,994 million, respectively, resulting from the increase of aircraft acquisitions under capital leases.

As of December 31, 2018, our aggregate long-term borrowings and obligations under capital leases (including borrowings and capital leases obligations due within one year) were RMB101,899 million. In 2019, 2020, 2021, 2022 and thereafter, amounts payable under such loans and obligations will be RMB23,557 million, RMB17,329 million, RMB15,852 million, RMB10,773 million and RMB34,388 million respectively. Such borrowings and obligations were mainly denominated in U.S. dollars, Euro and Japanese Yen. In the normal course of business, we are exposed to fluctuations in foreign currency exchange. Our exposure to foreign currency exchange primarily results 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, 2018, our short-term bank loans was RMB20,739 million. Our weighted average interest rate on short-term bank loans was 3.92% per annum as of December 31, 2018. As of December 31, 2018, our outstanding ultra-short-term financing bills was RMB4,000 million. The primary use of the proceeds of our short-term bank loans and ultra-short-term financing bills is to finance working capital and capital expenditure needs. We have generally been able to arrange short-term borrowings with domestic banks in China as necessary and believe we can continue to obtain them based on our well-established relationships with various lenders.

As of December 31, 2018, the amounts of our obligations under operating leases were RMB75,729 million, predominately for aircraft, among which RMB9,217 million, RMB9,978 million, RMB8,850 million, RMB8,498 million, RMB8,103 million and RMB31,083 million, respectively, is due in 2019, 2020, 2021, 2022 and 2023 and thereafter.

As of December 31, 2018, we had a working capital deficit of RMB59,615 million, as compared to a working capital deficit of RMB51,693 million as of December 31, 2017. Historically, we operated in a negative working capital position, relying on cash inflow from operating activities and renewal of short-term bank loans to meet our short-term liquidity and working capital needs. In 2019 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, 2018, we had banking facilities with several PRC commercial banks for providing loan financing up to approximately RMB243,910 million, of which approximately RMB193,871 million was unutilized, whereas in 2017, we got loan financing up to approximately RMB181,922 million, of which RMB142,239 million was unutilized.

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

As of December 31, 2018, we had capital commitments as follows:

	2019	2020	2021	2022	2023 and onwards	Total
Acquisition of aircraft and related equipment	38,141	32,395	8,628	3,035		82,199
Others	14,757	3,857	981	859	832	21,286
<b>Total capital commitments</b>	<b>52,898</b>	<b>36,252</b>	<b>9,609</b>	<b>3,894</b>	<b>832</b>	<b>103,485</b>

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

As of December 31, 2018, our cash and cash equivalents totaled RMB6,928 million. Of such balance, 9% was denominated in U.S. Dollars, Hong Kong Dollars, Euro, Japanese Yen and other foreign currencies.

In view of the unutilized bank facilities of RMB193,871 million, we expect that we will have sufficient funding sources to meet our cash requirements in the foreseeable future.

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

None.

**D. TREND INFORMATION**

Other than as disclosed in the foregoing disclosures and elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2019 to December 31, 2019 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that would cause our disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. OFF-BALANCE SHEET ARRANGEMENTS**

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition that is material to investors. In particular, we (i) have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity;

(ii) have not entered into any derivative contracts that are both indexed to our own stock and classified in stockholders equity, or not reflected in our statement of financial position; and (iii) do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table sets forth our obligations and commitments to make future payments under contracts and under commitments (excluding share of commitments of a joint venture) as of December 31, 2018.

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	As of December 31, 2018 Payment due by period					As of December 31, 2017
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	Total
Short-term bank loans and ultra-short-term bills (Note 1)	25,271	25,271				20,953
Long-term bank and other loans (Note 1)	31,645	14,850	14,128	479	2,188	29,502
Obligations under capital leases	82,765	12,062	23,741	24,762	22,200	78,899
Operating lease commitments	75,729	9,217	18,828	16,601	31,083	69,465
Aircraft purchase commitments (Note 2)	82,199	38,141	41,023	3,035		86,834
Other capital commitments	21,286	14,757	4,838	1,691		22,022
Investment commitments	14	14				
<b>Total</b>	<b>314,865</b>	<b>110,268</b>	<b>102,558</b>	<b>46,568</b>	<b>55,471</b>	<b>307,675</b>

Note 1 Interest on variable rate loans was estimated based on the current rate in effect at December 31, 2018.

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

**G. SAFE HARBOR**

See the section headed "Forward-looking Statements" at the beginning of this annual report.



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The following table sets forth certain information concerning our directors, senior management and supervisors. There were certain changes in our directors, senior management and supervisors as of April 26, 2019, details of which are set forth below.

<b>Name</b>	<b>Position</b>	<b>Gender</b>	<b>Age</b>
Wang Changshun	Executive Director, Chairman of our Board	Male	61
*Tan Wangeng	Vice Chairman, Executive Director, President	Male	54
Ma Xulun	President	Male	54
Zhang Zifang	Executive Director and Executive	Male	60
Zheng Fan	Independent Non-executive Director	Male	63
Gu Huizhong	Independent Non-executive Director	Male	62
Tan Jinsong	Independent Non-executive Director	Male	54
Jiao Shuge	Independent Non-executive Director	Male	53
Pan Fu	Chairman of the Supervisory Committee	Male	56
Li Jiashi	Supervisor	Male	57
Mao Juan	Supervisor	Female	46
Han Wensheng	Executive Vice President	Male	52
Xiao Lixin	Executive Vice President, Chief Accountant and Chief Financial	Male	52
Zhang Zhengrong	Executive Vice President	Male	56
Luo Laijun	Executive Vice President	Male	47
Ren Jidong	Executive Vice President	Male	54
Cheng Yong	Executive Vice President	Male	56
Wang Zhixue	Executive Vice President	Male	58
Li Tongbin	Executive Vice President and Chief Engineer	Male	57
Su Liang	Chief Economist	Male	56
Chen Weihua	Chief Legal Adviser	Male	52
*Guo Zhiqiang	Chief Marketing Officer	Male	55
Xie Bing	Company Secretary	Male	45
Feng Huanan	COO Flight Safety	Male	56
*Yang Bensen	Chief Pilot	Male	61
Guo Jianye	Chief Customer Officer	Male	56
Luo Minghao	Chief Pilot	Male	56
Wang Renjie	Chief Operation Officer	Male	54

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

**Directors**

**Wang Changshun**, male, born in July 1957 (aged 61), graduated from University of Science and Technology of China majoring in management science and engineering and he has a Ph.D. degree. He is a Doctor of Management and senior expert of political science. He began his career in February 1976. He joined the Chinese Communist Party in March 1982. He has acted as Vice Director and Director of aeronautical meteorology supervision department of

CAAC Urumqi Administration, Vice President and a member of standing committee of Xinjiang Airlines (Vice Chairman of CAAC Urumqi Administration) and then as Party Secretary and Vice President of Xinjiang Airlines (Vice Chairman of CAAC Urumqi Administration). In November 2000, he acted as Vice Chairman, General Manager and Deputy Party Secretary of the Company. In September 2002, he acted as Vice President and Party member of CSAH and also as Vice Chairman, General Manager and Deputy Party Secretary of the Company. In August 2004, he served as Deputy Director and Party member of Civil Aviation Administration of China. In March 2008, he acted as Deputy Director and Party member of Civil Aviation Administration of China (Deputy ministerial). In October 2011, he was appointed as General Manager and Deputy Party Secretary of China National Aviation Holding Company and also was appointed as the Chairman of Air China Limited. He was appointed as Vice Minister and Party Leadership Group Member of Ministry of Transport in January 2014, General Manager and Deputy Party Secretary of China National Aviation Holding Company in February 2016, General Manager and Deputy Party Secretary of CSAH and Chairman of the Company in May 2016. In December 2016, he has been Chairman, Party Secretary of CSAH and Chairman of the Company. Since November 2017, he has been Chairman, Party Secretary of CSAH and Chairman, Party Secretary of the Company. He is also a deputy to the 12th National People's Congress. He is the representative of the 19th Communist Party of China National Congress, a member of the 12th CPC Guangdong Provincial Committee and standing committee member and member of the 13th National Committee of the Chinese People's Political Consultative Conference.

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**Zhang Zifang**, male, born in October 1958 (aged 60), graduated with a college degree from foundation science profession for Party administrative cadres of Liaoning University. He obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a senior expert of political science. He began his career in March 1976. He joined the Chinese Communist Party in February 1980. He served as the Deputy Commissioner of the Office of Northern Airlines Company, Deputy Commissioner and Commissioner of Shenyang Flight Team Northern Airlines Company and Party Secretary of Jilin Branch of Northern Airlines Company. He served as the General Manager of Dalian Branch China Northern Airlines Company in January 2003. He had been the Director of Political Works Department of CSAH in October 2003. Subsequently, Mr. Zhang was appointed as the Deputy Party Secretary and Secretary of the Commission for Discipline of the Company in February 2005. He had been the Deputy Party Secretary and Executive Vice President of the Company in December 2007. He was the Party Secretary and Executive Vice President of the Company since February 2009. Mr. Zhang has been the Director, the Party Secretary and Executive Vice President of the Company in June 2009. He had been the Party member of CSAH and the Director, the Party Secretary and Executive Vice President of the Company in August 2011. Mr. Zhang has been Deputy Party Secretary, Executive Vice President of CSAH and Director, Party Secretary, Executive Vice President of the Company as well as the Chairman of China Southern Airlines Henan Airlines Company Limited since August 2016. Since November 2017, he has been Deputy Party Secretary and Executive Vice President of CSAH, Director, Deputy Party Secretary and Executive Vice President of China Southern Airlines Company Limited; In November 2018, he ceased to act as Deputy Party Secretary and Executive Vice President of CSAH and Deputy Party Secretary of China Southern Airlines Company Limited due to his retirement. In January 2019, he ceased to act as Executive Vice President of China Southern Airlines Company Limited.

**Zheng Fan**, male, aged 63, graduated with a bachelor's degree from Beijing Normal University majoring in School Education and is a senior expert of political science. Mr. Zheng is a CPC member and began his career in 1974. He served as a teacher of Faculty of Education at Beijing Normal University from February 1982. He worked as a cadre at public relationship department of the Chinese Communist Party Central Committee and was a deputy Director level investigator from January 1986, deputy Director-general (temporary post) of public relationship department of CBRC Shenzhen Municipality Luohu District Committee and deputy Director general (temporary post) of public relationship department of Shenzhen Committee of Communist Party of China from March 1988, deputy Director of public relationship department of CBRC Shenzhen Municipality Futian District Committee and office Director of working committee under the CBRC Shenzhen Municipality Committee from March 1991. Since August 1994, he has been appointed as general manager of general administration office of Overseas Chinese Town Economic Development Company, general manager's assistant of OCT Group and managing Director of Overseas Chinese Town (HK) Company Limited since December 1997, deputy secretary of the Party Committee, secretary of Discipline Inspection Commission and Chief Cultural Officer of Overseas Chinese Group Company since August 2000, secretary of the Party Committee and vice-president of Overseas Chinese Group Company since March 2008, secretary of the Party Committee and vice-chairman of Overseas Chinese Town Company Limited since January 2010, chief supervisor since December 2014 and Professional External Director for Central State-owned Enterprises since February 2016. He acted as Council Member of China Overseas Exchange Association, Director of relation of the Two Shores Across the Strait Association, vice president of Guangdong's Association For Promotion of Cooperation between Guangdong, Hong Kong and Macao and vice-chairman of Guangdong Province Association of Entrepreneurs. He was also a Congressman of the 4th term and 5th term of the People's Congress for Shenzhen Municipality and a member of the 11th session of Guangdong Provincial Committee of Political Consultative Conference. Mr. Zheng has been independent non-executive Director of the company since 20 December 2017.

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**Gu Huizhong**, male, aged 62, graduated with a master degree from Beihang University majoring in International Finance and is a senior accountant with professor level. Mr. Gu is a CPC member and began his career in 1974. He served as deputy chief and chief of the General Office of Financial Division of Aviation Industry Department, Director of International Affairs Financial Division of Aviation Industry Corporation of China, general manager of Zhongzhen Accounting Consultative Corporation, vice Director general of Financial Department of Aviation Industry Corporation of China and deputy Director general of Financial Department of State Commission of Science, Technology and Industry for National Defence. From June 1999 to February 2005, he acted as a member of the Communist Party and vice president of Aviation Industry Corporation of China I. From February 2005 to August 2008, he acted as a member of Party Leadership Group, vice president and chief accountant of Aviation Industry Corporation of China I. From August 2008 to January 2017, he acted as a member of Party Leadership Group, vice president and chief accountant of Aviation Industry Corporation of China. He previously served as chairman of AVIC I International Leasing Co., Ltd., chairman of AVIC I Financial Co., Ltd., chairman of CATIC International Holdings Limited, chairman of AVIC Capital Co., Ltd and chairman of AVIC International Vanke Company Limited. He is currently served as supervisors of the Bank of Communications, is a chairman of the Expert Committee of government authorities in the PRC and vice chairman of the Accounting Society of China. Since 20 December 2017, Mr. Gu has been independent non-executive Director of the Company.

**Tan Jinsong**, male, aged 54, graduated from Renmin University of China with an on-job doctor degree in Accounting. Mr. Tan is a Chinese Certified Public Accountant and a CPC member. Mr. Tan began his career in 1985 and was a teacher in Shaoyang School of Finance and Accounting of Hunan Province and the Deputy Dean of the School of Management of Sun Yat-sen University. Mr. Tan is currently a professor and a doctorate-tutor of the School of Management of Sun Yat-sen University. He is also a member of the MPAcc Education Instruction Committee, a member of China Institute of Internal Audit, Vice President of Guangdong Institute of Certified Public Accountants and a member of China Audit Society. Currently, Mr. Tan also serves as the independent Director of Poly Real Estate Company Limited, Guangzhou Hengyun Enterprises Holdings Limited, Shanghai RAAS Blood Products Co., Ltd. and Zhuhai Huafa Industrial Company Limited. Mr. Tan has been the independent non-executive Director of the Company since 26 December 2013.

**Jiao Shuge**, male, aged 53, with a master degree, first graduated from the Control Theory Faculty of the Department of Mathematics of Shandong University with a bachelor degree, and then graduated from the Systems Engineering Faculty of No. 2 Research Institute of the Ministry of Aerospace Industry with a Master's degree in Engineering. Mr. Jiao has extensive experience in funds management and equity management. Currently, Mr. Jiao is the Director and President of CDH China Management Company Limited ( CDH Investments ) and is the founder of CDH Investments. He was a computer researcher of 710 Research Institute of the former Ministry of Aerospace Industry of China, the Deputy General Manager of Direct Investment Department of China International Capital Corporation Ltd. ( CICC ). Mr. Jiao was the non-executive Director of China Yurun Food Group Limited and China Shanshui Cement Group Limited. Currently, he is also the Director of the associated companies of CDH Investments, the independent non-executive Director of China Mengniu Dairy Company Limited, the non-executive Director and Vice Chairman of WH Group Limited, the Director of Joyoung Co., Ltd., the Vice President of Henan Shuanghui Investment & Development Co.,Ltd. and the Director of a number of companies including Beijing Taiyang Pharmaceutical Industry Company Limited, Chery Automobile Co., Ltd., Inner Mongolia Hetao Spirit Group Co., Ltd., Fujian Nanping Nanfu Battery Co.,Ltd. and Shanghai Qingchen Real Estate Development Co., Ltd. Mr Jiao has been the independent non-executive Director of the Company since 30 June 2015.

**Supervisors**

**Pan Fu**, male, born in February 1963 (aged 56), graduated from Chongqing University majoring in Electrical Engineering Department of Power Systems and Automation. He has a Master's Degree of Science. Also, he is a senior

engineer. He began his career in July 1986 and joined the Chinese Communist Party in June 1986. He served as the Deputy Head of the Planning Department of Electric Power Industry Bureau of Yunnan Province, the Director of Yang Tsung Hai Electricity Supply Limited Liability Company of Yunnan Province, the Deputy Director of the Planning & Development Division of Electric Power Industry Bureau of Yunnan Province and the Deputy Director and Director of Kunming Power Plant, the Deputy Chief Engineer and Chief Engineer of Yunnan Electric Power Corporation. He served as the Deputy Director and Director of the Department of Security Supervision of China Southern Power Grid Company Ltd., the Director of China Southern Power Grid Company Ltd. and Research Center, and served as the General Manager and Deputy Party Secretary of the Guizhou Power Grid Corporation. Mr. Pan served as the Director of the Planning Development Department of China Southern Power Grid Company Ltd.. In October 2010, Mr. Pan has been the team leader and party member of the Discipline Inspection Commission of CSAH; in December 2010, he has been the team leader and party member of the Discipline Inspection Commission of CSAH and Chairman of Supervisory Committee of China Southern Airlines Company Limited; In November 2017, he has been the team leader and party member of the Discipline Inspection Commission of China Southern Air Holding Limited Company and Secretary of the Commission for Discipline, Party member and Chairman of Supervisory Committee of China Southern Airlines Company Limited. In January 2019, he ceased to be the team leader and party member of the Discipline Inspection Commission of China Southern Air Holding Limited Company and Secretary of the Commission for Discipline and Party member of China Southern Airlines Company Limited due to his work reallocation.

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**Li JiaShi**, male, born in May 1961 (aged 57), graduated from Party School of the CPC majoring in Economic Administration and has a bachelor degree. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is an expert of political science. Mr. Li began his career in August 1976 and joined the Chinese Communist Party in June 1986. In February 1998, he served as the party secretary of Guangzhou Nanland Air Catering Company Limited and the Deputy Head (work as chair) of the Organization Division of the Party Committee of the China Southern Airlines (Group) Company in April 1999. Mr. Li served as the head of the Organization Division of the Party Committee of CSAH in December 1999; and served as the Deputy Secretary of the Disciplinary Committee and the Director of the Disciplinary Committee Office of the Company in December 2003. Mr. Li served as the Secretary of the Disciplinary Committee, member of the Standing Committee of the CPC and the Director of the Disciplinary Committee Office of the Company in December 2007. Mr. Li has been the supervisor of the Company since June 2009. He has been the team deputy leader of the Discipline Inspection Commission of CSAH, and member of Secretary of the Disciplinary Committee, the Director of the Disciplinary Committee Office in February 2012, and the Standing Member of Party Committee of China Southern Airlines Company Limited in November 2017. He has acted as the Labour Union chairman and the Standing Member of Party Committee of China Southern Airlines Company Limited in November 2017. He acted as the Chairman of the Labour Union of CSAH and the Chairman of the Labour Union and Standing Member of Party Committee of the Company from January 2018. He has served as the Chairman of the Labour Union of CSAH and the Chairman of the Labour Union of the Company since July 2018.

**Mao Juan**, female, born in December 1972 (aged 46), obtained a bachelor degree in Accounting from Harbin University of Science and Technology. Ms. Mao began her career in July 1993, and joined the Chinese Communist Party in April 1992. She served as Deputy General Manager of Hainan Branch Comprehensive Trading Company, Deputy Manager of Finance Department in Hainan Branch of the Company and Manager of Audit and System Office of Finance Department in the Company. From August 2011, she acted as Deputy General Manager of Audit Department in the Company and acted as General Manager of Audit Department in the Company since June 2016. She has been the deputy general manager of Audit Department in the CSAH and the Company from April 2017. She has served as the General Manager of CSAH and the Company's Audit Department since November 2017. She served as the supervisor of the Company, general manager of Audit Department of CSAH and the Company since December 2017. Currently, she is the Chairman of the Supervisory Committee of Southern Airlines Group Finance Company Limited and Nan Lung International Freight Limited, as well as the supervisor of Xiamen Airlines Company Limited.

**Senior Management**

**Mr. Ma Xulun**, male, born in July 1964 (aged 54). He graduated from the School of Mechanical Science & Engineering of HUST, majoring in industrial engineering. He has a master degree of engineering and is a certified public accountant. He started his career in August 1984, and joined in the Chinese Communist Party in October 1990. He has been the deputy general manager of China Commodities Storing and Transportation Corporation, deputy director general of the Finance Department of the CAAC, vice president and Standing Member of Party Committee of Air China Corporation Limited. He was appointed as vice president of general affairs and deputy party secretary of Air China Corporation Limited in October 2002; and served as the director, president and deputy party secretary of Air China Corporation Limited in September 2004. He served as a party member of China National Aviation Holding Company and director, president and deputy party secretary of Air China Corporation Limited in December 2004, and deputy general manager and party member of China National Aviation Holding Company from February 2007. In December 2008, he was appointed as deputy party secretary of China Eastern Air Holding Company and general manager and deputy party secretary of China Eastern Airlines Corporation Limited. He served as secretary to the Party Committee and deputy general manager of China Eastern Air Holding Company and general manager of China Eastern Airlines Corporation Limited in October 2011. In November 2016, he served as the director, general manager and deputy party secretary of China Eastern Air Holding Company, and vice Chairman, general manager and deputy

party secretary of China Eastern Airlines Corporation Limited in December 2016; In January 2019, he acted as the director, general manager and deputy party secretary of China Southern Air Holding Limited Company. In March 2019, he acted as the director, general manager and deputy party secretary of China Southern Air Holding Limited Company and president of China Southern Airlines Company Limited.

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**Mr. Han Wensheng**, male, born in January 1967 (aged 52), graduated from Management Department of Tianjin University, majoring in engineering management, with qualification of a Master's degree. He obtained a Master's Degree of Science and was a economist. He began his career in August 1987, and joined the Chinese Communist Party in May 1985. He was served as Deputy Director General of Cadre Training Center of the Company, Director of The Research Bureau of the Company, general manager of Labour Department and Secretary of CPC General Committee of the Company, Deputy Director General and a member of Party Committee of the Commercial Steering Committee and general manager as well as Deputy Party Secretary of the sales and marketing department of the Company, general manager and Deputy Party Secretary of Shanghai base. He acted as Deputy Party Secretary and Deputy Director General of the Commercial Steering Committee of the Company since December 2009 and Party Secretary and Deputy Director General of the Commercial Steering Committee of the Company since October 2011. He served as vice president and party member of China Southern Air Holding Company from October 2016. From November 2017, he served as vice president and party member of China Southern Air Holding Limited Company, the vice president and Party member of the Company. He was appointed as director and Deputy Party Secretary of China Southern Air Holding Limited Company, Vice president of the Company in November 2018. From January 2019, he served as director and Deputy Party Secretary of China Southern Air Holding Limited Company. Currently, he also served as Vice Chairman of Sichuan Airlines Corporation, director of China Travel Sky Holding Company and Vice Director General of China Air Transport Association.

**Xiao Lixin**, male, born in June 1966 (aged 52), graduated from Guangdong Academy of Social Sciences with a master degree in Economics and then obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a qualified senior accountant and a certified public accountant. Mr. Xiao began his career in July 1991, and joined the Chinese Communist Party in February 1998. He served as the Deputy General Manager of the Finance Department of the Company from March 2001. He served as the General Manager and Deputy Secretary of the General Party Branch of the Finance Department of the Company from January 2002. Mr. Xiao served as the deputy chief accountant and general manager of the Finance Department of the Company from February 2007, and served as the General Manager and Secretary of the General Party Branch of Southern Airlines Group Finance Company Limited from October 2007. He served as the General Manager and Party Secretary of Southern Airlines Group Finance Company Limited from February 2008. Mr. Xiao has been the Chief Accountant and Chief Financial Officer of the Company since March 2015. From October 2016, he has served as Chief Accountant and Party member of China Southern Air Holding Limited Company (CSAH) and Chief Accountant and Chief Financial Officer of the Company. From November 2017, he has served as Chief Accountant and Party member of CSAH and Executive Vice President, Chief Accountant, Chief Financial Officer and a member of the Party Committee of the Company. For now, he also serves as Chairman of Guizhou Airlines Company Limited, Chairman of Shantou Airlines Company Limited, Director of Xiamen Airlines Company Limited as well as Director of China Southern Airlines Overseas (Hong Kong) Co. Ltd.

**Zhang Zhengrong**, male, born in September 1962 (aged 56), has a college degree from Civil Aviation Flight University of China majoring in Aircraft Piloting. He was graduated from Party School of the Central Committee of CPC majoring in economic management with a bachelor degree. He also obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He began his career in February 1982, and joined the Chinese Communist Party in April 1988. He served as Vice Captain of Third Flight Corps of Civil Aviation Administration, Vice Captain of Fourth Flight Corps and Captain of First Flight Corps of CSAH. From May 2002, he has been the Deputy General Manager of Civil Aviation Administration of the Company and Captain of First Flight Corps of the Company. From November 2002, he has been General Manager of Department of Security Supervision of the Company, as well as General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company in May 2004. In August 2007, he was appointed as Chief Pilot of the Company and General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company. From March 2009, he has been Chief Pilot and Director of Aviation Security Department of the Company. Since April 2012, he served as the Chief Pilot, COO



Flight Safety and Director of Aviation Security Department of the Company and in July 2012, he served as the Chief Pilot and Aviation Security Minister of CSAH. Since April 2014, he has acted as Chief Pilot, COO Flight Safety and Director of Aviation Security Department of CSAH. Since December 2016, he has been Chief Pilot of CSAH. He has served as Chief Pilot of CSAH and Chief Operation Officer of the Company since January 2017. Since November 2017, he has been the General Manager Assistant of CSAH and Chief Operation Officer of the Company. From June 2018, he has been the Vice President, Party Member of CSAH and Chief Operation Officer of the Company. In August 2018, he served as the Deputy general manager, Party Member of CSAH and the Executive Vice President, Chief Operation Officer of the Company. Since November 2018, he acted as the Deputy General Manager, Party Member and the Executive Vice President of the Company.

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**Luo Laijun**, male, born in October 1971 (aged 47), 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's school of economics and management. He began his career in July 1993 and joined the Communist Party of China in September 1992. He served as the Manager of Finance Department in Shanghai Branch of the Company, Deputy Director of the Purchasing Office in Finance Department of the Company, Deputy Manager and Manager of Finance Department of Guizhou Airlines Company Limited. He has acted as a member of the party committee, Chief Financial Officer and manager of Finance Department of Guizhou Airlines Company Limited in June 2003; Director of Business Assessment Office of the Company in June 2005; Deputy Director of Commercial Steering Committee and General Manager and Party member of Financing Plan Department of the Company in November 2005; General Manager and Deputy Party Secretary of Freight Department of the Company in February 2009; the General Manager and the Deputy Party Secretary of Dalian Branch of the Company in July 2012; Executive Deputy Director and the Deputy Party Secretary of Commercial Steering Committee of the Company in November 2016; Director and the Deputy Party Secretary of Commercial Steering Committee of the Company in August 2017; Executive Vice President and the Party member of China Southern Air Holding Limited Company in February 2019; Executive Vice President and the Party member of China Southern Air Holding Limited Company and Executive Vice President of the Company in March 2019.

**Ren Jidong**, male, born in January 1965 (aged 54), Bachelor of Engineering, graduated from Power Engineering Department of Nanjing University of Aeronautics and Astronautics with a bachelor's degree, majoring in Aircraft Engine Design and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, and he is a senior engineer. Mr. Ren began his career in August 1986 and joined the Chinese Communist Party in June 1986. He served as the Deputy Director (deputy general manager) and a member of the Standing Committee of the CPC of Urumqi Civil Aviation Administration (Xinjiang Airlines) and the Deputy General Manager and a member of the Standing Committee of the CPC of Xinjiang Airlines. He acted as the Party Secretary and Deputy General Manager of CSAH Xinjiang Company from June 2004, the Party Secretary and Deputy General Manager of Xinjiang Branch of the Company from January 2005, a member of the Standing Committee of the CPC of the Company from February 2005, Deputy General Manager and a member of the Standing Committee of the CPC of the Company from March 2005, a member of the Standing Committee of the CPC of the Company and the General Manager and Deputy Party Secretary of Xinjiang Branch from January 2007, a member of the Standing Committee of the CPC of the Company from April 2009, Deputy General Manager and a member of the Standing Committee of the CPC of the Company from May 2009 and the Executive Vice President of the Company from July 2018.

**Cheng Yong**, male, born in April 1962 (aged 56), graduated from Civil Aviation Flight College of China majoring in Aircraft Piloting and Civil Aviation Flight University of China majoring in Wingman ship, with a bachelor degree. He obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management and is a command pilot. He began his career in January 1982, and join the Chinese Communist Party in August 1984. He has been the Deputy Head of Shenyang Chief Flight Corps Team of China Northern Airlines Company, vice president of China Northern Airlines Company Tian'e LLC and president of China Northern Airlines Company Sanya Co., Ltd.. He served as the General Manager of CSAHC Northern Division in November 2004; president and deputy party secretary of Northern Branch of the Company in January 2005; deputy leader of steering group for reorganization of Liaoning Airport Management Group Company in January 2009; president and deputy party secretary of Beijing Branch of the Company in April 2009; a member of the Standing Member of Party Committee of the Company and General Manager and Deputy Party Secretary of Beijing Branch of the Company from April 2010; a Standing Member of Party Committee of the Company in July 2017; and Executive Vice President of the Company in August 2018.

**Wang Zhixue**, male, born in January 1961 (aged 58), has a college degree from Civil Aviation Flight University of China majoring in Aircraft Piloting, and obtained a degree from Civil Aviation Flight University of China majoring in

Wingman ship, and is a command pilot. Mr. Wang began his career in February 1981, and joined the Chinese Communist Party in December 1980. Mr. Wang successively served as the Deputy Chief Pilot and Director of the Flight Safety Technology Department of Shantou Airlines Company Limited of CSAH, Deputy Chief Pilot and Manager of the Flight Safety Technology Division of Shantou Airlines Company Limited of CSAH. He also acted as the Deputy General Manager of Shantou Airlines Company Limited of CSAH from June 2002, and the General Manager of the Flight Management Division of the Company from October 2004, and the General Manager and Deputy Party Secretary of Guangzhou Flight Division of the Company from February 2009. Mr. Wang has been Chief Pilot and a member of the Standing Committee of the CPC of the Company from July 2012, and Executive Vice President, chief pilot and a member of the Standing Committee of the CPC of the Company from August 2012. He has been Executive Vice President and a member of the Standing Committee of the CPC of the Company from December 2016. He has been Executive Vice President of the Company from July 2018, and was appointed as legal representative, vice chairman, president and Deputy Secretary of CPC of Xiamen Airlines Company Limited in February 2019. For now, he also serves as Chairman of Zhuhai Airlines Company Limited.

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**Li Tongbin**, male, born in December 1961 (aged 57), graduated with a bachelor degree from Northeastern University majoring in industrial Electric Automation, and Business Administration (MBA) from School of Economics and Management of Hainan University. He obtained an Executive Master of Business Administration (EMBA) Degree from Tsinghua University, and is a senior engineer. Mr. Li began his career in August 1983, and joined the Chinese Communist Party in May 1983. He successively served as the Director of Aircraft Engineering Department and the Director of aircraft maintenance base of China Northern Airlines Company, the General Manager of Jilin branch of China Northern Airlines Company. He also acted as the Deputy General Manager and Deputy Party Secretary of Zhuhai Airlines Company Limited from September 2004, the General Manager and Deputy Party Secretary of Zhuhai Airlines Company Limited from January 2005, and the party secretary and Deputy General Manager of Northern Branch of the Company from April 2012. Mr. Li was the Chief Engineer, General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company from April 2014. He has been the Chief Engineer, a member of the Standing Committee of the CPC, General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company from August 2015. Mr. Li has been the Executive Vice President, Chief Engineer, a member of the Standing Committee of the CPC, as well as General Manager of Aircraft Engineering Department and Deputy Party Secretary of the Company since September 2015. From December 2016, he has been Executive Vice President, Chief Engineer and a member of the Standing Committee of the CPC. In July 2018, he was appointed as the Executive Vice President and Chief Engineer of the Company. For now, Mr. Li also serves as Chairman of Shenyang Northern Aircraft Maintenance Co., Ltd., Guangzhou Aircraft Maintenance Engineering Co., Ltd and MTU Maintenance Zhuhai Co., Ltd..

**Su Liang**, male, born in April 1962 (aged 56), graduated from the University of Cranfield, United Kingdom with a master degree majoring in Air Transport Management, and is an engineer. Mr. Su began his career in December 1981, and joined the Chinese Communist Party in May 1996. He successively served as Deputy General Manager of the Flight Operations Division, Deputy General Manager and Manager of Planning and Management Division of CSAH Shenzhen Company. Mr. Su was the Secretary to the Board from July 2000, the Secretary to the Board and Director of Board Secretariat of the Company from December 2003, the Secretary to the Board, Deputy Director and Party member of Commercial Steering Committee of the Company from November 2005, the Company Secretary and Director of Company Secretary Office and Deputy Director of Commercial Steering Committee and Party member of the Company from February 2006. Mr. Su has been the Chief Economist of the Company since December 2007. For now, he also serves as Director of Sichuan Airlines Company Limited, Chairman of Southern Airlines Culture and Media Co., Ltd. and China Southern West Australian Flying College Pty Ltd..

**Chen Weihua**, male, born in October 1966 (aged 52), graduated from the School of Law of Peking University with a bachelor degree and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, who is an economist, a qualified lawyer in the PRC and a qualified corporate legal counselor. Mr. Chen joined the aviation industry in July 1988, and joined the Chinese Communist Party in February 2001. He successively served as Deputy Director of Legal Department of China Southern Airlines (Group) Corporation, Deputy Director of the Office (Director of the Legal Division) of the Company and China Southern Airlines (Group) Corporation. Mr. Chen was the Chief Legal Adviser of the Company and Director of the Legal Division of the Company from December 2003. Mr. Chen has been the Chief Legal Adviser and General Manager of the Legal Division of the Company since October 2008. He has served as Chief Legal Adviser of the Company since April 2017. For now, he also acts as Director of Xiamen Airlines Company Limited.

**Xie Bing**, male, born in September 1973 (aged 45), graduated from Nanjing University of Aeronautics and Astronautics, majoring in Civil Aviation Management. He subsequently received a master degree of business administration from the Management School of Jinan University, a master 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,

fellow member and FCS of The Hong Kong Institute of Chartered Secretaries, and has the qualification for Company Secretary of companies listed on Shanghai Stock Exchange and also has the qualification for Company Secretary of companies listed on Stock Exchange. Mr. Xie began his career in July 1995, and joined the Chinese Communist Party in January 1994. He successively served as the Assistant of Company Secretary of the Company, and the Executive Secretary of the General Office of CSAH. Mr. Xie has been the Company Secretary and Deputy Director of the Company Secretary Office from November 2007. From December 2009, Mr. Xie has been the Secretary to the Board and Director of the Company Secretary Office of the Company. From April 2017, he has been the Secretary to the Board of the Company, Director of the Company Secretary Bureau of China Southern Air Holding Limited Company and Director of the Company Secretary Bureau of the Company. For now, he also acts as Chairman and Party Secretary of China Southern Airlines Group Capital Holding Limited and Chairman of CSA International Finance Leasing Co., Ltd., Deputy President of Central Enterprises Overseas students Sodality and a Council Member of The Hong Kong Institute of Chartered Secretaries.

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**Feng Huanan**, male, born in November 1962 (aged 56), graduated with a college degree from China Civil Aviation Flying College, majoring in Aircraft Piloting, and obtained a master degree in Aeronautical Engineering from School of Automation Science and Electrical Engineering of Beijing University of Aeronautics and Astronautics and an Executive Master of Business Administration (EMBA) from Tsinghua University. He is a commanding pilot. Mr. Feng began his career in January 1983, and joined the Chinese Communist Party in October 1986. He successively served as the Director of Zhuhai Flight Training Centre of China Southern Airlines (Group) Company and the Deputy General Manager of Flight Operation Division of the Company. He was the General Manager of Flight Safety Technology Department from December 1999, and the General Manager of Flight Technology Management Department of the Company from November 2002. Mr. Feng also served as the Party Secretary and Deputy General Manager of Guizhou Airlines Company Limited from September 2004, and then served as the General Manager and Deputy Party Secretary of Guizhou Airlines Company Limited from February 2006. He has been the COO Flight Safety of the Company since August 2014. For now, he also serves as the Chairman of Zhuhai Xiang Yi Aviation Technology Co., Ltd..

**Guo Jianye**, male, born in December 1962 (aged 56), graduated from Party School of Civil Aviation Flight University of China majoring in Aircraft Piloting, South China Normal University majoring in Political Education in Education Management Department and the Party School of the Central Committee of CPC majoring in economic management. He obtained a master's degree from the Party School of the Central Committee of CPC and also obtained a Bachelor of Philosophy. He is an expert of political science. He began his career in May 1980, and joined the Chinese Communist Party in May 1986. He was appointed as Secretary of Youth League Committee, Deputy Director of Advertising and Promotion Department of CAAC Central and Southern Regional Administration, Director of Political Department of Air traffic management bureau under CAAC Central and Southern Regional Administration, Vice Director of Air traffic management bureau under CAAC Central and Southern Regional Administration and General Manager of Guangdong CAAC Central and Southern Industrial Co., Ltd., Deputy Head of CAAC Hainan Safety Supervision Office, Head and Party Secretary of CAAC Henan Safety Supervision Office, Director and Party Secretary of CAAC Henan Safety Supervision Administration, the member of standing committee of CAAC Central and Southern Regional Administration, as well as the Vice Director. In July 2012, he served as General Manager and Deputy Party Secretary of Heilongjiang Branch of the Company. From July 2014, he acted as, Director and Deputy Party Secretary of Commercial Steering committee of the Company. Since January 2017, he has been the Chief Customer Officer of the Company. For now, he also acts as Chairman of Shenzhen Air Catering Co., Ltd., Guangzhou Nanland Air Catering Company Limited, Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited, China Southern Jia Yuan (Guangzhou) Air Products Co., Ltd..

**Luo Minghao**, male, born in September 1962 (aged 56), graduated from the Civil Aviation Flight University of China for professional flying. He graduated with a master degree from the Party School of Hunan Provincial Committee majoring in economics. He obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is Second Class Pilot. He began his career in July 1982, and joined the Communist Party of China in December 1984. He served as the deputy general manager of the flight division of Hunan Branch of CSAH and deputy manager of Bei Hai Sales Department in Hunan Branch of the Company. He served as the deputy general manager of Hunan Branch of the Company in May 2002, General Manager and Deputy Party Secretary of the Cabin Department of the Company in December 2006. He acted as General Manager and Deputy Party Secretary of Dalian Branch of the Company in December 2010, General Manager and Deputy Party Secretary of Guangzhou Flight Department of the Company in July 2012 and Chief Pilot of the Company in March 2018.

**Wang Renjie**, male, born in October 1964 (aged 54), has bachelor's degrees from People's Liberation Army Air Force No.1 Flight Academy majoring in Aircraft Piloting and Aviation Theory and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a Second Class Pilot. He began his career in June 1983, and join in the Chinese Communist Party in December 1990. He has been the Vice President of the

Flight Management Division of the Company, Vice President and a party member of Guangzhou Flight Division of the Company, President of the Flight Management Division of the Company. He served as the President and Deputy Party Secretary of Xi an branch of the Company in August 2014; President of the Flight Management Division of the Company in December 2016, and President of the Flight Management Division, a member of the Party Committee of Administrative Office of the Company in February 2017; President of the Flight Management Division of China Southern Air Holding Limited Company and the Company in April 2017; Deputy Chief Operation Officer of the Company in May 2018; the Secretary of CPC General Branch of laws & standards Division of China Southern Air Holding Limited Company and the Company in September 2018; Chief Operation Officer of the Company and Secretary of CPC General Branch of laws & standards Division of China Southern Air Holding Limited.

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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, suppliers or others. None of the above Directors or Supervisors, senior management of our Company has any family relationship with any Directors, Supervisors, senior management, substantial shareholders of our Company. None of our directors or senior management owns any shares or options in our Group as of April 26, 2019.

**B. COMPENSATION**

The aggregate compensation paid to all Directors, Supervisors and Senior Management for 2018 was RMB17.38 million. For the year ended December 31, 2018, we paid an aggregate of approximately RMB1.80 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 remuneration for the year ended December 31, 2018 are set out below:

	Directors fees RMB 000	Salaries, allowances and benefits in kind RMB 000	Retirement scheme contributions RMB 000	Total RMB 000
<i>Executive Directors</i>				
Wang Chang Shun				
Tan Wan Geng				
Zhang Zi Fang				
<i>Independent Non-executive Directors</i>				
Tan Jin Song	150			150
Zheng Fan				
Jiao Shu Ge	150			150
Gu Hui Zhong	60			60
<i>Supervisors</i>				
Pan Fu				
Li Jia Shi		84	12	96
Mao Juan		658	124	782
Total	360	742	136	1,238

**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 eighth session of our board of directors will expire on December 20, 2020. A director may serve consecutive terms upon re-election.

**Strategic and Investment Committee**



The Strategic and Investment Committee comprises three members and is chaired by Mr. Wang Changshun. The other two members are Mr. Gu Huizhong as an independent non-executive Director and Mr. Jiao Shuge as an independent non-executive Director.

The Strategic and Investment Committee held one meeting in 2018 in accordance with its rules and procedures, and considered a report on the Company's proposed development program for world-class air transport enterprises.

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### **Audit and Risk Management Committee**

The Audit and Risk Management Committee is appointed by our board of Directors and consists of three independent non-executive directors. The current members of the Audit and risk management committee are Tan Jinsong, Gu Huizhong and Jiao Shuge. Tan Jinsong is the Chairman of the Audit and Risk Management Committee. A member may serve consecutive terms upon re-election. At least once a year, the committee is required to meet with our Company's external auditors without any executive members of our board in attendance. The quorum necessary for the transaction of any business is two. The Audit and Risk Management Committee held 13 meetings in 2018, which were attended by all members.

The Audit and Risk Management Committee is required, amongst other things, to oversee the relationship with the external auditors, to review our interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, if necessary, to engage independent legal or other advisers as it determines is necessary and to perform investigations. In addition, the Audit and Risk Management Committee also examines the effectiveness of our Company's internal controls, 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 Evaluation Committees**

The Remuneration and Evaluation Committees is comprised of three members. Currently, the Remuneration and Evaluation Committees is chaired by independent non-executive director Gu Huizhong with the independent non-executive director Zhang Zifang and the non-executive director Zheng Fan as members. The term of office of each member is three years. A member may serve consecutive terms upon re-election. The Remuneration and Evaluation Committees held 2 meeting in 2018, which were attended by all members.

The responsibilities of the Remuneration and Evaluation Committees 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 Evaluation Committees 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 Evaluation Committees consulted, when appropriate, the Chairman and/or the President about its proposals relating to the remuneration of other executive directors. The Remuneration and Evaluation Committees is provided with sufficient resources to discharge its duties and professional advice is available if necessary. The Remuneration and Evaluation Committees is also responsible for assessing performance of executive directors and approving the terms of executive directors' service contracts. The Remuneration and Evaluation Committees performed all its responsibilities under its terms of reference in 2018.

### **Nomination Committee**

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

As of December 31, 2018, the Nomination Committee consists of three members, including Zheng Fan as Chairman and Wang Changshun as an executive director) and Jiao Shuge as an independent non-executive director. 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; investigate and propose candidates for directors and managers and other senior management members to our board.

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In accordance with relevant laws and regulations as well as the provisions of the Articles of Association of our Company, the Nomination Committee shall study and resolve on 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 and proposed to our board for approval and shall be implemented accordingly. The Nomination Committee is provided with sufficient resources to discharge its duties and independently engages intermediate agencies to provide professional advice on its proposals if necessary.

The Nomination Committee held four meetings in 2018, to nominate and appoint Mr. Luo Minghao as the Chief Pilot of the Company, Mr. Zhang Zhengrong and Mr. Cheng Yong as Executive Vice President of the Company, and Mr. Wang Renjie as Chief Operation Officer of the Company. The Nomination Committee performed all its obligations under their terms of reference in 2018.

**Aviation Safety Committee**

The Aviation Safety Committee comprises three members and is chaired by Mr. Tan Wangeng as the former executive director. The other two members are Mr. Zheng Fan as an independent non-executive Director and Mr. Tan Jinsong as an independent non-executive Director. Mr. Tan Wangeng has resigned with effective from November 30, 2018.

**D. EMPLOYEES**

As of December 31, 2016, 2017 and 2018, we had 93,132, 96,234 and 100,831 employees, respectively. The table below sets forth the number of our employees by activity as of December 31, 2018. During 2018, we employed 1,443 temporary employees on an average.

	<b>Employees</b>	<b>% of Total</b>
Pilots	9,698	9.62
Flight attendants	21,297	21.12
Maintenance personnel	16,589	16.45
Passenger transportation personnel	9,108	9.03
Cargo transportation personnel	6,370	6.32
Ground service personnel	10,963	10.87
Flight operation officers	2,546	2.53
Flight security guards	2,595	2.57
Information system personnel	1,855	1.84
Financial personnel	2,376	2.36
Others	17,434	17.29
Total	100,831	100.00

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

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

***Employee benefits***

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

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### ***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 13% to 20% of salary costs including certain allowances in both 2018 and 2017. 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, had made certain welfare subsidy payments to these retirees.

In 2014, our Company and our major subsidiaries joined a new 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 2018 was approximately RMB 598 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 provides 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 has 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 suffer a work-related illness, injury or disability, and continues to pay the full salary of, and provides all standard cash subsidies to, such employee during the term of such illness, injury or disability. We also pay for certain medical expenses of our temporary employees.

## **E. SHARE OWNERSHIP**

None of our directors or senior management owns any shares or options in our Company as of April 26, 2019.

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

### **A. MAJOR SHAREHOLDERS**

The table below sets forth information regarding the ownership of our share capital as of April 26, 2019 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.

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<b>Title of Shares</b>	<b>Identity of Person or Group</b>	<b>Beneficially Owned<sup>(1)</sup></b>	<b>Percentage of the Respective Class of Shares<sup>(2)</sup></b>	<b>Percentage of Total Shares<sup>(2)</sup></b>
A shares	CSAH	4,528,431,323	52.65%	36.92%
H shares	HKSCC Nominees Limited	1,750,929,908	47.76%	14.27%
H shares	CSAH (3)	1,671,287,925	45.58%	13.62%
H shares	Nan Lung Holding Limited	1,671,287,925	45.58%	13.62%
A shares	China National Aviation Fuel Group Corporation	498,338,870	5.79%	4.06%
H shares	Hong Kong Securities Clearing Company Limited	483,433,236	13.19%	3.94%
H shares	American Airlines Group Inc.(4)	270,606,272	7.38%	2.21%
A shares	Qatar Airways Group Q.C.S.C.	430,036,166	5.00%	3.51%
H shares	Qatar Airways Group Q.C.S.C.	183,324,000	5.00%	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 8,600,723,089 A Shares and 3,666,449,197 H Shares, respectively, issued as of April 26, 2019. Percentage of total shares is based on 12,267,172,286 shares issued as of April 26, 2019.

(3) CSAH was deemed to be interested in an aggregate of 1,671,287,925 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 0.85% of its then total issued H Shares) and 1,640,137,925 H Shares were directly held by Nan Lung (representing approximately 44.73% 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.

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

As of December 31, 2018, there were 56 registered holders of 2,127,654 American Depositary Shares in the U.S., consisting of 2.9% of our outstanding H shares. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.



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

## **B. RELATED PARTY TRANSACTIONS**

For a detailed description of our related party transactions, please see Note 51 to the consolidated financial statements. In particular, the following arrangements, which we believe are material to our operations, have been entered into between us and CSAH and its affiliates during the year ended December 31, 2018 and up to the latest practicable date. 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.

### **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 (China Southern) and (China Southern Airlines) in b and English, and grants us a renewable and royalty free license to use the kapok logo on a worldwide basis in connection with our airline and airline-related businesses. Unless CSAH gives a written notice of termination three months before the expiration of the agreement, the agreement will be automatically renewed for another ten-year term. In May 2017, the trademark license agreement entered into between us and CSAH was automatically renewed for ten years.

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

- (1) We and CSAH entered into an asset lease framework agreement on January 26, 2018 for a term of three years from January 1, 2018 to December 31, 2020 to renew lease transactions originally covered under the asset lease agreement dated December 29, 2014. Pursuant to the asset lease framework agreement, CSAH agreed to continue to lease to the Company certain buildings, land and equipment assets at existing locations in Guangzhou, Wuhan, Changsha, Haikou, Zhanjiang and Nanyang for a term of three years commencing from January 1, 2018 to December 31, 2020. The annual cap for rent payable to CSAH under such asset lease framework agreement is RMB116,198,000 for the three years ending December 31, 2020. For the year ended December 31, 2018, the rent incurred by the Group amounted to RMB86 million pursuant to the asset lease framework agreement.
- (2) 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.
- (3) On December 16, 2016, we and CSAH entered into a property and land lease framework agreement to renew the land and property leases transactions contemplated under the land lease agreement and the property lease agreement dated January 9, 2014, respectively, for the period from January 1, 2017 to December 31, 2019. Pursuant to this property and land lease framework agreement, CSAH agreed to lease the property and land in Shenyang, Chaoyang, Dalian, Changchun, Harbin, Xinjiang, Beijing, Shanghai and foreign offices to us. The maximum annual aggregate amount of rent payable by us to CSAH under the property and land lease framework agreement for each of the three years ending December 31, 2019 shall not exceed RMB130 million. Pursuant to this property and land lease framework agreement, we and CSAH will further discuss and agree on the scope and details of specific leasing and sign separate contracts.

For the year ended December 31, 2018, the rents for property lease and land lease incurred by the Group amounted to RMB32 million and RMB66 million, respectively pursuant to the property and land lease framework Agreements.

**Share Issuance**

On June 26, 2017, our board proposed to put forward to the extraordinary general meeting and the class meetings to approve and authorize our board (i) to issue not more than 1,800,000,000 new A Shares to not more than 10 specific investors including CSAH, and as part of such A Share issuance, to enter into the A Share subscription agreement with CSAH, pursuant to which CSAH will subscribe for no less than 31% of such new A Shares, the consideration of which was composed of cash and 50% equity interest of Zhuhai MTU shares; and (ii) to issue no more than 590,000,000 new H Shares to Nan Lung at the subscription price of HK\$6.27 per H Share (subject to adjustments) and to enter into the H Share subscription agreement with Nan Lung. The total funds to be raised from the aforesaid A Share issuance and the H Share issuance will be not more than RMB12,737.00 million, which will be utilised in the procurement of aircraft, the project for selection and installation of lightweight seats for A320 series aircraft and the supplemental to the general working capital. The aforesaid A Share issuance and the H Share issuance are inter-conditional upon each other. On September 19, 2017, our board considered and approved that (i) the Company to enter into the supplemental agreement I to the A Share subscription agreement with CSAH, pursuant to which 50% of

the Zhuhai MTU shares as partial consideration payable by CSAH for its subscription of new A Shares under the A Share subscription agreement has been adjusted to RMB1,741.08 million according to the final assessment results as filed and approved by the SASAC; and (ii) the subscription price and the number of H Shares to be issued pursuant to the H Share subscription agreement shall be adjusted to HK\$6.156 and not more than 600,925,925 new H Shares, respectively due to the implementation of our 2016 dividend distribution plan. On November 8, 2017, the aforesaid A Share issuance and the H Share issuance were approved in the extraordinary general meeting and the respective class meetings of shareholders of A and H shares on November 8, 2017. We received the approval from CSRC for the aforesaid H Share issuance in March 2018, and the aforesaid A Share issuance in May 2018. On August 30, 2018, as our 2017 profit distribution plan has been completed, the issue price of the H Shares Issuance was adjusted to HK\$6.034 per H Share. H Shares to be issued after the adjustment will be no more than 613,075,903 H Shares (including 613,075,903 H Shares) based on the adjusted issue price of HK\$6.034 per H Share. On September 11, 2018, we issued 600,925,925 H Shares in total to Nan Lung at the issue price of HK\$6.034. On September 27, 2018, we issued 1,578,073,089 A Shares in total at the issue price of HK\$6.02. per A Share, raising gross proceeds and net proceeds of RMB9,499,999,995.78 and RMB9,488,178,222.86, respectively.

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

On December 27, 2018, we entered into a media services framework agreement to renew the media services transaction and extend for an additional term of three years, commencing from January 1, 2019 to December 31, 2021. Pursuant to this agreement, SACM agreed to continue to provide exclusive advertising agency services, plotting, purchase and production of in-flight TV and movie program agency services, channel publicity and production services, public relations services relating to recruitments of airhostess, services relating to the distribution of newspapers and magazines and printing, production and procurement services in relation to media. The annual caps for the media services framework agreement will be RMB150 million, RMB170 million and RMB190 million for each of the financial years ended 31 December 2019, 2020 and 2021, respectively.

For the years ended December 31, 2018, the media fees incurred by the Group for the media services amounted to RMB105 million.

***Southern Airlines Group Finance Company Limited ( SA Finance ), which is 66.02% owned by CSAH, 33.98% owned by the Group***

On August 29, 2016, we entered into a financial services framework agreement with SA Finance to renew and extend the term of the provision of the financial services, and to include the transactions in relation to the insurance business platform services which is originally covered by the insurance business platform cooperation framework agreement dated November 19, 2015. The term of the financial services framework agreement is 3 years, commencing from January 1, 2017 to December 31, 2019. Pursuant to the financial services framework agreement, SA Finance will (i) accept deposit of money from us, (ii) make loans or provide credit line services to us, (iii) provide other financial services to us. In relation to the insurance business platform services arrangements under the financial services framework agreement, we agreed to cooperate with SA Finance, and authorized SA Finance to use our various platforms and ground service counter channels as the sales platforms for sale of various insurances relating to aviation transportation.

On April 27, 2018, we entered into a supplemental agreement with SA Finance to revise each of the annual caps in relation to the provision of deposit and the provision of loan for the period from the effective date of such supplemental agreement to December 31, 2019 from RMB8 billion to RMB10 billion.

As of December 31, 2018, our Group's deposits placed with SA Finance amounted to RMB5,583 million, the service fee charged by us were RMB20 million.

***China Southern Air Holding Ground Services Company Limited ( GSC ), a wholly-owned subsidiary of CSAH***

On December 16, 2016, we entered into a passenger and cargo sales and ground services framework agreement with GSC to renew the passenger and cargo sales agency services framework agreement dated November 8, 2013 for a term of three years commencing from January 1, 2017 to December 31, 2019. Under the passenger and cargo sales and ground services framework agreement, GSC agreed to provide certain services to the Group charging the agency fee and service, and we agreed to lease certain assets such as vehicles and equipment together with working space to GSC charging the lease fee. The annual caps for the services provided to the Group by GSC for each of the three years ending December 31, 2019 will be RMB270 million, RMB330 million and RMB400 million, respectively.

For the year ended December 31, 2018, the commission expense, transportation expense and goods handling fee paid to GSC were RMB135 million, and the lease fee charged by us was RMB3 million.

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

On December 19, 2017, we entered into a property management framework agreement with CSAGPMC to renew the appointment of CSAGPMC for the provision of property management and maintenance services for the Company's properties at the old Baiyun Airport and the new Baiyun International Airport and surrounding in Guangzhou, the Company's leased properties in the airport terminal at new Baiyun International Airport, the base and the 110KV transformer substation at the new Baiyun International Airport, and for the provision of the property management and maintenance services for the power transformation and distribution equipment at Guangzhou cargo terminal, and the provision of the electricity charge agency services for a term of three years commencing from January 1, 2018 to December 31, 2020. The annual caps for the property management framework agreement are set at 155 million for the three years ending December 31, 2020, respectively.

For the year ended December 31, 2018, the property management and maintenance fee incurred by the Group amounted RMB106 million pursuant to the property management framework agreement.

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***Guangzhou Nansha CSA Tianru Leasing Co., Ltd. (the CSA Leasing Company ), which is wholly owned by CSA International Finance Leasing Co., Ltd. (the CSA International ), which is wholly owned by CSAH***

We entered into A321 finance lease agreement and A330 finance lease agreement with CSA Leasing Company on April 27, 2017, pursuant to which CSA Leasing Company agreed to provide finance leasing to us in relation to one Airbus A321 aircraft and one Airbus A330-300 aircraft.

For the year ended December 31, 2018, the transaction fees paid by the Company to CSA Leasing Company under the A321 Finance Lease Agreement and A330 Finance Lease Agreement was RMB1,166 million in total (include the principal, interest payable and handling fee).

***CSA International, which is wholly owned by CSAH***

We entered into a 2018-2019 finance and lease service framework agreement with CSA International on October 17, 2017 ( **2018-2019 Finance and Lease Service Framework Agreement** ), pursuant to which CSA International agreed to provide finance leasing service to the Company in relation to the leased Aircraft, leased aircraft related assets and leased aviation related equipment, as well as the operating lease service to the Company in relation to certain aircraft and engines.

For the year ended December 31, 2018, fees paid by the Company to CSA International for finance leasing service and operating leasing service were RMB8,221 million and RMB91 million, respectively.

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

We entered into a catering services framework agreement with SACC on December 27, 2018 to renew the catering services framework agreement dated December 30, 2015 for a term of three years commencing from January 1, 2019 to December 31, 2021. Pursuant to the agreement dated December 27, 2018, SACC agreed to provide the in-flight meal boxes, and order, supply, allot, recycle, store and install the in-flight supply with their respective services for the arrival and departure flights designated by the Group at the airport where SACC is located at. The annual caps for the catering services framework agreement are RMB231 million, RMB266 million and RMB306 million for each of the three financial years ended 31 December 2019, 2020 and 2021, respectively.

For the year ended December 31, 2018, the services fee incurred by our Group for the catering services amounted to RMB135 million.

***Zhuhai MTU, which was 50% owned by us***

We entered into an agreement relating to continuing connected transactions with CSAH, MTU Aero Engines GmbH and Zhuhai MTU on September 28, 2009, by which Zhuhai MTU shall continue to provide us with engine repair and maintenance services subject to the international competitiveness and at the net most favorable terms, while we shall make relevant payment to Zhuhai MTU according to related charging standard. The agreement is effective from its date to April 5, 2031. For the year ended December 31, 2018, our Group's engine repair and maintenance service fees incurred under the agreement amounted to RMB1,184 million.

In 2017, we entered into a share subscription agreement with CSAH pursuant to which CSAH will subscribe for certain newly issued A Shares, the consideration of which was composed of cash and 50% equity interest of Zhuhai MTU shares. As of August 28, 2018, CSAH has completed the registration for the transfer of its 50% equity interest in Zhuhai MTU to us.

***Nan Lung, which is wholly owned by CSAH***

We entered into a share subscription agreement with Nan Lung on June 26, 2017, pursuant to which, Nan Lung will, at the subscription price of HK\$6.27 per H Share, subscribe in cash for no more than 590,000,000 new H Shares, raising gross proceeds of no more than HK\$3,699.30 million. The subscription price and the number of the new H Shares will be adjusted in case of ex-right or ex-dividend events including distribution of dividend according to the H Share Subscription Agreement. On September 19, 2017, our board considered and approved that the subscription price and the number of H Shares to be issued pursuant to this subscription agreement shall be adjusted to HK\$6.156 and not more than 600,925,925 new H Shares, respectively due to the implementation of our 2016 dividend distribution plan. On September 11, 2018, we completed the issuance of 600,925,925 H shares to Nan Lung Holding Limited according to the subscription agreement, at the issue price of HKD6.034 per share.

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

We entered into the CSA Building Asset Lease Agreement with GSAC on January 19, 2018, pursuant to which GSAC agreed to lease to (i) certain offices at floors 1-10, 12 and 17-36 in CSA Building located at West Side of Yuncheng East Road, Baiyun Xincheng, Baiyun District, Guangzhou with an aggregate gross floor area of not exceeding 88,396 square meters at an annual rental of not exceeding RMB159,112,800; and (ii) 550 parking lots in CSA Building at an annual rental of not exceeding RMB5,520,000 for a term of three years commencing from January 19, 2018 to January 18, 2021. For the year ended December 31, 2018, rental paid to GSAC by the Company was RMB106 million.

***Guangzhou Nansha CSA Tianshui Leasing Co., Ltd( "Guangzhou Tianshui"), which is indirect wholly-owned by CSAH***

We entered into the an aircraft sale and leaseback agreement with Guangzhou Tianshui on March 16, 2018, pursuant to which we agreed to sell 14 A320 aircraft to Guangzhou Tianshui. The consideration for such aircraft was RMB371 million. Such aircraft will be leased by Guangzhou Tianshui to the Company with rental fee payable as RMB687,000 per aircraft per month for various terms ranging from 8 to 22 months, which constitute part of the operating lease under the 2018-2019 Finance and Lease Service Framework Agreement.

***Guangzhou Yunde Aircraft Leasing Co., Ltd.( "Guangzhou Yunde"), an indirect wholly-owned subsidiary of CSAH***

Chongqing Airlines entered into an aircraft sale and leaseback agreement with Guangzhou Yunde on November 23, 2018, pursuant to which Chongqing Airlines agreed to sell 4 A320 aircraft to Guangzhou Yunde. The consideration for such aircraft was RMB121.31 million. Such aircraft will be leased by Guangzhou Yunde to Chongqing Airlines with rental fee payable as RMB687,000 per aircraft per month for a term of 3 months, which constitutes part of the operating lease under the 2018-2019 Finance and Lease Service Framework Agreement.

***Capital Increase Agreement***

On March 1, 2019, we entered into a capital increase agreement with CSAH, Xiamen Airlines, Shantou Airlines, Zhuhai Airlines and Guangzhou Nanland, pursuant to which the parties agreed we make a capital contribution in the sum of RMB500 million by way of cash to SA Finance. Upon such capital contribution, the equity interest directly held by us in SA Finance would increase from 25.277% to 41.808%.

***Acquisition of Property in the PRC***

On December 24, 2018, we entered into a sale and purchase agreement with Zhuhai China Southern Air Real Property Development Co., Ltd., pursuant to which we agreed to purchase from Zhuhai China Southern Air Real Property Development Co., Ltd. the whole 1st to 42nd floor and the basement of the hotel building A1 under the Zhuhai International Civil Aviation Standard Service Development and Training Centre Project to be constructed on the western side of the northern part of Lot No. 36 of Zhuhai Free Trade Zone, Zhuhai City, the PRC with a planned floor area of approximately 60,927.8 square meters. The consideration will not exceed RMB798.56 million. CSAH indirectly owned 49% equity interest of Zhuhai China Southern Air Real Property Development Co., Ltd..

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

As of December 21, 2018, the Company provided the SPVs with total guarantee of US2.424 billion.



**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

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**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**

Not applicable.

**Dividend Information**

A dividend in respect of the year ended December 31, 2018 of RMB0.05 (inclusive of applicable tax) per share, amounting to a total dividend of RMB613 million was proposed by the directors on March 29, 2019. The final dividend proposed after the end of the financial year has not been recognized as a liability at the end of the financial year.

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.

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

our financial results;

capital requirements;

contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;

our shareholders' interests;

the effect on our creditworthiness;

general business and economic conditions; and

other factors our Board may deem relevant.

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

## **B. SIGNIFICANT CHANGES**

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

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**ITEM 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

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

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

No significant trading suspension occurred in the prior three years.

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See Offer and Listing Details above.

**D. Selling Shareholders**

Not applicable.

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**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 of Directors.

***Objects and Purposes***

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

## **Directors**

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

Pursuant to Article 245 of the Articles of Association, where a director of our Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board 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. For the purposes of this Article, a director is deemed to be interested in a contract, transaction or agreement in which an associate of him is interested.

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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; (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 or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

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

## **Ordinary Shares**

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

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

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

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

- (1) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (2) the right to dividends and other distributions in proportion to the number of shares held;
- (3) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (4) the right to transfer, donate or pledge his shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (5) the right of knowledge and decision making power with respect to important matters of the Company in accordance with laws, administrative regulations and these Articles of Association;



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

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

According to Article 42 of the Articles of Association, unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares: (1) where our Company

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

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

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

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

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

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

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

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

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

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

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

### **Meetings of Shareholders**

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

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According to Article 80, under any of the following circumstances, our 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 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 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.

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

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

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

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

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

Pursuant to Article 295 of the Articles of Association, in the event of the merger or division of our Company, a plan shall be presented by our Company's board of directors 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.

**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 preceding the date of this annual report.

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### **D. EXCHANGE CONTROLS**

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

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

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

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

### **Other Limitations**

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

### **E. TAXATION**

#### **Chinese Taxation**

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

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

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



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

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

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

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

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

### **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. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or foreign tax consequences of an investment in our Company's ADSs. This discussion applies to you only if you hold and beneficially own our Company's ADSs as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for securities holdings;

banks or other financial institutions;

insurance companies;

tax-exempt organizations, retirement plans, individual retirement accounts or tax deferred accounts;

partnerships or other pass-through entities (including entities treated as partnerships for U.S. federal income tax purposes) or persons holding ADSs through any such entities;

persons that hold ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;

persons whose functional currency for tax purposes is not the U.S. dollar;

persons who are U.S. expatriates;

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persons liable for alternative minimum tax; or

persons who directly, indirectly or constructively own 10% or more of the total combined voting power of all classes of our Company's shares (including ADSs) entitled to vote.

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 depositary 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.

If you are not a U.S. person, please refer to the discussion below under Non-U.S. Holders.

**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 will generally be treated as dividend income if the distributions are made from our Company's current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Dividends will generally be subject to U.S. federal income tax as ordinary income on the day you actually or constructively receive such income. However, if you are an

individual and have held your ADSs for a sufficient period of time, dividend distributions on our Company's ADSs will generally constitute qualified dividend income taxed at a preferential rate as long as our Company is not treated as a PFIC, our Company's ADSs continue to be readily tradable on the New York Stock Exchange and certain other conditions apply. You should consult your own tax adviser as to the rate of tax that will apply to you with respect to dividend distributions, if any, you receive from us.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADSs and thereafter as capital gain. However, our Company does not intend to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, so each U.S. Holder should therefore assume that any distribution by our Company with respect to the ADSs will constitute ordinary dividend income. Even 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.

**Table of Contents*****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. In particular: 1) passive income received from a related party is excluded if it is properly allocable to the non-passive income of the related party, and 2) if our Company owns directly or indirectly 25% or more of the stock of another corporation, our Company is treated as if we owned directly a proportionate share of that corporation's assets and income.

Our Company believes that we were not a PFIC for the taxable year 2018. However, there can be no assurance that our Company will not be a PFIC for the taxable year 2019 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year. For example, our Company would be a PFIC for the taxable year 2018 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.

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.

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

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

***Medicare Tax***

Recently enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, dividends and capital gains for tax years beginning after December 12, 2012.

**Non-U.S. Holders**

If you beneficially own ADSs and are not a U.S. Holder for U.S. federal income tax purposes (a Non-U.S. Holder), you generally will not be subject to U.S. federal income tax or U.S. withholding tax on dividends received from our Company with respect to ADSs unless that income is considered effectively connected with your conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such dividends are attributable to a permanent establishment that you maintain in the United States.

You generally will not be subject to U.S. federal income tax, including withholding tax, on any gain realized upon the sale or exchange of ADSs, unless:

that gain is effectively connected with the conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such gain is attributable to a permanent establishment that you maintain in the United States; or

you are a non-resident alien individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition and certain other conditions are met.

If you are engaged in a U.S. trade or business, unless an applicable tax treaty provides otherwise, the income from your ADSs, including dividends and the gain from the disposition of our Company's ADSs, that is effectively connected with the conduct of that trade or business will generally be subject to the rules applicable to U.S. Holders discussed above. In addition, if you are a corporation, you may be subject to an additional branch profits tax at a rate of 30% or any lower rate under an applicable tax treaty.

### **U.S. information reporting and backup withholding rules**

In general, dividend payments with respect to the ADSs and the proceeds received on the sale or other disposition of those ADSs may be subject to information reporting to the IRS and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (1) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (2) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will generally be required to provide certification on IRS Form W-9, W-8BEN or W-8ECI, or an appropriate substitute, as applicable. Any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the IRS.



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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 450 Fifth Street N.W. Washington D.C. 20549.

You can also obtain copies of this Annual Report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., 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 RMB4,292 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 obligations under capital leases 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, 2018 amounted to USD393 million.

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Cross currency swaps have been entered into mitigate interest rate risk and foreign currency risk. The cross currency swaps allow our Company to exchange the floating interest rate and principal payments in USD for fixed interest rate from 3.20% to 3.91% and principal payments in Renminbi. The notional principal of the outstanding cross currency swaps as at December 31, 2018 amounted to USD979 million.

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 financial instruments that are sensitive to changes in interest rate as of December 31, 2018 and 2017:

	As of December 31, 2018 Expected Maturity Date						Total recorded amount	Fair Vlaue <sup>(2)</sup>	As of December 31, 2017	
	2019	2020	2021	2022	2023	Thereafter			Total Recorded amount	Fair Vlaue <sup>(2)</sup>
Variable rate bank and other loans in US\$										
Average interest rate	6,718	92					6,810	6,810	8,201	8,201
Average interest rate	3.76%	3.32%	N/A	N/A	N/A	N/A	3.75%		2.40%	
Variable rate bank and other loans in Euro										
Average interest rate										
Fixed rate bank and other loans in RMB	17,600	2,656	3,600	1		17	23,874	23,874	18,149	18,149
Average interest rate	3.11%	4.15%	3.56%	1.20%	N/A	1.20%	3.29%		3.20%	
Variable rate bank and other loans in RMB	14,423	5,009	2,059	196	148	1,898	23,733	23,733	21,941	21,941
Average interest rate	4.15%	4.38%	4.73%	4.33%	4.34%	4.37%	4.27%		4.14%	

- (1) These 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, 2018 and 2017.

### 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 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.

As of December 31, 2018, we operated a total of 558 aircraft under operating leases and capital 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. Commitments under capital leases and operating leases are disclosed in Note 37 and Note 50(b) to the consolidated financial statements, respectively.

The following table provides information regarding our material foreign currency sensitive financial instruments and capital commitments as of December 31, 2018 and 2017:

	As of December 31, 2018					Total Recorded Amount	Fair Value <sup>(1)</sup>	As of December 31, 2017	
	Expected Maturity Date							Total Recorded Amount	Fair Value <sup>(1)</sup>
	2019	2020	2021	2022	2023 and thereafter				
Variable rate bank and other loans in US\$	6,718	92				6,810	6,810	8,201	8,201
Capital commitment in US\$	38,141	32,395	8,628	3,035		82,199	82,199	86,834	86,834

**Note: (1) Fair value of debt instruments was estimated based on the floating interest rates applicable to similar debt instruments as of December 31, 2018 and 2017.**

**Table of Contents****ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

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

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

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

\$.02 (or less) per ADS

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

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

Registration or transfer fees

**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

Expenses of the depositary

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

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

As necessary

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

As necessary

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

In 2018, we received from the depositary a reimbursement of US\$41,552.18 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\$118,350.90 for the standard costs associated with the administration of the ADS program in 2018.

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**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, 2018.

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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 policies or procedures may deteriorate.

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

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

To the Shareholders and Board of Directors

China Southern Airlines Company Limited:

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

We have audited China Southern Airlines Company Limited and subsidiaries (the Company) internal control over financial reporting as of December 31, 2018, 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, 2018, 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, 2018 and 2017, 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, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated April 26, 2019 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

Beijing, China

April 26, 2019

**Changes in internal control over financial reporting**

During the year ended December 31, 2018, 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 of directors has determined that Mr. Tan Jinsong qualifies as an audit and risk management committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Tan Jinsong satisfies as an independent director within the meaning of NYSE Manual Section 303A and meets the criteria for independence set forth in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10A-3 under the Exchange Act. See Item 6 Directors, Senior Management and Employees .

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Such code is included in the senior management services agreement, a form of which is filed as Exhibit 4.35 to this Annual Report.

A copy of our code of ethics will be provided to any person free of charge upon written request to Xie Bing, Company Secretary, China Southern Airlines Company Limited at 68 Qi xin Road, Guangzhou 510403, the People's Republic of China.

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

KPMG Huazhen LLP, an independent registered public accounting firm, served as our principal accountant for the fiscal year ended December 31, 2017 and 2018. 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 2017 and 2018:

Audit Fees	Audit-Related Fees	Tax Fees	Other Fees
RMB (in million)			

2017	13.8		0.1
2018	15.8	0.3	2.7

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

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

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

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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, 2017 and 2018.

**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. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

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

**NYSE corporate governance rules**

*Director Independence*

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

**Our Company's governance practices**

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

Our Company has complied with the relevant Chinese corporate governance rules and has implemented

service (provided such compensation is not contingent in any way on continued service).

internal rules governing the independence and responsibilities of independent directors. Our Company determines the independence of independent directors every year.

*Executive Sessions*

No similar requirements.

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

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### *Nominating/Corporate Governance Committee*

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

Our Company has established a nominating committee. As at 31 December 2018, the Nomination Committee consists of three members, including Mr. Zheng Fan (independent nonexecutive Director) as chairman and Mr. Wang Changshun (executive Director) and Mr. Jiao Shuge (independent non-executive Director) as members. The responsibilities of the Nomination Committee are to make recommendations to the Board in respect of the size and composition of the Board based on the operational activities, assets and shareholding structure of the Company; study the selection criteria and procedures of Directors and Management and give advice to the Board by consideration of the board diversity policy; identify qualified candidates for Directors and Management; investigate and propose candidates for Directors and Management and other senior management members to the Board.

### **NYSE corporate governance rules**

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

### **Our Company's governance practices**

Our Company has established a remuneration and assessment committee consisting of three members. As of December 31, 2018, the Remuneration and Assessment Committee comprises three members and chaired by Mr. Gu Huizhong (independent non-executive Director) together with Mr. Zhang Zifang (executive Director) and Mr. Zheng Fan (independent non-executive Director) as members.

### *Compensation Committee*

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

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



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

The responsibilities are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The responsibilities of the remuneration and assessment committee are to approve the remuneration packages of directors and senior management of our Group, and our Company's preliminary proposals on annual emoluments of the directors and senior management of our Group. The remuneration and assessment committee is also responsible for assessing performance of executive director and approving the terms of executive directors service contracts.

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

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The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

### *Shareholder Approval of Equity Compensation Plans*

Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.

### *Corporate Governance Guidelines*

Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director responsibilities, director access to management and, as necessary and appropriate, independent advisors, director compensation, director orientation continuing education, management succession and annual performance evaluation of the board of directors, etc.

### *Certification Requirements*

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any material non-compliance with any applicable provisions of Section 303A.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, our Company is not required to make an annual performance evaluation of the audit committee and the audit committee is not required to prepare an audit report to be included in our Company's annual proxy statement.

The relevant regulations of China require our board of directors to propose plans and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers is subject to approval by our board and disclosed to the public upon the approval of our board of directors. The approval of director compensation and compensation plan of executive officers of our Company satisfies relevant domestic requirements.

CSRC has issued the Corporate Governance Rules, with which our Company has complied.

There are no similar requirements under the domestic corporate governance rules in China.

Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation as and when required by the interim Written Affirmation form specified by the NYSE.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 17. FINANCIAL STATEMENTS**

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

**Table of Contents****ITEM 18. FINANCIAL STATEMENTS**

See F-pages following Item 19.

**ITEM 19. EXHIBITS****Index to Exhibits****Exhibit**

<b>No.</b>	<b>Description of Exhibit</b>
1.1	<u>Restated and Amended Articles of Association of China Southern Airlines Company Limited (as amended) (English translation) (1)</u>
2.1	<u>Specimen Certificate for the H Shares (2)</u>
2.2	<u>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 (3)</u>
4.1	<u>Form of Director's Service Agreement (4)</u>
4.2	<u>Form of Non-executive Director's Service Agreement (5)</u>
4.3	<u>Aircraft Acquisition Agreement entered into by and between our Company and Boeing on February 28, 2012* (6)</u>
4.4	<u>Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on August 8, 2012*(7)</u>
4.5	<u>Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S. on December 5, 2012*(8)</u>
4.6	<u>Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on December 17, 2015*(9)</u>
4.7	<u>Aircraft Acquisition Agreement entered into by and between our Company and Boeing on December 17, 2015 *(10)</u>
4.8	<u>Aircraft Acquisition Agreement entered into by and between our Company and Boeing on December 17, 2015 *(11)</u>
4.9	<u>Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S. on December 23, 2015*(12)</u>
4.10	<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(13)</u>
4.11	<u>Trademark License Agreement entered into by and between our Company and CSAH on May 22, 1997 (14)</u>
4.12	<u>A Share subscription agreement entered into by and between our Company and CSAH on June 11, 2012(15)</u>

- 4.13 Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S. on May 16, 2014\*(16)
- 4.14 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(17)
- 4.15 English translation of Insurance Business Platform Services Agreement entered into by and between our Company and Southern Airlines Group Finance Company Limited on August 29, 2016(18)
- 4.16 English translation of Property and Land Lease Framework Agreement entered into by and between our Company and CSAH on December 16, 2016(19)
- 4.17 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(20)
- 4.18 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\*(21)

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4.19 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\*(22)

4.20 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\*(23)

4.21 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\*(24)

4.22 Airbus Aircraft Acquisition Agreement entered into by and between our Company and Airbus S.A.S on April 26, 2017\* (25)

4.23 English translation of Aircraft Finance Lease Framework Agreement entered into by and between our Company and CSA International on May 26, 2017 (26)

4.24 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 (27)

4.25 Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017\* (28)

4.26 Acquisition Agreement entered into by and between our Company and Boeing on October 20, 2017\* (29)

4.27 English translation of Property Management Framework Agreement entered into by and between our Company and CSAPMC on December 19, 2017 (30)

4.28 Acquisition Agreement entered into by and between Xianmen Airlines and Boeing on March 21, 2018 \* (31)

4.29 English translation of CSA Building Asset Lease Agreement entered into by and between our Company and GSAC on January 19, 2018

4.30 English translation of Asset Lease Framework Agreement entered into by and between our Company and CSAH on January 26, 2018

4.31 English translation of Supplemental Agreement to the Financial Services Framework Agreement entered into by and between our Company and SA Finance on April 27, 2018

4.32 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

4.33 English translation of Media Services Framework Agreement entered into by and between our Company and SACM on December 27, 2018

4.34 English translation of Catering Services Framework Agreement entered into by and between our Company and SACC on December 27, 2018

4.35 Form of Senior Management Services Agreement

8.1 Subsidiaries of China Southern Airlines Company Limited

11.1 Code of Ethics (included in Exhibit 4.35)

12.1 Section 302 Certification of President

12.2 Section 302 Certification of Chief Financial Officer

13.1 Section 906 Certification of President

13.2 Section 906 Certification of Chief Financial Officer

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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- \* Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.
  
- (1) Incorporated by reference to the Exhibit 99.2 to our Form 6-K (File No. 001-14600) filed with the Securities and Exchange Commission on October 18, 2018.
  
- (2) 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.
  
- (3) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-07116), filed with the Securities and Exchange Commission on August 7, 2012.
  
- (4) 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.
  
- (5) 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.
  
- (6) Incorporated by reference to the Exhibit 4.5 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2011 filed with the Securities and Exchange Commission on April 27, 2012.
  
- (7) 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.
  
- (8) Incorporated by reference to the Exhibit 4.5 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.
  
- (9) 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.
  
- (10) 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.
  
- (11) 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.



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- (12) 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.
- (13) 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.
- (14) 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.
- (15) 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.
- (16) 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.
- (17) 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.
- (18) 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.
- (19) 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.
- (20) Incorporated by reference to the Exhibit 4.38 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
- (21) Incorporated by reference to the Exhibit 4.39 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.

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- (22) Incorporated by reference to the Exhibit 4.40 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
- (23) Incorporated by reference to the Exhibit 4.41 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
- (24) Incorporated by reference to the Exhibit 4.42 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2016 filed with the Securities and Exchange Commission on April 27, 2017.
- (25) Incorporated by reference to the Exhibit 4.43 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (26) Incorporated by reference to the Exhibit 4.44 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (27) Incorporated by reference to the Exhibit 4.45 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (28) Incorporated by reference to the Exhibit 4.46 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (29) Incorporated by reference to the Exhibit 4.47 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (30) Incorporated by reference to the Exhibit 4.48 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.
- (31) Incorporated by reference to the Exhibit 4.49 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 26, 2018.

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**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/ Wang Changshun  
Name: Wang Changshun  
Title: Chairman of the Board

Date: April 26, 2019

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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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, 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, 2018, 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 26, 2019 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.

/s/ KPMG Huazhen LLP

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

Beijing, China

April 26, 2019



**Table of Contents****CONSOLIDATED INCOME STATEMENTS**

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 RMB million	2017 RMB million (Note)	2016 RMB million (Note)
<b>Operating revenue</b>	5			
Traffic revenue		138,064	121,873	109,693
Other operating revenue		5,559	5,933	5,288
<b>Total operating revenue</b>		143,623	127,806	114,981
<b>Operating expenses</b>				
Flight operation expenses	7	76,216	62,978	51,461
Maintenance expenses	8	12,704	11,877	11,318
Aircraft and transportation service expenses	9	24,379	22,935	20,215
Promotion and selling expenses	10	7,036	6,881	6,304
General and administrative expenses	11	3,770	3,391	2,815
Depreciation and amortization	12	14,308	13,162	12,619
Impairment on property, plant and equipment	19		324	71
Others		1,829	1,550	1,401
<b>Total operating expenses</b>		140,242	123,098	106,204
<b>Other net income</b>	14	5,438	4,448	3,835
<b>Operating profit</b>		8,819	9,156	12,612
Interest income		125	89	89
Interest expense	15	(3,202)	(2,747)	(2,465)
Share of associates' results	24	263	431	509
Share of joint ventures' results	25	200	99	102
Exchange (loss)/gain, net	36(d)	(1,853)	1,801	(3,276)
Changes in fair value of financial instruments	28	12	(64)	
Gain on deemed disposal of a subsidiary				90
Remeasurement of the originally held equity interests in a joint venture			109	
<b>Profit before income tax</b>		4,364	8,874	7,661
Income tax	16	(1,000)	(1,976)	(1,763)
<b>Profit for the year</b>		3,364	6,898	5,898
<b>Profit attributable to:</b>				
Equity shareholders of the Company	18	2,895	5,961	5,044

Non-controlling interests		469	937	854
<b>Profit for the year</b>		3,364	6,898	5,898
<b>Earnings per share</b>				
Basic and diluted	18	RMB0.27	RMB0.60	RMB0.51

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 RMB million	2017 RMB million (Note)	2016 RMB million (Note)
Profit for the year		3,364	6,898	5,898
<b>Other comprehensive income:</b>	17			
Items that will not be reclassified to profit or loss				
- Equity investments at fair value through other comprehensive income net movement in fair value reserve (non-recycling)		319		
- Share of other comprehensive income of associates		(4)		
- Deferred tax relating to above items		(80)		
Items that may be reclassified subsequently to profit or loss				
- Cash flow hedge: fair value movement of derivative financial instruments		29	25	8
- Fair value movement of available-for-sale financial assets (recycling)			123	362
- Share of other comprehensive income (loss) of associates			2	(2)
- Differences resulting from the translation of foreign currency financial statements		(2)		
- Deferred tax relating to above items		(7)	(37)	(92)
<b>Other comprehensive income for the year</b>		255	113	276
<b>Total comprehensive income for the year</b>		3,619	7,011	6,174
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Company		3,048	6,028	5,196
Non-controlling interests		571	983	978
<b>Total comprehensive income for the year</b>		3,619	7,011	6,174

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****At December 31, 2018 and 2017**

	Note	December 31 2018 RMB million	December 31 2017 RMB million (Note)
<b>Non-current assets</b>			
Property, plant and equipment, net	19	170,692	158,926
Construction in progress	20	37,791	30,233
Lease prepayments	21	2,970	2,923
Goodwill	22	237	237
Interest in associates	24	3,181	3,031
Interest in joint ventures	25	2,812	1,015
Other investments in equity securities	26		103
Aircraft lease deposits		594	642
Available-for-sale financial assets	26		622
Other equity instrument investments	26	1,080	
Other non-current financial assets	26	103	
Derivative financial instruments	27	75	46
Deferred tax assets	29 (b)	1,566	1,662
Other assets	30	1,776	1,394
		222,877	200,834
<b>Current assets</b>			
Inventories	31	1,699	1,622
Trade receivables	32	2,901	2,675
Other receivables	33	8,015	5,232
Cash and cash equivalents	34	6,928	6,826
Restricted bank deposits		116	111
Prepaid expenses and other current assets		3,659	1,334
Other financial assets	26	440	
Assets held for sale	35	224	8
Amounts due from related companies	42	90	76
		24,072	17,884
<b>Current liabilities</b>			
Derivative financial liabilities	27	44	64
Borrowings	36	38,741	27,568
Current portion of obligations under finance leases	37	9,555	8,341
Trade payables	38	2,309	2,125
Contract liabilities	39	1,693	
Sales in advance of carriage	40	8,594	7,853
Deferred revenue	39		1,502
Current income tax		369	919

Amounts due to related companies	42	127	101
Accrued expenses	43	15,682	15,370
Other liabilities	44	6,573	5,734
		83,687	69,577

The accompanying notes form part of these financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

At December 31, 2018 and 2017

	Note	December 31 2018 RMB million	December 31 2017 RMB million (Note)
<b>Non-current liabilities</b>			
Borrowings	36	15,676	20,719
Obligations under finance leases	37	62,666	59,583
Deferred revenue	39		1,849
Other non-current liabilities	41	2,036	
Provision for major overhauls	45	2,831	2,808
Provision for early retirement benefits	46	2	3
Deferred benefits and gains	47	906	1,053
Deferred tax liabilities	29 (b)	676	583
		84,793	86,598
<b>Net assets</b>		78,469	62,543
<b>Capital and reserves</b>			
Share capital	48	12,267	10,088
Reserves	49	52,990	39,848
<b>Total equity attributable to equity shareholders of the Company</b>		65,257	49,936
<b>Non-controlling interests</b>		13,212	12,607
<b>Total equity</b>		78,469	62,543

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).

The accompanying notes form part of these financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2018, 2017 and 2016

	Attributable to equity shareholders of the Company								
	Share capital RMB million	Share premium RMB million	Fair value reserve (recycling) RMB million	Fair value Reserve (recycling) RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
<b>Balance at January 1, 2016</b>	9,818	14,131	55		1,675	13,366	39,045	10,579	49,624
<b>Changes in equity for 2016:</b>									
Profit for the year						5,044	5,044	854	5,898
Other comprehensive income			154		(2)		152	124	276
Total comprehensive income			154		(2)	5,044	5,196	978	6,174
Appropriations to reserves					405	(405)			
Dividends relating to 2015						(785)	(785)		(785)
Capital injection by non-controlling interests in a subsidiary								260	260
Decrease in non-controlling interests as a result of loss of control of a subsidiary								(83)	(83)
Distributions to non-controlling interests								(214)	(214)
<b>Balance at December 31, 2016 and January 1, 2017 (Note)</b>	<b>9,818</b>	<b>14,131</b>	<b>209</b>		<b>2,078</b>	<b>17,220</b>	<b>43,456</b>	<b>11,520</b>	<b>54,976</b>
<b>Changes in equity for 2017:</b>									
Profit for the year						5,961	5,961	937	6,898
Other comprehensive income			66		1		67	46	113
Total comprehensive income			66		1	5,961	6,028	983	7,011

Appropriations to reserves				492	(492)			
Dividends relating to 2016					(982)	(982)		(982)
Issuance of shares	270	1,051				1,321		1,321
Capital injection by non-controlling interests in subsidiaries							404	404
Dilution and change in non-controlling interests and other reserves				113		113	(39)	74
Distributions to non-controlling interests							(261)	(261)
<b>Balance at December 31, 2017</b>	<b>10,088</b>	<b>15,182</b>	<b>275</b>	<b>2,684</b>	<b>21,707</b>	<b>49,936</b>	<b>12,607</b>	<b>62,543</b>