AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

2021
ANNUAL REPORT

Air China Limited

Stock code: 00753 Hong Kong 601111 Shanghai AIRC London

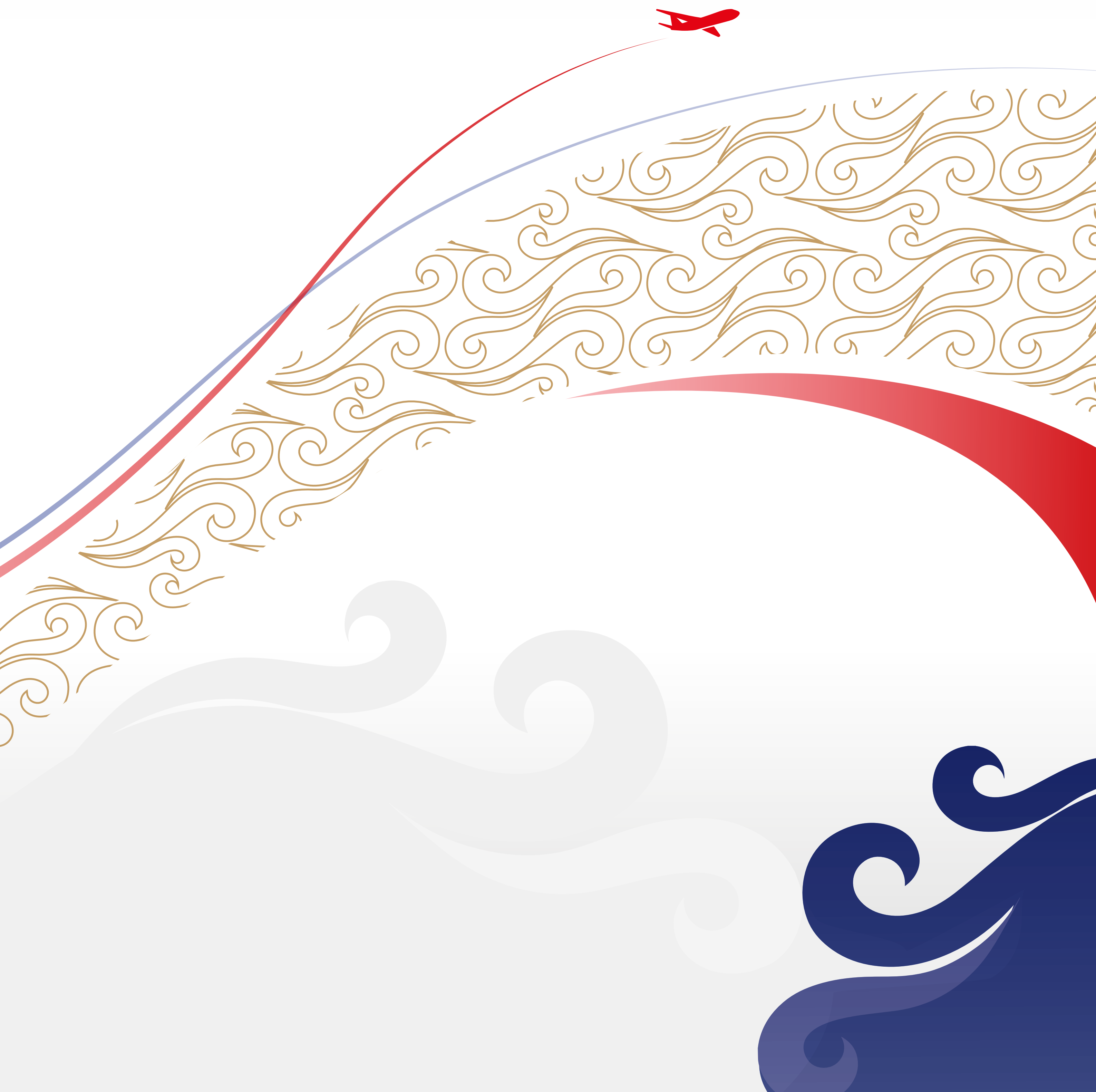
中國國際航空股份有限公司 (short name: **中國國航**) (English name: **Air China Limited**, short name: **Air China**) is the only national flag carrier of China.

As the old saying goes, "Phoenix, a bird symbolizing benevolence" and "The whole world will be at peace once a phoenix reveals itself". The corporate logo of Air China is composed of an artistic phoenix figure, the Chinese characters of "**中國國際航空公司**" in calligraphy written by Deng Xiaoping, by whom the China's reform and opening-up blueprint was designed, and the characters of "AIR CHINA" in English. Signifying good auspices in the ancient Chinese legends, phoenix is the king of all birds. It "flies from the eastern Happy Land and travels over mountains and seas and bestows luck and happiness upon all parts of the world". Air China advocates the core spirit of phoenix which is to "serve the world, to lead and move forward to higher goals". By virtue of the immense historical heritage, Air China strives to create perfect travel experience and keep passengers safe by upholding the spirit of phoenix of being a practitioner, promoter and leader for the development of the Chinese civil aviation industry. The Company is also committed to leading the industrial development by establishing itself as a national brand, at the same time pursuing outstanding performance through innovation and excelling efforts.

Air China was listed on The Stock Exchange of Hong Kong Limited (stock code: 00753) and the London Stock Exchange (stock code: AIRC) on 15 December 2004, and was listed on the Shanghai Stock Exchange (stock code: 601111) on 18 August 2006.

Headquartered in Beijing, Air China has set up branches in Southwest China, Zhejiang, Chongqing, Tianjin, Shanghai, Hubei, Xinjiang, Guangdong, Guizhou, Tibet and Wenzhou. As at the end of the Reporting Period, the major subsidiaries of Air China are Shenzhen Airlines Company Limited (including Kunming Airlines Company Limited), Air Macau Company Limited, Beijing Airlines Company Limited, Dalian Airlines Company Limited, Air China Inner Mongolia Co., Ltd., Aircraft Maintenance and Engineering Corporation, Air China Import and Export Co., Ltd., Chengdu Falcon Aircraft Engineering Service Co., Ltd., Air China Shantou Industrial Development Company; and its joint ventures mainly include GA Innovation China Co., Ltd. and Sichuan Services Aero-Engine Maintenance Co., Ltd. Moreover, the associates of Air China are Cathay Pacific Airways Limited, Shandong Airlines Co., Ltd. and Tibet Airlines Co., Ltd.. Air China is also the largest shareholder of Shandong Aviation Group Co., Ltd.

With the goal of becoming "the world's leading airline", Air China adheres to the four strategic directions of "hub network, balanced development of cargo and passenger services, cost leadership and brand strategy" and remains dedicated to serving passengers with credibility, convenience, comfort and choice. "Air China Miles" is the oldest frequent flier programme in China, under which all members of the frequent flier programmes under various brands of its subsidiaries and associates have been consolidated into the brand of "Phoenix Miles".



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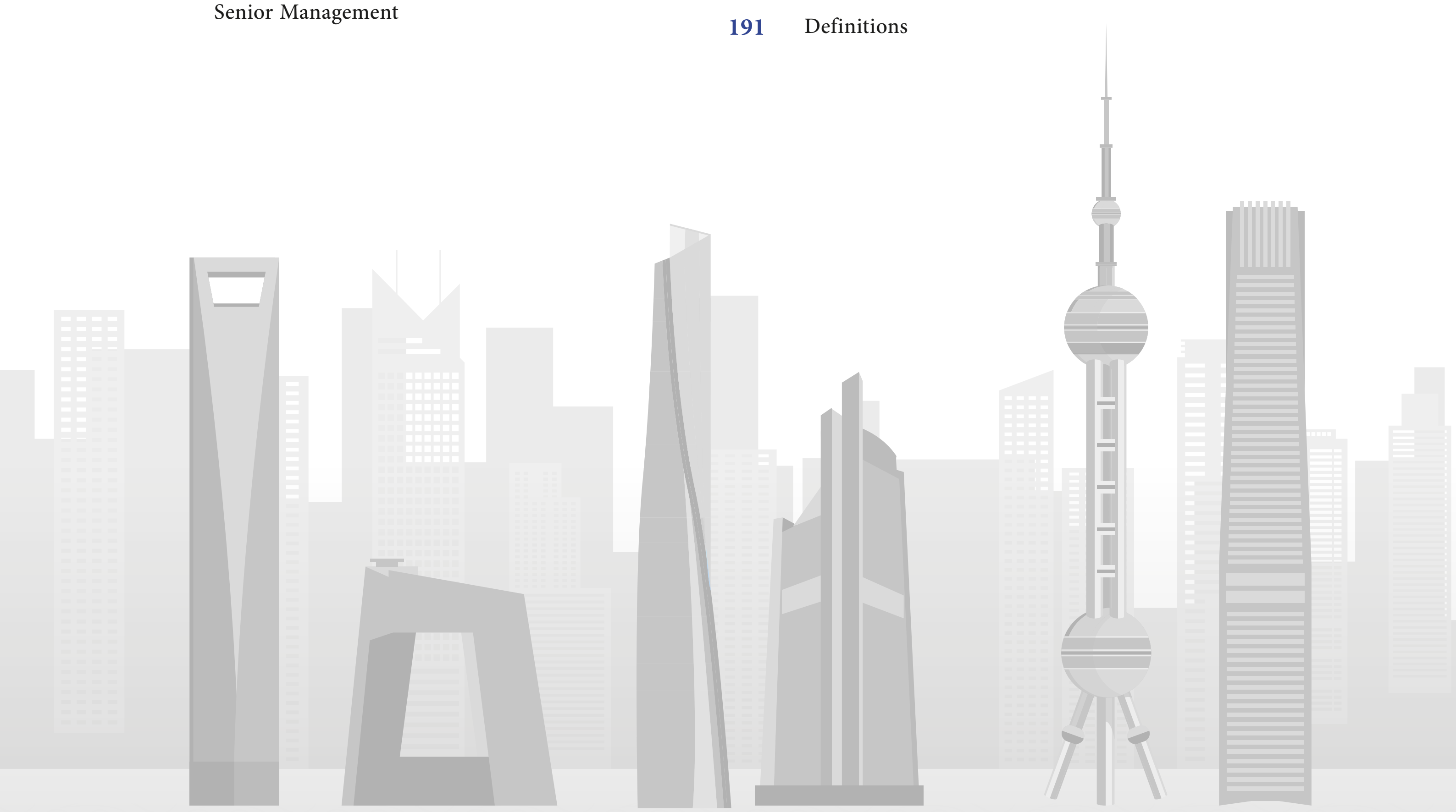


Corporate Information

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

1st Floor-9th Floor 101
Building 1
30 Tianzhu Road
Shunyi District
Beijing, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

5th Floor
CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

WEBSITE:

www.airchina.com.cn

DIRECTORS:[1]

Song Zhiyong
Ma Chongxian
Feng Gang
Patrick Healy
Li Fushen
He Yun
Xu Junxin
Winnie Tam Wan-chi

SUPERVISORS:[2]

He Chaofan
Wang Jie
Qin Hao
Lyu Yanfang
Guo Lina

LEGAL REPRESENTATIVE OF THE COMPANY:

Song Zhiyong

JOINT COMPANY SECRETARIES:

Huang Bin
Huen Ho Yin

AUTHORISED REPRESENTATIVES:

Song Zhiyong
Huang Bin

LEGAL ADVISERS TO THE COMPANY:

DeHeng Law Offices *(as to PRC Law)*

DLA Piper Hong Kong *(as to Hong Kong and English Law)*

INTERNATIONAL AUDITOR:

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

H SHARE REGISTRAR AND TRANSFER OFFICE:

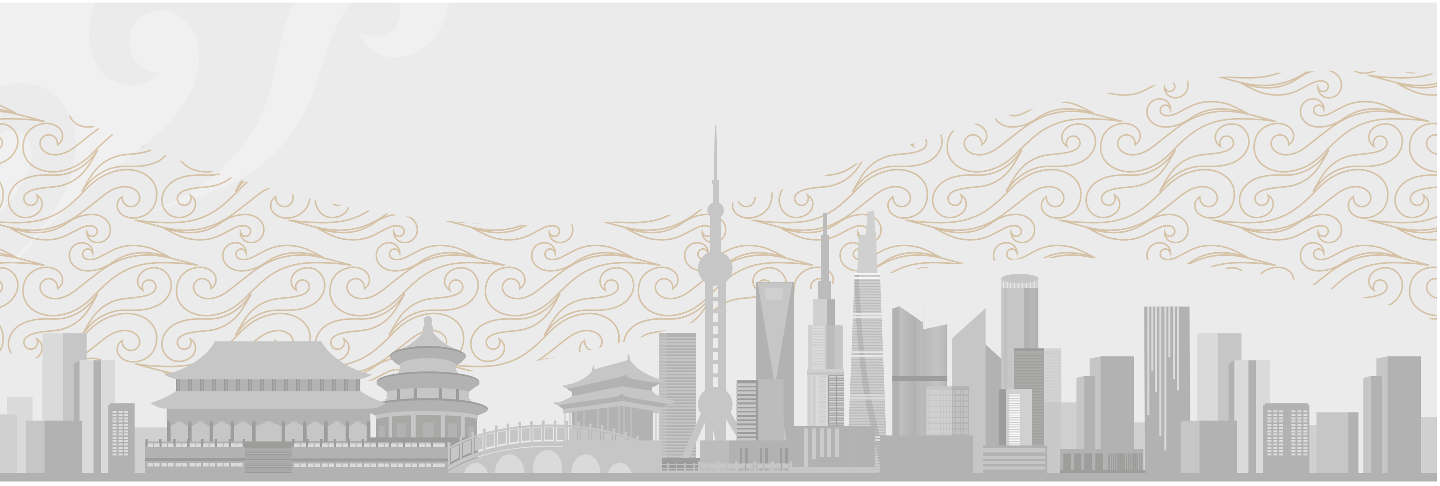
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LISTING VENUES:

Hong Kong, London and Shanghai

1 For details of changes in Directors of the Company during the Reporting Period and up to the date of this annual report, please refer to page 51 of this annual report.
2 For details of changes in Supervisors of the Company during the Reporting Period and up to the date of this annual report, please refer to page 52 of this annual report.

CHAIRMAN'S STATEMENT



2021 REVIEW

In 2021, the Chinese Communist Party embraced the 100th anniversary of its founding. Under the strong leadership of the Central Committee of the Party with Comrade Xi Jinping at its core, China has completed the building of a moderately prosperous society in all respects, and is now setting off the new journey towards its second centenary goals. During the year, the Group has thoroughly implemented the decisions and deployments of the Central Committee of the Party and the State Council by having a keen grasp of the new development stage, implementing the new development philosophy and serving to foster the new development paradigm. The Group maintained a stable and safe development, put in great efforts to respond to the impact of the pandemic, strived to maximize the operating performance, accelerated and deepened the reform, continuously improved the quality of services, coordinated the promotion of strategic priorities, continuously enhanced the level of compliance operation and continuously strengthened the leadership and building of the Party, thereby entering a new stage of high-quality development.

Ensuring flight safety and smooth and orderly operation and management. The Group makes safety the top priority and has maintained a stable and safe operation in the face of a complex and challenging operating environment while holding fast to the bottom line of safe development. The Group strengthened the management and leadership of operation safety, strictly implemented safety responsibilities, and integrated the concept of safe development into the front line of operation. The Group strengthened the concept of systematic safety management, intensively implemented the Three-year Action Plan for Specific Safety Rectification, and improved the long-term mechanism of safety management. Highlighting the process control of safe operation and accurately grasping the characteristics of safe operation, the Group has made efforts in conducting normalized safety management and control of key links. During the year, the Group successfully accomplished important air transportation safeguard missions such as a series of celebration events for the 100th anniversary of the Founding of the Party, the Tokyo Olympics and the Beijing Winter Olympics, demonstrating the commitment and positive image as the national flag carrier and an aviation central enterprise.

Implementing own responsibility and continuously improving pandemic prevention and control mechanism. The Group is determined to abide by the national pandemic prevention and control policy, and makes every effort to carry out the work of "guarding against the importation of cases and the resurgence of domestic infections, and preventing infections from both people and contaminated objects". The Group strengthened the management and leadership, improved the regular control mechanism for pandemic prevention and control, and continuously improved the pandemic prevention and control system. Sticking to precise control, the Group used its best endeavours to prevent the risk of transmission on international flights and responded quickly to domestic sporadic cases. The Group made contributions for the economic and social development and strived to safeguard our external flight routes, or the "bridge in the sky (空中橋樑)", against any disruptions, thereby securing a stable international supply chain. In 2021, the Group operated 16 thousand cargo flights with passenger aircraft. Through its cold chain transportation service system, the Group transported 641 tons of COVID-19 vaccines.

Striving for maximizing the operating performance and ensuring stable operations with multiple measures. The Group has always adhered to the underlying principle of pursuing progress while ensuring stability. It strengthened market research and evaluation, taken proactive actions, and made every effort to maximize the operating performance to maintain a solid foundation for the main business operation. The Group has also strengthened the market position of its main bases by leveraging its advantages of hub network and brand, enhancing marketing control, and seizing opportunities in the passenger transportation market. The Group strengthened the conversion of passenger aircraft for cargo operations, coordinated the resources and market demand, and increased the input of air cargo flights operated by using the passenger aircraft to improve operational efficiency. The Group strictly controlled costs, optimized cost and operation matching. The Group optimized debt structure and strengthened cash flow control to prevent risks.

Improving service quality and continuously enhancing brand value. The Group adheres to the people-oriented development philosophy and strives to provide passengers with better and unique travel experience. The Group optimized its operation management, continued to enhance flight regularity and improved the service level of irregular flights. It also innovated and upgraded its services and products by promoting digital transformation. The Group has fully implemented remote self-service check-in at domestic terminals and operated a fleet that provides in-cabin Wi-Fi services on all of its aircraft. To enhance brand value and deepen the integrated brand management mechanism, the Group launched a series of "Dual Olympics" brand promotion activities to shape the brand image and build up brand value.

Promoting the implementation of strategies and serving to foster the new development paradigm. The Group deeply grasped its responsibility and mission in building the new development paradigm, actively practiced and served the country's fundamental interests, took the initiative to set strategy and pursue development in the context of the overall environment, systematically aligned with the national and industry development plans, scientifically formulated the Group's "14th Five-Year Plan", clearly defined the overall development concept of "one goal, four strategic directions, and enhancement of five capabilities" and eight key areas, established a planning index system, and consciously implemented the new development philosophy into safe operation and all areas of operation and development. The Group improved its aviation market layout, promoted the upgrading of the hub function of Beijing Capital International Airport, and smoothly achieved the operation of "One Airport, Two Terminals" at Beijing Capital International Airport and "One City, Two Airports" in Chengdu. The Group steadily promoted green and low-carbon development, continued to improve fuel efficiency and reduce carbon emission intensity, and successfully passed the ISO14001 environmental management system certification.

Strengthening the leadership of the Party and systematically promoting Party building work. The Group put political construction in the first place and established a sound mechanism for "top agenda (第一議題)" work. The Group focused on key tasks and carried out in-depth education on Party's history and "I do practical things for the public (我為群眾辦實事)" activities, helped the designated areas to achieve effective transition from consolidating the achievements of poverty alleviation to rural revitalization. The Group has been promoting the full and strict self-governance of the Party, implementing its own responsibility and supervisory responsibility for the full and strict self-governance of the Party from a detailed perspective, and continuously promoting the development of the Party's culture and integrity system and anti-corruption work to a deeper level.

In 2022, the Group will adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, adhere to the underlying principle of pursuing progress while ensuring stability, fully, accurately and comprehensively implement the new development philosophy, accelerate its integration with, and participation in fostering the new development paradigm, thereby promoting high-quality development. The Group will unite and lead its cadres and staff to overcome difficulties with perseverance and dedication, focus on safe operation, pandemic prevention and control, serving the operating performance and risk prevention, solidly implement the three-year reform action plan, and greet the successful convening of the 20th National Congress of the Party with excellent results.

Chairman

Beijing, China
30 March 2022

Summary of Financial Information

(RMB'000)

	2021	2020	2019	2018	2017
Revenue	**74,531,670**	69,503,749	136,180,690	136,774,403	121,362,899
(Loss)/profit from operations	**(16,862,176)**	(11,168,820)	14,641,918	14,346,331	11,755,712
(Loss)/profit before taxation	**(21,825,530)**	(18,466,406)	9,120,263	9,977,017	11,486,232
(Loss)/profit after taxation (including (loss)/profit attributable to non-controlling interests)	**(18,822,238)**	(15,816,131)	7,263,764	8,214,871	8,641,449
(Loss)/profit attributable to non-controlling interests	**(2,187,060)**	(1,412,788)	843,470	864,210	1,397,128
(Loss)/profit attributable to equity shareholders of the Company	**(16,635,178)**	(14,403,343)	6,420,294	7,350,661	7,244,321
EBITDA[1]	**4,072,326**	9,239,497	35,921,002	28,850,007	25,352,031
EBITDAR[2]	**4,981,874**	9,925,796	37,452,389	37,133,039	33,740,737
(Loss)/earnings per share attributable to equity shareholders of the Company (RMB)	**(1.21)**	(1.05)	0.47	0.54	0.54
(Loss)/return on equity attributable to equity shareholders of the Company (%)	**(27.11)**	(18.58)	6.87	7.89	8.42

Notes:

(1) EBITDA represents earnings before finance income and finance costs, exchange gains/losses, income tax expense, share of results of associates and joint ventures, depreciation and amortisation as computed under IFRSs.

(2) EBITDAR represents EBITDA before deducting lease expenses on aircraft as well as other lease expenses.

(RMB'000)

	31 December 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Total assets	**298,381,190**	284,029,616	294,206,373	243,657,108	235,644,584
Total liabilities	**232,550,079**	200,256,580	192,876,910	143,159,074	140,785,986
Non-controlling interests	**4,462,554**	6,231,709	7,870,786	7,340,693	8,811,036
Equity attributable to equity shareholders of the Company	**61,368,557**	77,541,327	93,458,677	93,157,341	86,047,562
Equity attributable to equity shareholders of the Company per share (RMB)	**4.23**	5.34	6.43	6.41	5.92

Summary of Operating Data

The following is the operating data summary of the Company, Shenzhen Airlines (including Kunming Airlines), Air Macau, Beijing Airlines, Dalian Airlines and Air China Inner Mongolia.

	Current period	Previous period	Increase/ (decrease)
Capacity			
ASK *(million)*	**152,444.53**	156,060.66	(2.32%)
International	**4,152.23**	18,639.58	(77.72%)
Mainland China	**145,939.38**	135,554.18	7.66%
Hong Kong SAR, Macau SAR and Taiwan, China	**2,352.93**	1,866.90	26.03%
AFTK *(million)*	**10,760.61**	9,634.66	11.69%
International	**6,715.58**	6,163.23	8.96%
Mainland China	**3,937.54**	3,375.26	16.66%
Hong Kong SAR, Macau SAR and Taiwan, China	**107.49**	96.17	11.77%
ATK *(million)*	**24,490.45**	23,685.73	3.40%
Traffic			
RPK *(million)*	**104,625.58**	109,830.07	(4.74%)
International	**1,880.33**	11,753.53	(84.00%)
Mainland China	**101,494.42**	97,117.80	4.51%
Hong Kong SAR, Macau SAR and Taiwan, China	**1,250.83**	958.75	30.47%
RFTK *(million)*	**4,302.85**	3,558.06	20.93%
International	**2,981.52**	2,300.49	29.60%
Mainland China	**1,281.20**	1,229.44	4.21%
Hong Kong SAR, Macau SAR and Taiwan, China	**40.13**	28.13	42.63%
Passengers carried *(thousand)*	**69,045.17**	68,687.07	0.52%
International	**301.31**	2,241.20	(86.56%)
Mainland China	**67,995.09**	65,834.70	3.28%
Hong Kong SAR, Macau SAR and Taiwan, China	**748.78**	611.18	22.51%
Cargo and mail carried *(tonnes)*	**1,186,701.55**	1,113,676.51	6.56%
Kilometres flown *(million)*	**994.20**	973.01	2.18%
Block hours *(thousand)*	**1,590.15**	1,552.86	2.40%

Summary of Operating Data

	Current period	Previous period	Increase/ (decrease)
Number of flights	572,264	551,373	3.79%
International	18,179	29,703	(38.80%)
Mainland China	545,724	513,747	6.22%
Hong Kong SAR, Macau SAR and Taiwan, China	8,361	7,923	5.53%
RTK *(million)*	13,598.95	13,285.14	2.36%
Load factor			
Passenger load factor (RPK/ASK)	68.63%	70.38%	(1.75 ppt)
International	45.28%	63.06%	(17.78 ppt)
Mainland China	69.55%	71.65%	(2.10 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	53.16%	51.36%	1.80 ppt
Cargo and mail load factor (RFTK/AFTK)	39.99%	36.93%	3.06 ppt
International	44.40%	37.33%	7.07 ppt
Mainland China	32.54%	36.42%	(3.88 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	37.33%	29.25%	8.08 ppt
Overall load factor (RTK/ATK)	55.53%	56.09%	(0.56 ppt)
Utilisation			
Daily utilisation of aircraft (block hours per day per aircraft)	6.28	6.34	(0.06 hours)
Yield			
Yield per RPK *(RMB)*	0.5574	0.5074	9.85%
International	1.8523	0.8204	125.78%
Mainland China	0.5318	0.4665	14.00%
Hong Kong SAR, Macau SAR and Taiwan, China	0.6872	0.8109	(15.25%)
Yield per RFTK *(RMB)*	2.5828	2.4040	7.44%
International	3.0329	2.9885	1.49%
Mainland China	1.3722	1.1574	18.56%
Hong Kong SAR, Macau SAR and Taiwan, China	7.7885	9.0770	(14.20%)
Unit cost			
Operating expense per ASK *(RMB)*	0.6262	0.5448	14.94%
Operating expense per ATK *(RMB)*	3.8980	3.5899	8.58%

Fleet Information

During the year of 2021, the Group introduced a total of 43 aircraft, including four A350, 23 A320NEO, 11 A321NEO, four ARJ21-700 and one business jet, among which 29 were introduced under finance leases and 14 were introduced under operating leases. On the other hand, the Group phased out four aircraft, including one A330-200, two A321 and one business jet.

As at the end of the Reporting Period, the Group had a total of 746 passenger aircraft including business jets, with an average age of 8.23 years. Among the aircraft set out above, the Company operated a fleet of 467 aircraft in total, with an average age of 8.39 years. The Company introduced 37 aircraft, including five aircraft under the wet lease agreement with Air Macau, and phased out one aircraft.

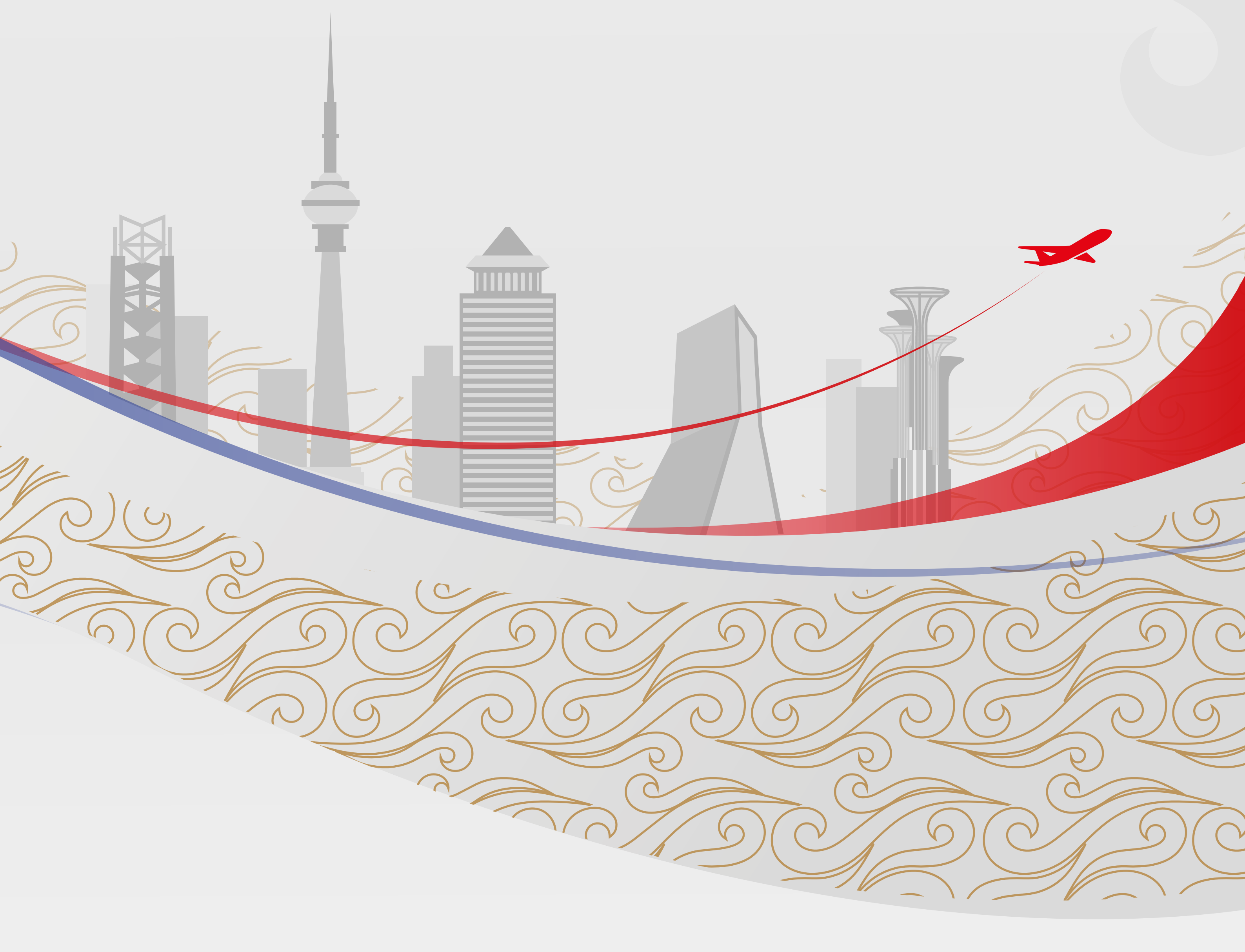
Details of the fleet of the Group as at 31 December 2021 are set out in the table below:

	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Airbus	**408**	**155**	**135**	**118**	**7.94**
A319	41	32	6	3	14.18
A320/A321	287	96	105	86	7.00
A330	64	27	8	29	9.56
A350	16	–	16	–	2.17
Boeing	**326**	**143**	**97**	**86**	**8.76**
B737	274	119	77	78	8.93
B747	10	8	2	–	12.47
B777	28	4	18	6	7.71
B787	14	12	–	2	4.86
COMAC	**7**	**1**	**6**	**–**	**0.81**
ARJ21	7	1	6	–	0.81
Business jets	**5**	**1**	**–**	**4**	**8.52**
Total	**746**	**300**	**238**	**208**	**8.23**

	Introduction Plan			Phase-out Plan		
	2022	2023	2024	2022	2023	2024
Airbus	**36**	**6**	**–**	**10**	**10**	**10**
A319	–	–	–	4	2	8
A320/A321	27	1	–	–	3	2
A330	–	–	–	6	5	–
A350	9	5	–	–	–	–
Boeing	**–**	**–**	**–**	**12**	**5**	**1**
B737	–	–	–	12	5	1
COMAC	**10**	**9**	**9**	**–**	**–**	**–**
ARJ21	10	9	9	–	–	–
Total	**46**	**15**	**9**	**22**	**15**	**11**

Note: Please refer to the actual operation for the introduction and phase-out of the Group's fleet in the future.

Business Overview



SAFE OPERATION

The Group enhanced its safety management capabilities and maintained a stable and safe operation. During the Reporting Period, the Group firmly established the concept of safe development and grasped the extreme importance of safety from a comprehensive perspective. The Group continued to implement specific measures for safe development, and solidly promoted the development of the safe operation system from four aspects: safety management, flight training, aircraft maintenance and operation management. The Group carried out operation management under the regular pandemic prevention and control, strengthened the capability of integrated operation control, and effectively ensured safe operation under the adjusted operation mode. The Group released the revised Air China's Overall Contingency Plan to enhance the Company's contingency response capability. The Group strengthened process management, enhanced supervision and inspection of key operational support units (e.g., flight and aircraft maintenance management), and carried out timely risk identification, control and warning alerts. The Group successfully commenced the operation of its Xinjiang and Guangdong branches, completed the transition to Chengdu Tianfu International Airport, and operated "One airport, Two terminals" at Beijing Capital International Airport.

The Group further implemented the Three-year Action Plan for Specific Safety Rectification, launched the investigation of hidden safety hazards and special load balancing management, strengthened the development of working style and professional management, drew up a list of typical negative behaviors and quantitative assessment indicators for each professional team to improve the system. The Group enhanced the operational support capacity for fleets of new aircraft model, so as to maintain safe, steady and smooth operation.

During the Reporting Period, the Group recorded 1.59 million safe flight hours and transported 69.05 million passengers safely. There was no transportation and aviation incident for which the Group was liable and the overall stable and safe operation was continuously maintained. The Group successfully accomplished important air transportation safeguard missions such as a series of celebration events for the 100th anniversary of the Founding of the Party, the Tokyo Olympic and Paralympics and the Beijing Winter Olympics and Paralympics.

CONTAINING THE PANDEMIC

The Group optimized the pandemic prevention mechanism while coordinating and maintaining effective pandemic prevention and safe operation. During the Reporting Period, in the face of continuous spread of COVID-19 abroad and the occurrence of sporadic cases at home, the Group always focused on the overall development of the Party and the country, insisted on making the pandemic containment the top priority, and carefully and consistently carried out the work of "guarding against the importation of cases and the resurgence of domestic infections, and preventing infections from both people and contaminated objects", fulfilling its political and social responsibility as the national flag carrier.

The Group continued to strengthen management and leadership, improved the control mechanism under the regular pandemic prevention and control, and continuously improve the containment system. The Group strengthened the management of pandemic prevention and control and established the Office of Pandemic Prevention and Control Leading Team as a dedicated office responsible for the overall coordination of the Company's pandemic containment work. The Group coordinated and directed the pandemic containment work with stricter requirements, better mechanisms, more effective organizations and efficient measures, embedding pandemic prevention and control into all aspects of operation.

The Group continued to focus on precise prevention and control and adjusted its response strategy in a timely manner to ensure its pandemic prevention and control measures were legal, scientific, relevant and timely. The Group made every effort to prevent the importation of cases from international flights and implemented the quarantine policy for international flight crew. Meanwhile, it responded quickly to domestic sporadic cases through flexible adjustment of operation arrangement. The Group continued to improve its informatization level of pandemic prevention and promoted the construction of "one person, one file, one aircraft, one file" information sharing platform for pandemic prevention and control.

The Group facilitated the economic and social development continuously by keeping the connection with other countries via air traffic, which helped sustain a steady global supply chain. During the Reporting Period, the Group operated 16 thousand cargo flights with passenger aircraft. Through its cold chain transportation service system, the Group transported 641 tons of COVID-19 vaccines.

MAXIMISING OPERATING PERFORMANCE

Focusing on the main air traffic business, the Group spared no efforts to maximise operating performance. During the Reporting Period, to maximise its operating performance at full throttle, the Group continued to strengthen operation management dynamically and took initiatives to cope with operating pressure. With the major goal of optimising the operation of the entire fleet, the Group strived to maximise income and performance through more effective market analysis and assessment, operation arrangement, resources coordination, conversion of passenger aircraft for cargo operations, strict control of costs and risks, and consolidation of operating competitiveness of main business.

The Group seized market opportunities and adapted to changes of demand by establishing six domestic express routes, which connected Beijing Capital International Airport with Shanghai Hongqiao Airport, Guangzhou Airport, Shenzhen Airport, Chengdu Shuangliu Airport, Chongqing Airport and Hangzhou Airport. At the same time, the Group rolled out more innovative products and carried out targeted marketing. Seizing on the opportunities arising from the promotion of high-quality red tourism, the Group launched red tourism products to increase demand and revenue significantly. It also released more products to meet tourists' safe travel demands during the pandemic. The Group enhanced internal resources coordination and optimised operation arrangement to make the best use of aircrew resources. Furthermore, the Group pushed forward the conversion of passenger aircraft for cargo operations and optimised its deployment by seizing market opportunities, which brought a revenue of RMB8,720 million during the Reporting Period.

The Group raised awareness of stringent cost control. With the exception of investment in operation safety assurance and pandemic prevention and control, the Group exercised strict control over expenditures that were unnecessary and unrelated to production. Under the principle of "operation safety, structure stability and cost control", the Group continued to strengthen the prevention and control of financial risks to ensure healthy cash flows.

ENHANCING SERVICES

The Group was dedicated to the people-oriented development philosophy. On the premise of the implementation of various pandemic prevention and control policies, it improved service quality on all fronts, strived to enhance customer experience and made an all-out effort to establish brand and services.

Focusing on the investment of hardware and service upgrade, the Group renovated and built 10 new self-operated lounges while updating the design standards for lounges to incorporate oriental cultural features into passengers' rest spaces. To create an exclusive cabin environment, the Group developed new airline seat products and rolled out the new blanket design called "Phoenix Feathers (鳳羽霓裳)" and the limited edition of headrest covers in the Beijing Winter Olympics series. Apart from upgrading the in-flight entertainment system, the Group provided in-cabin WiFi on 359 aircraft and air-ground connection on sixteen A350 aircraft.

The Group also attached importance to strengthen its services and products. For example, it raised the quality standard of various services systematically by issuing new sets of conditions for passenger and luggage transportation

and optimizing the interface of the self-service ticket return system. With a focus on elderly passengers, it set up dedicated service counters, offered ground service guidance and launched an APP specially designed for elderly passengers to improve their travel experience. In response to passengers' needs, the Group introduced the "Dainifei (袋你飛)" pocket meal, designed the special and exclusive "Red Trip (紅色之旅)" in-flight meal, and served the new "Henishuo (盒你説)" meal boxes at 50 domestic airports.

With a focus on service innovation, the Group diversified the applications for self-service and intelligent technology, keeping the self-service check-in rate at its main base and branches steady at 75%. In addition, it began to offer full-process baggage tracking and enquiry services at seven airline destinations such as the airports in Beijing and Chongqing. By optimising the intelligent FAQ database, its online customer service maintained a high accuracy rate of 80%. The Group developed and upgraded several system platforms including the service quality management system and the passenger service payment system, so as to enhance the level of service digitalization and innovation capability.

SAFEGUARDING MISSION FOR WINTER OLYMPICS

As the official air transportation service partner of the 2022 Beijing Winter Olympics and Paralympics, Air China thoroughly studied and implemented the important instructions and spirit proposed by General Secretary Xi Jinping for hosting the Winter Olympics, pursuant to which the Company strictly implemented the requirements for staging "simple, safe and splendid" competitions and made solid progress in the relevant works to accomplish various transportation safeguard mission for the Winter Olympics successfully.

To strengthen its management and leadership, the Company has established dedicated departments and reinforced the specific responsibilities, thereby forming a working system with centralized commands and actions. Each of the safeguard supporting unit designated their elite members and coordinated the resources allocation and hence amplified the synergy effect from the collaboration and accomplish major safeguard missions of transportation services such as the test events of the Winter Olympics and the charter flight services for the Winter Olympics Flame successfully. The Company also refined its flight schedules with highly efficient flight plans, and established a comprehensive ticketing support system and launched the Beijing-Frankfurt "Demonstration Route" for Winter Olympics. Meanwhile, the Company insisted on safe operation. It strengthened the monitoring of flight operation and information transmission, and improved its contingency plans. More security staff with enhanced capabilities to handle exceptional situations have been arranged. The Company formulated and strictly implemented various proposals for safeguarding pandemic

to carry out service training. It also put in place new service standards for various special types of sports equipment used in the Winter Olympics and Paralympics, including in-flight wheelchairs for its fleet, as well as ticketing counters and early check-in services in the Winter Olympic Villages.

RISK PREVENTION AND CONTROL

The Group has been upgrading the risk management system while reinforcing the risk assessment and reporting mechanism. It performed material risk monitoring and established a multi-tiered information-sharing mechanism. The Group strengthened its foreign-related compliance management, focusing on enhancing its compliance management capabilities in key areas such as anti-trust, export control and sanctions. The Group strengthened its legal management capability and implemented the requirements that all the major decisions, business contracts and rules and regulations of the Company should be subject to legal review, and that risks relating to the “three major and one significant issues” of the Company should be evaluated to the fullest extent. The Group strengthened the life-cycle management of contracts, continued to improve the Group’s contract templates and enhanced the monitoring of contract performance. The Group organized more than 20 compliance, risk control and legal training sessions with approximately 1,200 participants, covering topics such as export control and data protection and other compliance management or risk control practice, and legal training related to entry-exit inspection and quarantine. Based on the new starting point of the 14th Five-Year Plan and driven by the deepening of the rule of law in Air China, the Company has achieved positive results in supporting reform and development, supporting business decisions and comprehensive risk management.

CORE COMPETENCE ANALYSIS

Strong brand advantage

Air China positioned its brand as “professional and reliable with both international quality and Chinese temperament”. By virtue of the immense historical heritage, Air China strives to create perfect travel experience and help passengers to stay safe by upholding the spirit of phoenix of being a practitioner, promoter and leader for the high-quality development of the aviation industry in the PRC. The Company is also committed to leading the industrial development by establishing itself as a “National Brand”, while pursuing outstanding performance through innovation and excelling efforts. By maintaining its world-class safety operation performance and leading comprehensive operating strengths in Mainland China, the Group has extensive brand recognition and excellent brand reputation among consumers.

Business Overview

During 2021, Air China focused on brand communication activities, including the Winter Olympic Games in Beijing and commencement of operation of Chengdu Tianfu International Airport. As the strategic partner of "both the Summer Olympic Games and the Winter Olympic Games", Air China hosted a series of events in respect of the Winter Olympic Games in Beijing, including the Winter Olympics campaign for the first voyage of the colour-painted "Winter Olympic Sportsmanship (冬奧運動號)" themed aircraft and the one-year countdown campaign for Paralympic Winter Games in Beijing under the theme of "Embark on a New Journey in Beijing! (開啓新航程 相聚在北京)", so as to demonstrate the good brand image of the aviation company representing "both the Summer Olympic Games and the Winter Olympic Games". With respect to the commencement of operation of Chengdu Tianfu International Airport, a series of brand promotional campaigns themed "Connect with the World (與世界美好相'蓉')" were kicked off to support the promotion of Tianfu International Airport and continuously enhance the brand influence. The Company leveraged large-scale fairs as the platform to exhibit its operational strength and brand image, with a view to promoting external collaboration and exchanges, boosting confidence of passengers and contributing to local economic and social development.

Market leader of the Beijing hub

The Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China". Beijing has a unique and prime location advantage for establishing itself into a large international aviation hub in the Northeast Asia. Beijing is also a place with the best business customer and traveller bases. The advantages of Beijing in terms of both geographical location and customer structure are favourable to the Company for maintaining a stronger position for market competition.

In 2021, under the prolonged impact of the COVID-19 pandemic, the Group has actively recovered its transport capacity in Beijing while taking into account the benefits of route operation and striving to sustain flights in important international aviation markets. In January 2021, the Company started to operate domestic flights in both Terminal 2 and Terminal 3 of Beijing Capital International Airport. With the commencement of the operation model of "one airport and two terminals", the Company will gradually increase transport capacity, continue to enhance its operation efficiency and optimize the travel experience of passengers with a view to accelerating the development into a world-class hub. To support the safeguarding services for the 2022 Winter Olympics Games and Paralympic Winter Games, the Company efficiently completed the transfer of international flights to T2 in only 27 days, while following the pandemic containment requirements. In an effort to optimize hub functions and improve operation quality, Air China cooperated with Capital Airport to roll out the "Rebuilding the National Gateway (再造國門)" initiative. The renovation plan was submitted to the Civil Aviation Administration and obtained preliminary approval. In addition, the renovation and maintenance project in respect of the lounge on the second floor of T3C at Capital Airport was completed to better fulfil the demand of passengers.

Upon the commencement of operation of Beijing Daxing International Airport in 2019, the operation pattern of "one city, two airports" in Beijing was formed. As the principal base airline that currently operates in both airports and generates the largest business volume, the Company will fully grasp the historic opportunities arising from the establishment of the Beijing Hub to continuously focus its resources and efforts on accelerating the optimization of hub functions, enhancing the operation efficiency and quality assurance of services, constantly improving its route network, so as to establish Beijing Capital International Airport into a world- class aviation hub, and at the same time facilitating Beijing Daxing International Airport to become a "new source of momentum for national development".

Balanced and complementary route network

Adhering to the long-established principle for the market layout of "balanced development between domestic and overseas routes and support international routes with domestic routes", the Company comprehensively reinforced the global network and implemented national development strategies with consistent efforts made in building a world-class hub in Beijing and an international hub in Chengdu. Through the experience accumulated in its operation over the years, the Company formed an extensive and balanced domestic and international route network, covering the most economically-developed and densely-populated regions in China. After years of development, the Company has taken the lead in market share in respect of mainstream international routes from domestic cities to Europe and North America.

Against the backdrop of anti-pandemic work worldwide, the Company made full use of the resources of route network. According to the conditions of the pandemic and market recovery progress, the Company reasonably allocated the transport capacity of each base and sustain flights in major international aviation markets. Air China adjusted the structure of transport capacity on the account of domestic macro-circulation and grasped market opportunities to expand domestic capacity. As a result, the domestic capacity measured by seat kilometres for 2021 increased by 7.66% year-on-year.

During the Reporting Period, the Company's Beijing newly launched domestic routes such as Beijing Capital-Aksu-Tumushuke and Beijing Daxing-Quzhou; the Chengdu newly launched domestic routes such as Chengdu Shuangliu-Fuyang and Chengdu Tianfu-Beihai; and the Shanghai newly launched domestic routes such as Shanghai Pudong-Zhengzhou and Shanghai Pudong-Zhanjiang. The Company also newly launched international and domestic routes such as Changchun-Frankfurt, Tianjin-Nanning, Wuhan-Ningbo and Hangzhou-Zhongwei.

High quality customer base

In line with the Company's strategy for hub network, the Company targeted the mainstream market of mid-to-high-end government and corporate passengers, which is currently the most valuable passenger group in China. As at the end of the Reporting Period, the number of "Phoenix Miles" members has exceeded 72.0656 million. For the purpose of maintaining the stable premium membership base under the regular pandemic, the Company timely launched an adaptive membership protection scheme in stages. Revenue contributed by frequent fliers accounted for 56.8% of the Company's air passenger revenue, representing a year-on-year increase of 4.5 percentage points. The number of registered users of Air China APP has exceeded 14.2 million, recorded a stable yet rapid growth. In 2021, the Company newly acquired 407 major customers, which brought the total number of effective major customers to 3,861.

Leading cost control mechanism

In 2021, in face of the lingering impact of the COVID-19 pandemic, the Group formulated and resolutely implemented the overall work approach based on the principle of maximizing revenue and efficiency. Apart from investment in safety assurance and pandemic prevention, the Group put emphasis on cost control at source, enhanced the integrated use of its existing assets effectively, exercised strict control on new investment and gave due consideration to the cost-effectiveness and financial security. The Group also devoted strenuous efforts in allocation and coordination of aircraft introduction, investment in infrastructure and aircraft materials so as to control asset-related costs at source. In addition to continuously improving the matching of cost and production under abnormal situation, the Group innovated its business management model to better control major expenses and enhance cost efficiency, provided that investment in safety operation is secured. It also refined the management of rigid costs and vigorously curbed controllable expenses. allocation of funds was conducted to prioritize the security of liquidity, coordinate efficiency and cost and implement the requirements for maximizing the marginal contribution.

Continuous innovation of management mechanism

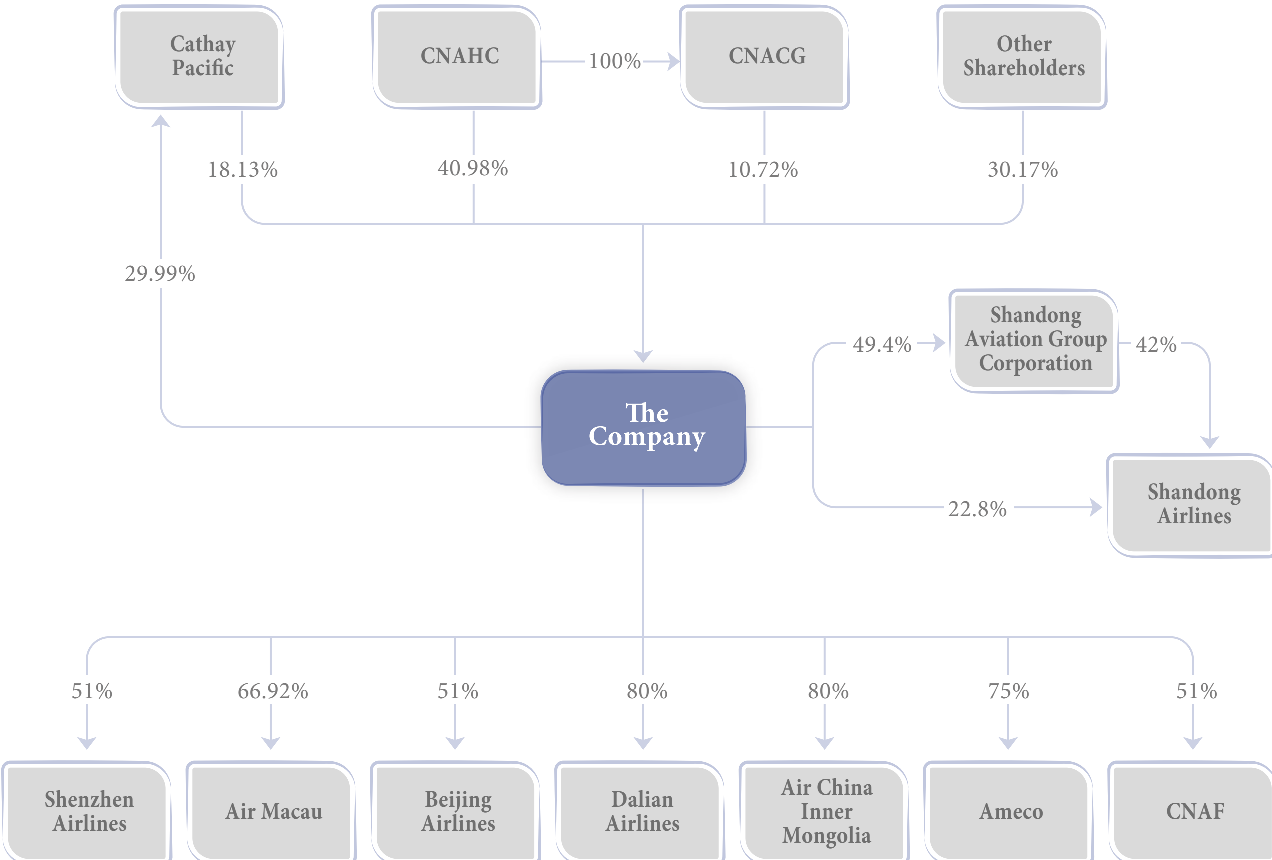
Staying committed to the strategic deployments of the Central Committee of the Party on technological self-reliance and self-improvement as well as enhancing the entity position of enterprises through innovation, the Company strengthened its strategic planning of technological innovation and formulated a Technological Innovation Development Plan for the "14th Five Year Plan" Period. This plan established the development goal of shifting from the system development stage to the effectiveness upgrading stage for technology innovation for the "14th Five Year Plan".

Striving to develop an innovative development base in the civil aviation industry, the Company not only secured the operation of "3+8" innovation laboratories, but also established and implemented a range of technological innovation projects in relation to digital transformation, aircraft maintenance and in-flight network. A number of achievements of the Company have won industry recognition, including the "Aircraft-ground Crossfeed Fuel System", which received the Innovation Project Award of the Fourth China Aviation Maintenance (MRO CHINA) Red Crown Award.

In a bid to promote recruitment of innovation talents and team building, the Group held the "First Innovation Awards and 2021 Innovation Contest (首屆創新獎評選暨2021年創新大賽)", which featured two major tracks: "Innovative Thinking (創意暢想)" and "Open Competition (揭榜應徵)". By soliciting projects in relation to the innovation of product, technology and process, the Company endeavoured to identify and cultivate technological innovation talents and teams.

With a view to broadening the network for synergistic innovation and collaboration, the Company joined the National Technical Standards Innovation Base (Civil Aviation) (國家技術標準創新基地(民航)) and the Technology Innovation Strategic Alliance for Civil Airport Cluster and the Integrated Transportation Industry (民航機場群綜合交通產業技術創新戰略聯盟). The Company also actively took part in various exchanges of the industry, such as the Smart Civil Aviation Technological Innovation Summit (智慧民航科技創新論壇) and the Civil Aviation Science and Education Innovation Achievement Exhibition (民航科教創新成果展), so as to demonstrate its significant progress and achievements in technological innovation.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



Notes:

1. CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.

2. Shandong Aviation Group Corporation is owned as to 49.4% by the Company, while Shandong Airlines is owned as to 42% by Shandong Aviation Group Corporation. Accordingly, Shandong Airlines is directly and indirectly owned as to 43.548% by the Company.

During the Reporting Period, the operating results of the major subsidiaries and associates of the Company were as follows:

	Shenzhen Airlines	Air Macau	Beijing Airlines	Dalian Airlines	Air China Inner Mongolia	Ameco	CNAF	Cathay Pacific	Shandong Airlines
Year of establishment	1992	1994	2011	2011	2013	1989	1994	1946	1999
Place of domicile	Shenzhen	Macau	Beijing	Dalian	Inner Mongolia	Beijing	Beijing	Hong Kong	Shandong
Principal business	Air passenger and air cargo services	Air passenger and air cargo services	Business charter and public air passenger and air cargo services	Air passenger and air cargo services	Air passenger and air cargo services	Repair and overhaul of aircraft, engines and components	Provision of financial services to CNAHC Group and the Group	Air passenger and air cargo services	Air passenger and air cargo services
Registered capital	RMB5,360,000,000	MOP2,242,042,000	RMB1,000,000,000	RMB3,000,000,000	RMB1,000,000,000	USD300,052,800	RMB1,127,961,864	6,437,200,203 shares in issue	RMB400,000,000
Percentage of shareholding by the Company	51%	66.92%	51%	80%	80%	75%	51%	29.99%	22.8%
Revenue (RMB100 million)	185.00	9.33	3.17	10.17	11.43	81.67	2.29	378.20	125.15
Year-on-year changes (%)	6.36	40.30	(21.84)	(3.72)	16.75	(4.93)	0.78	(7.24)	18.80
Total assets (RMB100 million)	670.44	60.15	11.31	44.37	22.14	64.83	223.93	1,607.62	326.44
Profit/(loss) attributable to parent company (RMB100 million)	(33.43)	(6.74)	(1.16)	(1.89)	(1.38)	(1.46)	0.46	(50.80)	(18.14)
Profit/(loss) attributable to parent company in the corresponding period of last year (RMB100 million)	(20.62)	(9.18)	(0.32)	0.25	(0.35)	(1.53)	0.65	(190.04)	(23.82)

The fleet information and operating data of the major subsidiaries and associates of the Company were as follows:

As at the end of the Reporting Period/ During the Reporting Period	Shenzhen Airlines	Air Macau	Beijing Airlines*	Dalian Airlines	Air China Inner Mongolia	Cathay Pacific	Shandong Airlines
Fleet size (unit)	229 (on a consolidated basis)	17	3	13	12	234 (on a consolidated basis)	134
Average age (year)	8.04	5.56	12.08	8.24	9.61	10.5	8.21
ASK (100 million)	518.35	19.62	4.51	26.01	28.79	132.28	350.94
Year-on-year changes (%)	(0.41)	11.14	(18.29)	(11.01)	17.01	(61.8)	3.83
RPK (100 million)	358.59	11.76	3.04	17.72	19.58	41.20	268.56
Year-on-year changes (%)	(3.57)	28.96	(22.40)	(12.11)	13.70	(79.5)	4.80
Passengers carried (10 thousand)	2,433.13	69.85	31.67	149.10	174.28	71.7	1,865.49
Year-on-year changes (%)	(4.51)	27.95	(26.19)	(5.52)	10.94	(84.5)	2.53
Average passenger load factor (%)	69.18	59.96	67.31	68.11	67.99	31.1	76.53
Year-on-year changes (ppt)	(2.27)	8.28	(3.57)	(0.85)	(1.98)	(26.9)	0.71

*Note: As at the end of the Reporting Period, Beijing Airlines operated a fleet of four entrusted business jets and one self-owned business jet with an average age of 8.52 years. During the Reporting Period, in terms of business charter service, Beijing Airlines completed 294 flights, representing a year-on-year decrease of 15.52%; it completed 983.45 flying hours, representing a year-on-year decrease of 4.89%; it carried a total of 2,528 passengers, representing a year-on-year increase of 13.77%.

OPERATIONAL PLAN

The Company has established its operational focuses for 2022, including (1) focusing on enhancing operation safety resolutely and maintaining safety and stable operation; (2) staying committed to pandemic prevention and control and implementing the measures and requirements from a detailed perspective; (3) striving to maximise the operating performance despite difficulties and endeavouring to reduce and control loss; (4) persisting to strengthen the in-depth reform to fully unleash the effectiveness therefrom; (5) pursuing pragmatic innovation and adhering to enhancing services, thereby increasing brand value; (6) staying committed to seeking strategic progress and enhancing the quality of development; (7) adhering to the leadership of the Party and promoting the Party building, safeguarding high quality development.

OUTLOOK FOR FUTURE

Making contributions to the national development strategies by the civil aviation industry in China

China's civil aviation industry will further implement national initiatives and regional strategies, namely the "Belt and Road" initiative, the Ecological Protection and High-quality Development Strategy of Yellow River Basin, the Yangtze River Economic Belt Development Plan, the Yangtze River Delta Integration Plan, the "Beijing-Tianjin-Hebei" Integration Plan, the Plan for Xiong'an New Area, Chengdu-Chongqing Economic Circle Plan, and Guangdong-Hong Kong-Macau Greater Bay Area Development Plan, and will strengthen regional aviation links and coordination as well as the existing aviation market pattern. The "Belt and Road" initiative will promote China's economic and trade exchange and cooperation with Southeast Asia and Europe, not only strengthening the international hub status of, among others, Shanghai and Guangzhou, but also providing development opportunities for airports in domestic second-tier cities. The Ecological Protection and High-quality Development Strategy of Yellow River Basin will promote the economic development and optimization of industrial structure of the nine provinces and regions along the Yellow River Basin, which will present development opportunities for the aviation industry. The Yangtze River Economic Belt Development Plan and Yangtze River Delta Integration Plan will speed up the formation of the aviation network with Shanghai international aviation hub and regional aviation hub as the core. The strategy of coordinated development of Beijing-Tianjin-Hebei and the Plan for Xiong'an New Area will significantly enhance the international competitiveness of Beijing aviation hub, and the hub function will be further strengthened, which will promote the regional development of Tianjin and Hebei. Chengdu-Chongqing Economic Circle Plan will consolidate the coordinated development of Sichuan and Chongqing, accelerate the development of the international aviation hub of Chengdu Tianfu International Airport and promote the operation of "two integrated airports" in Chengdu, thereby pushing forward the coordinated development of airports in Chengdu and Chongqing. The Guangdong-Hong Kong-Macau Greater Bay Area Development Plan will deepen the cooperation among the Mainland, Hong Kong and Macau, and promote the construction of international hubs of Hong Kong, Guangzhou and Shenzhen. The construction of airport groups serving the four major urban agglomerations received increasing attention from the State, and the pattern of "one city, two airports" in Beijing, Shanghai, Chengdu and other major cities has taken or is taking shape.

Gradual resumption of passenger and freight volume in the civil aviation industry in China

There is no change in the fundamentals of the Chinese economy or in the basic trend of economic stability and long-term improvement, thereby the economy will achieve steady recovery. Although the world economy is undergoing profound adjustment, the overall trend of economic globalization will remain unchanged, while China's development still sees strategic opportunities. Leveraging the super large-scale domestic demand market formed with a population of 1.4 billion, including a middle-class group of more than 400 million, China is striving to build a new development paradigm which is based on domestic macro-circulation, along with the international and domestic dual-circulation under mutual promotion. Civil aviation demand in China will continue to rise and market potential will remain immense. The aviation market in China will continue its recovery. In the long run, the demand for air travel will remain strong with huge market potential. As the pandemic is brought under control, business travel and holiday tours continue to be growth drivers of the aviation industry, and air travel demand will become increasingly customized and popular. During the "14th Five-Year Plan" period, construction of new airports and airport renovations and expansions are underway in various regions and the management capability in air transportation is steadily increased, which can better satisfy the demand of the industrial development.

Competition landscape among global and domestic aviation markets

The original competition landscape is expected to continue in the global aviation market. With the impact of the global pandemic, aviation companies around the world are suffering from operating difficulties attributable to cash shortfall. Governments of various countries have provided financial relief of varying degrees to their local aviation industry respectively. According to the IATA statistics, the overall financial losses of airlines decreased during Q3 of 2021. Certain airlines achieved their first profitable quarter since the pandemic crisis, among which airlines in North America performed the best, while the air passenger volume increased in Europe, promoting the market recovery. Along with further recovery and opening up of the market, the global market competition landscape is expected to resume and continue the previous trend of the strong growing stronger.

It is expected that the competitive pressure will be mitigated in the domestic aviation market. Regarding the demand side, as the national economy remains stable and improved and domestic pandemic prevention and control situation is under control generally, the foundation of industrial recovery and development will be more solid, envisaging the domestic market demand will continue its revival. Regarding the supply side, according to the analysis in the "14th Five-Year Plan" of civil aviation, 2021-2022 is the recovery and consolidation period of the industry, and the growth rate of capacity deployment of the industry will slow down, but this will help alleviate the short-term excess capacity pressure brought by the transfer of some aircraft from the international market to the domestic market.

Management's Discussion and Analysis of Financial Position and Operating Results

The following discussion and analysis are based on the Group's consolidated financial statements and the notes thereto prepared in accordance with the IFRSs and are designed to assist the readers in further understanding the information provided in this report so as to better understand the financial conditions and results of operations of the Group as a whole.

REVENUE

During the Reporting Period, the Group's revenue was RMB74,532 million, representing an increase of RMB5,028 million or 7.23% as compared with last year. Among which, air traffic revenue was RMB69,430 million, representing an increase of RMB5,150 million or 8.01% as compared with last year; other operating revenue was RMB5,102 million, representing a year-on-year decrease of RMB122 million or 2.33%.

REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2021		2020		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Mainland China	60,833,951	81.63%	51,953,674	74.74%	17.09%
Hong Kong SAR, Macau SAR and Taiwan, China	1,172,112	1.57%	1,032,767	1.49%	13.49%
Europe	4,795,494	6.43%	6,176,092	8.89%	(22.35%)
North America	2,661,521	3.57%	3,397,082	4.89%	(21.65%)
Japan and Korea	958,898	1.29%	2,123,022	3.05%	(54.83%)
Asia Pacific and others	4,109,694	5.51%	4,821,112	6.94%	(14.76%)
Total	74,531,670	100.00%	69,503,749	100.00%	7.23%

AIR PASSENGER REVENUE

During the Reporting Period, the Group recorded an air passenger revenue of RMB58,317 million, representing an increase of RMB2,590 million over the previous year. Among the air passenger revenue, the decrease of capacity contributed a decrease of RMB1,291 million in the revenue, and the decrease of passenger load factor led to a decrease of RMB1,352 million in the revenue, while the increase of passenger yield resulted in an increase in revenue of RMB5,233 million. The Group's capacity, passenger load factor and yield per RPK in 2021 are as follows:

	2021	2020	Change
ASK (million)	152,444.53	156,060.66	(2.32%)
Passenger load factor (%)	68.63	70.38	(1.75 ppt)
Yield per RPK (RMB)	0.5574	0.5074	9.85%

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2021		2020		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Mainland China	53,974,171	92.56%	45,307,186	81.30%	19.13%
Hong Kong SAR, Macau SAR and Taiwan, China	859,594	1.47%	777,411	1.40%	10.57%
Europe	1,299,608	2.23%	3,567,703	6.40%	(63.57%)
North America	717,278	1.23%	1,955,890	3.51%	(63.33%)
Japan and Korea	344,866	0.59%	1,345,339	2.41%	(74.37%)
Asia Pacific and others	1,121,178	1.92%	2,773,333	4.98%	(59.57%)
Total	58,316,695	100.00%	55,726,862	100.00%	4.65%

AIR CARGO AND MAIL REVENUE

During the Reporting Period, the Group's air cargo and mail revenue was RMB11,113 million, representing an increase of RMB2,560 million as compared with last year. Among which, the increase of capacity contributed an increase of RMB1,000 million in the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB791 million, and the increase of yield of cargo and mail resulted in an increase of RMB769 million in the revenue. The capacity, cargo and mail load factor and yield per RFTK in 2021 are as follows:

	2021	2020	Change
Available freight tonne kilometres (million)	10,760.61	9,634.66	11.69%
Cargo and mail load factor (%)	39.99	36.93	3.06 ppt
Yield per RFTK (RMB)	2.5828	2.4040	7.44%

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

	2021		2020		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Mainland China	1,758,093	15.82%	1,423,008	16.64%	23.55%
Hong Kong SAR, Macau SAR and Taiwan, China	312,518	2.81%	255,356	2.98%	22.39%
Europe	3,495,886	31.46%	2,608,389	30.50%	34.02%
North America	1,944,244	17.49%	1,441,192	16.85%	34.91%
Japan and Korea	614,032	5.53%	777,683	9.09%	(21.04%)
Asia Pacific and others	2,988,515	26.89%	2,047,779	23.94%	45.94%
Total	11,113,288	100.00%	8,553,407	100.00%	29.93%

OPERATING EXPENSES

During the Reporting Period, the Group's operating expenses were RMB95,465 million, representing an increase of 12.27% from RMB85,030 million in the same period last year. The breakdown of the operating expenses is set out below:

	2021		2020		
(in RMB'000)	Amount	Percentage	Amount	Percentage	Change
Jet fuel costs	20,703,780	21.69%	14,817,474	17.43%	39.73%
Take-off, landing and depot charges	9,667,650	10.13%	9,239,943	10.87%	4.63%
Depreciation and amortisation	20,934,502	21.93%	20,408,317	24.00%	2.58%
Aircraft maintenance, repair and overhaul costs	6,910,741	7.24%	6,423,313	7.55%	7.59%
Employee compensation costs	24,230,071	25.38%	22,012,834	25.89%	10.07%
Air catering charges	1,650,028	1.73%	1,605,027	1.89%	2.80%
Selling and marketing expenses	2,576,346	2.70%	2,568,362	3.02%	0.31%
General and administrative expenses	1,263,044	1.32%	1,051,495	1.24%	20.12%
Others	7,528,446	7.88%	6,902,750	8.12%	9.06%
Total	95,464,608	100.00%	85,029,515	100.00%	12.27%

Jet fuel costs increased by RMB5,886 million on a year-on-year basis, mainly due to the combined effect of the increase in the prices and consumption of jet fuel.

Take-off, landing and depot charges increased by RMB428 million on a year-on-year basis, mainly due to an increase in the number of take-offs and landings.

Depreciation and amortisation increased by RMB526 million on a year-on-year basis, mainly due to the increase in the fleet size.

Employee compensation costs increased by RMB2,217 million on a year-on-year basis, mainly due to the increase in the investment in production and operation and the adjustment of policy in relation to the 50% reduction in social insurance levy last year.

Air catering charges increased by RMB45 million on a year-on-year basis, mainly due to the increase in the number of passengers.

Other operating expenses mainly included operating lease expenses on aircraft and engines, civil aviation development fund and non-above-mentioned ordinary expenses arising from the core air traffic business, which increased by 9.06% on a year-on-year basis, mainly due to the increase in transport and the resumption on the levy of civil aviation development fund during the Reporting Period.

FINANCE INCOME, FINANCE COSTS AND NET EXCHANGE LOSS

During the Reporting Period, the Group recorded a finance income of RMB112 million, representing a year-on-year decrease of RMB80 million or 41.51%; and incurred finance costs (excluding the capitalised portion) of RMB5,495 million, representing a year-on-year increase of RMB395 million. During the Reporting Period, the Group recorded a net exchange gain of RMB1,235 million, representing a year-on-year decrease of RMB2,368 million.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the net loss of the Group's share of results of its associates and joint ventures was RMB816 million, representing a year-on-year decrease of RMB5,177 million. Among which, during the Reporting Period, the Group recognized a loss on investment of Cathay Pacific of RMB865 million, representing a year-on-year decrease of RMB4,244 million; and recognized a loss on investment of Shandong Aviation Group Corporation and Shandong Airlines of RMB250 million, representing a year-on-year decrease of RMB718 million.

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries, associates or joint ventures during the Reporting Period.

ASSETS STRUCTURE ANALYSIS

As at the end of the Reporting Period, the total assets of the Group was RMB298,381 million, representing an increase of 5.05% from that as at 31 December 2020, among which current assets accounted for RMB30,397 million or 10.19% of the total assets, while non-current assets accounted for RMB267,984 million or 89.81% of the total assets.

Among the current assets, cash and cash equivalents were RMB15,935 million, accounting for 52.42% of the current assets and representing an increase of 172.95% from that as at 31 December 2020.

Among the non-current assets, the book value of property, plant and equipment and right-of-use assets as at the end of the Reporting Period amounted to RMB220,415 million, accounting for 82.25% of the non-current assets and representing an increase of 2.10% from that as at 31 December 2020.

ASSET MORTGAGE/PLEDGE

As at the end of the Reporting Period, the Group, pursuant to certain bank loans and finance leasing agreements, had mortgaged certain aircraft and premises with an aggregated book value of approximately RMB89,565 million (RMB79,983 million as at 31 December 2020) and land use rights with book value of approximately RMB26 million (RMB27 million as at 31 December 2020). In addition, as at the end of the Reporting Period, the Group had bank deposits restricted in ownership of approximately RMB775 million (approximately RMB737 million as at 31 December 2020), which were mainly statutory reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

In 2021, the Group's capital expenditure totalled RMB20,170 million, of which the total investment in aircraft was RMB14,034 million, mainly including procurement of aircraft and engines, aircraft modifications, flight simulators, etc. Other capital expenditure investment amounted to RMB6,136 million, mainly including infrastructure construction, IT system construction, ground equipment procurement and cash component of the long-term investments.

EQUITY INVESTMENT

As at the end of the Reporting Period, the Group's equity investment in its associates amounted to RMB10,391 million, representing a decrease of 5.01% from that as at 31 December 2020. Among this, the balance of the equity investment of the Group in Cathay Pacific and Shandong Aviation Group Corporation amounted to RMB9,449 million and RMB475 million, respectively.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,830 million, representing an increase of 15.75% from that as at 31 December 2020.

DEBT STRUCTURE ANALYSIS

As at the end of the Reporting Period, the Group's total liabilities were RMB232,550 million, representing an increase of 16.13% from that as at 31 December 2020. Among them, current liabilities amounted to RMB91,620 million, accounting for 39.40% of the total liabilities; and non-current liabilities amounted to RMB140,930 million, accounting for 60.60% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings, bills payable and lease liabilities) amounted to RMB54,935 million, representing an increase of 3.16% from that as at 31 December 2020.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings and lease liabilities) amounted to RMB129,467 million, representing an increase of 20.17% from that as at 31 December 2020.

Details of interest-bearing debts of the Group categorized by currency are set out below:

	31 December 2021		31 December 2020		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
RMB	**139,158,663**	**75.46%**	109,420,080	67.96%	27.18%
US dollars	**43,949,421**	**23.84%**	49,669,410	30.85%	(11.52%)
Others	**1,294,474**	**0.70%**	1,902,083	1.19%	(31.94%)
Total	**184,402,558**	**100.00%**	160,991,573	100.00%	14.54%

COMMITMENTS AND CONTINGENT LIABILITIES

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 25.59% from RMB41,020 million as at 31 December 2020 to RMB30,522 million as at the end of the Reporting Period. The Group's investment commitments, which was mainly used in the investment agreements entered into, amounted to RMB22 million as at the end of the Reporting Period, as compared to RMB23 million as at 31 December 2020.

Details of the Group's contingent liabilities are set out in note 43 to the consolidated financial statements of the Group for 2021.

GEARING RATIO

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 77.94%, representing an increase of 7.43 percentage points from that as at 31 December 2020. Given that high gearing ratio is common among aviation enterprises, the current gearing ratio of the Group is at a relatively reasonable level and its long-term insolvency risk is within controllable range.

WORKING CAPITAL AND ITS SOURCES

As at the end of the Reporting Period, the Group's net current liabilities (current liabilities minus current assets) were RMB61,223 million, representing an increase of RMB361 million from that as at 31 December 2020. Based on the structure of current assets and current liabilities, the Group's current ratio (current assets divided by current liabilities) was 0.33, representing an increase from 0.24 as at 31 December 2020.

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the Reporting Period, the Group's net cash inflow from operating activities was RMB7,130 million, as compared to the net cash outflow of RMB4,017 million for the corresponding period in 2020, which was mainly because the sales revenue increased and the number of ticket refunds declined on a year-on-year basis. Net cash outflow from investing activities was RMB4,453 million, representing a decrease of 71.93% from RMB15,865 million for the corresponding period in 2020, mainly due to the year-on-year decrease in the cash payment for the acquisition and construction of fixed assets and other long-term assets and the subscription of shares of Cathay Pacific during the corresponding period of last year. Net cash inflow from financing activities amounted to RMB7,469 million, representing a decrease of 55.77% from RMB16,888 million for the corresponding period in 2020, mainly due to the larger growth of its financing scale to cope with the impact of COVID-19 pandemic and ensure the liquidity safety during the corresponding period of the previous year.

The Company has obtained bank facilities of RMB175,405 million in aggregate granted by several banks in China, among which approximately RMB61,928 million has been utilised. The remaining amount is sufficient to meet our demands on working capital and future capital commitments.

RISK FACTORS

Risks of External Environment

Market Fluctuation

The Chinese economy has strong resilience and its long-term positive fundamentals will remain unchanged. Nonetheless, in view of the lingering impact of the COVID-19 pandemic, it is confronted with triple pressure of shrinking demand, supply shocks and weakening expectations. There exist certain uncertainties in the momentum of the general demand recovery accordingly. Based on the characteristics of the new development phase, the Group will fully implement the new development philosophy and establish new development paradigm with a primary focus on the supply-side structural reform, at the same time responding to the risks of market fluctuation actively.

Oil Price Fluctuation

Jet fuel is one of the main operating costs of the Group. The results of the Group is relatively more affected by the changes in jet fuel price. During the Reporting Period, with other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel costs will rise or fall by approximately RMB1,035 million.

Exchange Rate Fluctuation

The Group's certain lease liabilities, bank loans and other loans are mainly denominated in US dollar. Certain international income and expenses are denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity as at 31 December 2021 by RMB317 million.

Details of the financial risk management objectives and policies of the Group are set out in note 45 to the financial statements of the Group for 2021.

Risks of Competition

Industry competition

Affected by the COVID-19 pandemic, global airlines grounded a large number of planes and faced a cash flow crisis, while many aviation companies in the United States and Europe went bankrupt. Such integration is expected to alleviate excess capacity and facilitate the integration of civil aviation resources and subsequent development. During the early period of the "14th Five-Year" development of civil aviation, active adjustment and control on the growth rate of capacity based on the assessment of the industry on the period of market recovery will help alleviate the pressure of peer competition arising from short-term excess capacity in the domestic market.

Alternative competition

China has built up the world's largest high-speed railway network. It is extending its reach towards central and western China and accelerating the development through long-term planning. In the long run, the high-speed railway will change China's geographic pattern of the economy and, as a result of its cooperation and competition with civil aviation, the air-rail interlink operation will provide strong support to the development of aviation hubs.

Corporate Governance Report

MEMBERS OF THE SIXTH SESSION OF THE BOARD


Mr. Song Zhiyong


Mr. Ma Chongxian


Mr. Feng Gang


Mr. Patrick Healy


Mr. Li Fushen


Mr. He Yun


Mr. Xu Junxin

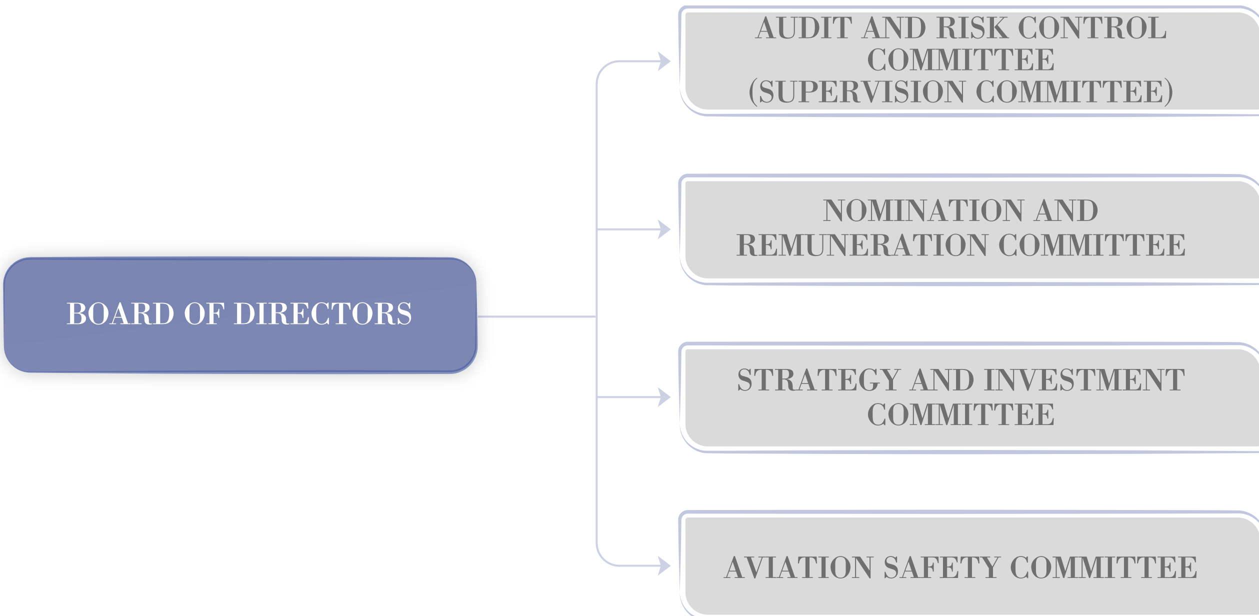

Ms. Winnie Tam Wan-chi

The Company has been committed to maintaining and enhancing the level of its corporate governance so as to ensure greater accountability and transparency of the Group and deliver long-term return to its shareholders. The Company has complied with the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Code") during the Reporting Period, except for code provision A.4.2.

BOARD OF DIRECTORS

Governance Structure

As at the end of the Reporting Period, the structure of the Board and each special committee is set out as follows:



MEMBERS OF THE SIXTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. He Chaofan

Mr. Wang Jie

Mr. Qin Hao

Ms. Lyu Yanfang

Ms. Guo Lina

As of the end of the Reporting Period, the fifth session of the Board of the Company comprised eight Directors, out of which three were independent non-executive Directors. The Company completed the re-election of the Board on 25 February 2022. As at the date of this annual report, the sixth session of the Board comprises eight Directors, out of which four are independent non-executive Directors. All of the Directors of the fifth and sixth session of the Board have actively participated in the activities of the Company.

The attendance records of all the Directors of the fifth session of the Board present in person at general meetings, Board meetings and meetings of each special committee during the Reporting Period are as follows:

	Number of meetings attended in person/should be attended					
	General Meeting	Board Meeting	Audit and Risk Control Committee (Supervision Committee) Meeting	Nomination and Remuneration Committee Meeting	Strategy and Investment Committee Meeting	Aviation Safety Committee Meeting
Executive Directors						
Song Zhiyong	2/3	10/11	N/A	N/A	7/7	2/2
Ma Chongxian	0/1	6/6	N/A	N/A	N/A	N/A
Non-executive Directors						
Feng Gang	2/3	11/11	N/A	N/A	N/A	N/A
Patrick Healy	3/3	11/11	N/A	N/A	N/A	N/A
Xue Yasong	2/3	10/11	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Wang Xiaokang (resigned during the Reporting Period)	0/0	0/1	N/A	0/0	N/A	N/A
Duan Hongyi	3/3	11/11	8/8	6/6	7/7	N/A
Stanley Hui Hon-chung	3/3	11/11	8/8	N/A	N/A	2/2
Li Dajin	3/3	10/11	7/8	6/6	N/A	N/A

For the Reporting Period, the number of Board meetings held, the convening procedures, minutes and records, rules of procedure and other relevant matters in connection with such meetings were in compliance with the relevant code provisions of the Code. It can be shown from the attendance rates that all Directors have discharged their duty of diligence and are dedicated to making contribution for the interest of the Company and its shareholders as a whole.

The Responsibilities of the Board

The Board is accountable to the general meeting and exercises the power according to the Articles of Association and the "Rules and the Procedures of the Board". Pursuant to the Articles of Association, the main responsibilities of the Board include: (1) to determine the Company's business policies and investment plans; (2) to formulate the Company's preliminary and final annual financial budgets; (3) to formulate the Company's profit distribution proposals and loss recovery proposals; (4) to determine the establishment of the Company's internal management bodies; and (5) to appoint or dismiss the President of the Company and the Secretary to the Board, as well as appraise them and determine their remuneration; and based on the nomination of the President, to appoint or dismiss the Vice President, the Chief Financial Officer, the Chief Pilot, the general counsel and other senior management personnel of the Company, as well as appraise them and determine their remuneration.

The Board shall be responsible for performing the following corporate governance duties: (1) to develop and review the Company's policies and practices on corporate governance, and provide recommendations in this regard; (2) to review and monitor the training and continuous professional development of the Directors and senior management; (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (4) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and (5) to review the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report. During the Reporting Period, the Board actively performed the corporate governance duties. Please refer to the disclosure in this Corporate Governance Report for details of the implementation in this regard.

The Board has independent access to the senior management personnel for enquiries in relation to the Company's management. The Board has established special committees to provide support to the Board in its decision-making process. For details, please refer to the section headed "Special Committees of the Board" below.

Procedure of Board Meeting

Board meetings are held regularly throughout the year and generally include annual meeting, interim meeting and meetings for the first and third quarters. The Board shall formulate meeting plans on an annual basis, which mainly include matters such as the time and venue of the Board meeting as well as routine proposals such as review of financial reports, and shall inform all Directors of such plans in the beginning of the year.

Board meetings shall be convened by the Chairman and a notice of 14 days shall be given to all Directors before each meeting. The Directors may attend in person or through other electronic means of communication. If an extraordinary Board meeting is proposed to be convened, the Chairman of the Board shall issue a notice of the extraordinary Board meeting within 10 days from the receipt of the proposal(s). The relevant documents of the meeting shall be given to all Directors, Supervisors and other persons attending the meeting at least three days in advance.

For the purpose of considering resolutions or matters during Board meetings, the Directors may arrange the persons-in-charge of the relevant departments of the Company to attend the meetings as necessary to answer queries.

The Secretary to the Board shall be responsible for the communications and liaison with all Directors from the time when the notice is served to the commencement of the meeting, and shall provide in a timely manner the necessary information to the Directors to facilitate their decision-making on matters set out in the agenda. All Directors shall have access to the Secretary to the Board. Under the leadership of the Board and the Chairman, the Secretary to the Board shall take the initiative to keep himself or herself abreast of the implementation progress of the Board resolutions, and report to and advise the Board and the Chairman in a timely manner on major issues arising in the course of implementation. Minutes of Board meetings shall be kept by the Secretary to the Board and made available for inspection by any Director at any time.

Election of Directors

Directors other than employee representative director(s) are elected at the shareholders' general meeting of the Company, while employee representative director(s) is/are elected or dismissed by the employee representative meeting of the Company. Directors are appointed for a term of three years and are eligible for re-election and re-appointment upon expiry of their terms of office.

Code provision A.4.2 stipulates that, among others, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As disclosed in the announcement of the Company dated 23 October 2020, the terms of the fifth session of the Board and the Supervisory Committee expired on 26 October 2020. As the nomination process of candidates for Directors and Supervisors of the new session of the Board and the Supervisory Committee has not been completed during the Reporting Period, the re-election and appointment of members of the Board and the Supervisory Committee were postponed appropriately. The terms of the special committees of the fifth session of the Board of the Company were also extended accordingly. The Company completed the re-election and appointment of members of the Board and the Supervisory Committee on 25 February 2022 and fulfilled respective information disclosure obligations in a timely manner. All members of the fifth session of the Board and the Supervisory Committee have continued to fulfill their respective duties and responsibilities of Directors and Supervisors in accordance with the requirements of the laws, administrative rules and the Articles of Association until the re-election work are completed. The postponed re-election of the members of the Board and the Supervisory Committee did not affect the normal operation of the Company.

Chairman and President

The Chairman shall be elected and dismissed by a simple majority of the Directors. The term of office of the Chairman shall be three years, and the Chairman is eligible for re-election and re-appointment upon expiry of the term. The Chairman is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner. Mr. Song Zhiyong was elected as the Chairman of the Company on 29 December 2020 and was re-elected on 25 February 2022.

The Company has a President who shall be appointed or dismissed by the Board. The President is authorized to oversee the Group's business, implement various strategies and be responsible for the Company's daily operation to attain overall commercial goals. Mr. Ma Chongxian was appointed as the President of the Company on 31 May 2021 and was re-appointed on 25 February 2022.

Board Diversity Policy

The Directors have extensive expertise and experience in the fields of aviation, finance, law and financial management and provide substantial support for the scientific and effective decision-making of the Board. The "Board Diversity Policy" was adopted by the Board, which sets out the approach of the Company towards achieving diversity of the Board.

- The Company takes into consideration a number of factors, including but not limited to professional experience and qualifications, cultural and educational background, skills, industry knowledge and reputation, knowledge of the laws and regulations applicable to the Company, gender, age, language skills and length of service, with a view to achieving diversity of the Board. These factors shall be taken into account by the Nomination and Remuneration Committee in reviewing the structure and composition of the Board and making recommendations to the Board on the appointment, re-appointment and succession of Directors.

- The above factors should be balanced as appropriate in determining the optimal composition of the Board. For the appointment of Directors, the above factors shall be considered on a case-by-case basis in light of the actual circumstances of the Company and its business operations, development and strategies. Appointment by the Board should be made based on merits and the contributions that the individual is expected to bring to the Board with due regard for the benefits of diversity in the Board. The Board is structured to include more external Directors than internal Directors, and the members of the Board include one full-time deputy secretary of the Communist Party Committee as non-executive Director, one shareholder representative Director, one employee representative Director and four independent Directors. Among the four independent Directors, at least one shall possess extensive experience in accounting or relevant financial management areas with appropriate professional qualifications, and other Directors shall possess extensive experience in the aviation, legal and management areas to facilitate scientific decision-making of the Board. At least one female director shall be appointed to the Board of the Company. On 25 February 2022, the Company appointed Ms. Winnie Tam Wan-chi as an independent non-executive Director of the Company.

- The Nomination and Remuneration Committee shall monitor the implementation of the Board Diversity Policy on an ongoing basis, and review this policy as appropriate.

Directors' Training and Continuous Professional Development

The management of the Company provides Directors with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate their discharge of duties.

Newly appointed Directors shall be given introduction in relation to the Company to ensure that they have a sufficient understanding of the management, business and governance practices of the Company. The Company also encourages its Directors to participate in seminars and courses conducted by recognized institutions so as to ensure that they constantly improve their skills and are aware of the latest developments or changes in laws and regulations, the Listing Rules and the Code with which they are required to comply in discharging their duties.

The Directors confirmed that they have complied with code provision A.6.5 of the Code in relation to the training of Directors. All Directors have participated in continuing professional development by attending trainings and courses or reading relevant materials to broaden their knowledge base and sharpen their skills, and have provided their training records to the Company.

Training for Directors during the Reporting Period	Category [Notes]
Executive Directors	
Song Zhiyong (Chairman)	a, b
Ma Chongxian (President)	a, b
Non-executive Directors	
Feng Gang	b
Patrick Healy	a
Xue Yasong	a, b
Independent Non-executive Directors	
Wang Xiaokang (resigned during the Reporting Period)	a
Duan Hongyi	a, b
Stanley Hui Hon-chung	a, b
Li Dajin	a, b

Notes:

a. Trainings on the responsibilities of the Directors provided by the Company's legal advisers and the information about the latest laws and regulations and regulatory developments in the domestic and foreign capital markets prepared by the Company on a regular basis, for the Directors to study by themselves.

b. Special trainings provided by the regulatory authorities.

Biographical Details and Other Information of Directors

The list of Directors and their respective roles on the Board and special committees under the Board are set out in this annual report and published on the websites of the Company and Hong Kong Stock Exchange. For biographical details of the Directors, please refer to the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report.

On 5 September 2005, the Company formulated and adopted the Model Code for Securities Transactions, which was subsequently amended on 19 March 2007 and 4 December 2009, respectively, on terms no less exacting than the required standards of the Model Code. The Model Code for Securities Transactions of the Company also applies to the Supervisors and the relevant employees. After making specific enquiries, the Company confirmed that each Director and each Supervisor have complied with the required standards of the Model Code set out in Appendix 10 to the Listing Rules and the Company's code of conduct throughout the Reporting Period.

The three independent non-executive Directors of the Company as at the end of the Reporting Period, namely, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, have confirmed their independence with the Hong Kong Stock Exchange when they were elected. The Company had already received from those independent non-executive Directors the annual statements concerning their independence and re-confirmed their independence. The four independent non-executive Directors of the sixth session of the Board of the Company, namely Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi, have also confirmed their independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

Besides the working relationships in the Company, there are no financial, business, family relationship or other material relationships among the Directors, Supervisors and senior management.

The Company has purchased liability insurance for the Directors, Supervisors and senior management.

SPECIAL COMMITTEES OF THE BOARD

Audit and Risk Control Committee (Supervision Committee)

As at the end of the Reporting Period, the Audit and Risk Control Committee (Supervision Committee) comprised Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all of whom are independent non-executive Directors, with Mr. Duan Hongyi serving as the chairman of the committee. As at the date of this annual report, the Audit and Risk Control Committee (Supervision Committee) comprises Mr. Li Fushen, Mr. He Yun and Ms. Winnie Tam Wan-chi, all of whom are independent non-executive Directors, with Mr. Li Fushen serving as the chairman of the committee.

The primary duties of the Audit and Risk Control Committee (Supervision Committee) include: (1) to propose the engagement or change of external auditors, conduct appropriate review and evaluation, as well as give opinion in writing to the Board, in connection with the appointment of new accounting firms or re-appointment of the existing accounting firms; (2) to review and supervise the Company's internal auditing system and its implementation, review the duties and responsibilities of the internal audit personnel and receive and consider the work report prepared by the responsible person of the audit department; (3) to be responsible for the communications between the internal audit department and external auditors; (4) to review and verify the Company's financial information and its disclosure; (5) to review the Company's financial control, internal control and risk control system, and evaluate the appropriateness of the system; (6) to monitor the implementation and self-assessment of the Company's internal control system, review the risk control and internal control system with the management, ensuring that the management have performed their duties properly and established an effective internal control system; (7) to study the results of the important investigation on the internal control and the feedback of the management on the results; (8) to assess the effectiveness of the control rules and the operational standards relating to risk investments, including but not limited to financial derivative instruments, and consider the strategies and proposals of the Company's risk investment; (9) to be responsible for the control and daily management of the related/connected transactions of the Company, and to review the Company's significant related/connected transactions; and (10) to receive reports relating to fraudulent acts and discovery and complaints.

The main work of the Audit and Risk Control Committee (Supervision Committee) during the Reporting Period includes reviewing the following documents: (1) the 2020 annual report, the reports for the first and third quarters and the interim report of 2021; (2) the 2020 profit distribution plan; (3) the 2020 assessment report on internal control and the audit report on internal control; (4) the 2020 performance report by the Audit and Risk Control Committee; (5) the special reports regarding the deposit and actual use of the proceeds from issuance of A Shares for 2020; (6) the 2021 financial plan and investment plan; (7) the re-appointment of international and domestic auditors and internal control auditors for 2021; (8) The signing of five framework agreements for continuing related (connected) transactions between Air China and China National Aviation Holding Corporation Limited and its subsidiaries and the application of annual caps for 2022 to 2024; and (9) Adjustment to the annual caps for 2021 to 2022 on the continuing related (connected) transactions of contracting operation income from bellyhold space business with Air China Cargo Co. Ltd..

In addition to the above, the Audit and Risk Control Committee (Supervision Committee) also received the following reports during the Reporting Period: (1) Announcement of profit warning for 2020; (2) Preparation plan for the 2020 annual report; (3) Auditing of the 2020 financial report; (4) List of related parties in A shares for 2020; (5) Special self-inspection on corporate governance of listed companies; (6) Auditing and work plan for rectification; (7) Work plan on internal audit for 2021; (8) Air China's annual report and industry analysis and research report; (9) the 2020 assessment on internal control; (10) Analysis and study of the reports for the first quarter of 2021 of the three major airlines; (11) Auditing rectification; (12) Work plan on internal control self-assessment for 2021; (13) Interim review of financial plan and internal control audit plan for 2021; (14) Overview of the capital market in June and the first half of 2021; (15) List of related parties in A shares for the first half of 2021; and (16) Implementation of the three-year action plan for the reform of State-owned enterprises.

The annual results and annual report of the Company for the year of 2021 had been reviewed by the Audit and Risk Control Committee (Supervision Committee).

Nomination and Remuneration Committee

As at the end of the Reporting Period, the Nomination and Remuneration Committee comprised Mr. Duan Hongyi and Mr. Li Dajin, both are independent non-executive Directors, with Mr. Li Dajin serving as the chairman of the committee. As at the date of this annual report, the Nomination and Remuneration Committee comprises Mr. He Yun and Mr. Xu Junxin, two independent non-executive Directors, and Mr. Song Zhiyong, an executive Director, with Mr. He Yun serving as the chairman of the committee.

The primary duties of the Nomination and Remuneration Committee include: (1) to study on the criteria and procedures for selecting candidates for the Directors and senior management and make recommendations to the Board; (2) to nominate to the Board the candidates to fill casual vacancies on the Board, and make recommendations regarding the Directors' remuneration to the Board; (3) to evaluate the performance of the senior management of the Company and determine their remuneration structure; (4) to make recommendations to the Board on the remuneration policy and structure for the Directors and senior management and on the establishment of a set of formal and transparent procedures for formulating remuneration policy, and supervise the implementation of the remuneration policy of the Company; (5) to assess the independence of the independent non-executive Directors; and (6) to formulate the proposal of the Company's share incentive plan, verify the compliance with relevant regulations on granting and fulfillment of exercise conditions, and make recommendations to the Board for consideration.

The main work of the Nomination and Remuneration Committee during the Reporting Period includes: nomination of Mr. Ma Chongxian as a candidate for Director and appointment as President of the Company, nomination of Mr. Yan Simeng as Chief Information Officer of the Company, nomination of Mr. Huang Bin as Secretary to the Board and Joint Company Secretary of the Company, and nomination of Mr. Huang Bin as Assistant to the President of the Company. In addition to the above, the Nomination and Remuneration Committee also received the report on the Company's remuneration incentive policy.

During the Reporting Period, the nomination policy for Directors of the Company implemented by the Nomination and Remuneration Committee is as follows: The Nomination and Remuneration Committee shall review the qualification of candidates for directorship and senior management according to the standards as set out in the Articles of Association and the Board Diversity Policy and submit a report to the Board. For the diversity policy, please refer to the section headed "Board Diversity Policy" above. A shareholder holding 3% or more of the shares of the Company is entitled to nominate Directors to the Nomination and Remuneration Committee.

During the Reporting Period, the remuneration policy for Directors implemented by the Nomination and Remuneration Committee is as follows: except for independent non-executive Directors, other Directors will not receive director's remuneration. The remuneration standards of the independent non-executive Directors shall be determined according to the relevant national policies, and the remuneration of the senior management shall be determined in accordance with the relevant laws and regulations of the PRC and the provisions of the "Interim Measures for Remuneration Administration of Responsible Persons of Enterprise" of the Company. The Nomination and Remuneration Committee made recommendations to the Board on the remuneration packages of independent non-executive Directors and senior management based on the above-mentioned standards. The remuneration of the Directors and Supervisors of the Company shall be determined by the general meeting, and that of the senior management shall be determined by the Board after being considered by the Nomination and Remuneration Committee.

Changes in shareholdings and remuneration of the existing and resigned Directors, Supervisors and senior management during the Reporting Period

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Total remuneration payables received from the Company during the Reporting Period (RMB0'000)	Whether received remuneration from the Company's related parties or not
Song Zhiyong	Executive Director	Male	56	22 May 2014	–	–	Yes
	Secretary of the Communist Party Committee			14 December 2020	–	–	
	Chairman			29 December 2020	–	–	
Ma Chongxian	Vice President	Male	56	8 April 2010	31 May 2021	–	Yes
	Vice Chairman			20 July 2021	–	–	
	President			31 May 2021	–	–	
	Deputy Secretary of the Communist Party Committee			11 May 2021	–	–	
Feng Gang	Deputy Secretary of the Communist Party Committee	Male	58	19 November 2019	–	–	Yes
	Non-executive Director			26 May 2020	–	–	
Patrick Healy	Non-executive Director	Male	56	19 December 2019	–	–	Yes
Xue Yasong	Employee Representative Director	Male	60	29 March 2018	25 February 2022	82.81	No
	Chairman of the Labour Union			31 October 2016	15 December 2021	–	
Wang Xiaokang	Independent Non-executive Director	Male	66	25 May 2017	9 February 2021	1	No
Duan Hongyi	Independent Non-executive Director	Male	58	26 May 2020	25 February 2022	–	No
Stanley Hui Hon-chung	Independent Non-executive Director	Male	71	22 May 2015	25 February 2022	20	No
Li Dajin	Independent Non-executive Director	Male	63	22 December 2015	25 February 2022	20	No
Li Fushen	Independent Non-executive Director	Male	59	25 February 2022	–	–	No
He Yun	Independent Non-executive Director	Male	60	25 February 2022	–	–	No
Xu Junxin	Independent Non-executive Director	Male	57	25 February 2022	–	–	No
Winnie Tam Wan-chi	Independent Non-executive Director	Female	60	25 February 2022	–	–	No
Zhao Xiaohang	Vice President	Male	60	22 February 2011	25 February 2022	–	Yes
	Chairman of the Supervisory Committee			19 December 2019	25 February 2022	–	

Corporate Governance Report

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Total remuneration payables received from the Company during the Reporting Period (RMB0'000)	Whether received remuneration from the Company's related parties or not
He Chaofan	Supervisor	Male	59	29 October 2013	–	–	Yes
	Chairman of the Supervisory Committee			25 February 2022	–		
Wang Jie	Employee Representative Supervisor	Male	56	25 September 2020	–	85.73	No
Qin Hao	Employee Representative Supervisor	Male	53	25 September 2020	–	78.53	No
Lyu Yanfang	Supervisor	Female	50	18 December 2020	–	65.13	No
Guo Lina	Supervisor	Female	51	25 February 2022	–	–	No
Tan Huanmin	Secretary of Committee for Discipline Inspection	Male	57	19 January 2019	–	–	Yes
Wang Mingyuan	Vice President	Male	56	22 February 2011	–	–	Yes
Zhang Sheng	Vice President	Male	49	9 June 2020	–	–	Yes
Chen Zhiyong	Vice President	Male	58	17 December 2012	–	–	Yes
Chai Weixi	Vice President	Male	59	14 March 2012	–	96.79	No
Xu Chuanyu	Chief Safety Officer	Male	57	17 December 2012	–	137.06	No
Zhang Hua	General Counsel	Male	56	9 August 2017	–	95.77	No
Xiao Feng	Chief Accountant	Male	53	28 July 2014	–	94.89	No
Wang Yingnian	Chief Pilot	Male	58	27 November 2014	–	136.13	No
Ni Jiliang	Chief Engineer	Male	55	21 January 2020	–	94.24	No
Yan Simeng	Chief Information Officer	Male	39	7 September 2021	–	46.61	No
Zhou Feng	Secretary to the Board	Male	60	30 August 2017	30 September 2021	40.97	No
Huang Bin	Secretary to the Board	Male	58	30 September 2021	–	24.41	No
	Assistant to the President			10 December 2021	–		
Shao Bin	Assistant to the President	Male	56	14 March 2012	8 November 2021	205.89	No
Zhao Yang	Assistant to the President	Male	54	27 October 2017	–	146.80	No
Total	/	/	/	/	/	1,472.76	/

1. During the Reporting Period, apart from the 10,000 A shares of the Company held by Mr. Zhou Feng, the former Secretary to the Board of the Company, all other Directors, Supervisors and senior management of the Company did not acquire, sell or hold any shares of the Company.

2. The remuneration of Mr. Wang Xiaokang and Mr. Duan Hongyi, both being non-executive independent Directors, will be determined pursuant to relevant national policies.

3. Total salaries received by the Directors, Supervisors and senior management, who are subject to changes during the year, from the Company for the Reporting Period represent the total remuneration for his/her term of office during the year.

Details of the remuneration for the Directors during the Reporting Period are set out in note 13 to the financial statements of this annual report.

Strategy and Investment Committee

As at the end of the Reporting Period, the Strategy and Investment Committee comprised Mr. Song Zhiyong, an executive Director, and Mr. Duan Hongyi, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the Committee. As at the date of this annual report, the Strategy and Investment Committee comprises Mr. Ma Chongxian, an executive Director, Mr. Xu Junxin, an independent non-executive Director, and Mr. Song Zhiyong, an executive Director, with Mr. Ma Chongxian serving as the chairman of the committee.

The primary duties of the Strategy and Investment Committee include: (1) to study the Company's strategic plan for long-term development and significant investment and financing proposals, as well as important operation and production decisions, and make recommendations on other significant matters that may affect the Company's development; (2) to formulate the environmental, social and governance structure, objectives, management approaches and strategies of the Company; and (3) to make decisions on the establishment, merger and dissolution of branches of the Company.

The main work of the Strategy and Investment Committee during the Reporting Period includes: consideration and approval of the amendment to the Working Rules of the Strategy and Investment Committee of the Board, the investment plan for 2021, the procurement of eighteen A320NEO aircraft, the amendment to the Articles of Association, the 2020 Corporate Social Responsibility Report, the retirement of twelve A330-200 aircraft and the outline of the Company's "14th Five-Year" Development Plan. In addition to the above, the Strategy and Investment Committee also received the report on Air China's development strategy and implementation of the three-year action for the reform of State-owned enterprises.

Aviation Safety Committee

As at the end of the Reporting Period, the Aviation Safety Committee comprised Mr. Song Zhiyong, an executive Director, and Mr. Stanley Hui Hon-chung, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the committee. As at the date of this annual report, the Aviation Safety Committee comprises Mr. Song Zhiyong, an executive Director, Mr. Li Fushen, an independent non-executive Director, and Mr. Ma Chongxian, an executive Director, with Mr. Song Zhiyong serving as the chairman of the committee.

The primary duties of the Aviation Safety Committee include: (1) to receive the safety report of the Company on a regular basis and report to the Board; (2) to study and deal with significant problems in relation to aviation safety work of the Company; and (3) to supervise and guide the production activities of the Company and the allocation of various kinds of resources such as human resources, properties and materials to fulfill the needs of safety operation of the Company.

The Aviation Safety Committee received the special report on aviation safety of the Company twice during the Reporting Period.

MANAGEMENT

Duties of the Management

The management shall be accountable to the Board and its main responsibilities include: (1) to manage the operation of the Company and to implement the resolutions of the Board; (2) to formulate the plans on the establishment of the Company's internal management bodies; (3) to implement annual business plans and investment proposals; (4) to establish fundamental rules and regulations of the Company; (5) to formulate fundamental management systems of the Company; (6) to make decision on transactions relating to the Company's main business involving a value within a monetary threshold or within a specific proportion of the Company's latest audited net asset value, subject to applicable laws and the Articles of Association; and (7) to appoint or dismiss responsible management personnel other than those appointed or dismissed by the Board, etc.

The Company established the "Rules and Procedures for President's Office" to regulate the daily operation of the President's Office.

FINANCIAL REPORTING

The Company prepares and publishes annual reports, interim reports and quarterly reports in accordance with the requirements of the regulatory rules of the listing places of the Company and other relevant laws and regulations in a timely manner each year, and the information disclosed is adequate for the shareholders to evaluate the performance, financial position and prospects of the Company.

Key operating data of the Company are published monthly in order to improve the transparency of the Company's performance and to provide the latest developments of the Company in a timely manner.

The Company has a sound environment for implementing internal controls. The Company has set up an effective electronic information system to support business development which comprises various operation systems, settlement system and a core accounting and audit platform, i.e. the Oracle financial information system. For treasury management, the Company has implemented a global online banking management system. An effective accounting information system was also established.

The responsibilities of the Directors in relation to the financial statements are set out below and shall be read together with the "Independent Auditor's Report" set out in this annual report. The statement of reporting responsibility of the auditors is included in the section headed "Independent Auditor's Report" set out in this annual report.

- Annual reports and accounts
  The Directors acknowledge that they are responsible for preparing the financial statements for each financial year so as to present a true and fair view of the financial position of the Company and the Group, and of the financial performance and cash flow of the Group.

- Accounting policies
  When preparing the financial statements of the Company and the Group, the Directors have consistently applied appropriate accounting policies under the relevant accounting standards.

- Accounting records
  The Directors are responsible for ensuring that the Company shall keep the accounting records, which will reflect the financial position of the Company with reasonable accuracy, enabling the Group to prepare the financial statements in accordance with the requirements of the Listing Rules, Hong Kong Companies Ordinance and the relevant accounting standards.

- Ongoing operation
  After making appropriate enquiries, the Directors believe that the Group has sufficient resources for operation in the foreseeable future. Accordingly, the Group's financial statements should be prepared on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board bears the ultimate responsibility for the Group's risk management and internal control system and for reviewing the effectiveness of the system. The risk management and internal control system is designed to manage rather than eliminate the risk of failing to achieve business objectives and to make reasonable, but not absolute, assurances that there will be no material misstatement or loss. The Board monitors the risk level with the assistance of the Audit and Risk Control Committee (Supervision Committee) and the management of the Company.

The Company conducts at least one review of the soundness and effectiveness of the risk management and internal control system every year. The Board will publish the self-assessment annual report on the internal control after it is reviewed by the Audit and Risk Control Committee (Supervision Committee) and reported to the Board.

During the Reporting Period, the Board reviewed the Group's risk management and internal control system for the year through the Audit and Risk Control Committee (Supervision Committee) and considered that the system was adequate and effective. The review of the Audit and Risk Control Committee (Supervision Committee) covered key control aspects, including financial controls, operational controls and compliance controls. The Audit and Risk Control Committee (Supervision Committee) also reviewed the Group's resources, qualifications and experience of the responsible staff, training courses and budget in respect of the accounting, internal audit and financial reporting functions and expressed satisfaction with the adequacy of such measures. The Board also confirmed that the Company has established effective systems and procedures to ensure the control and management of the strategic risks, financial risks, operational risks, legal risks, contingent risks, etc..

The basic procedures of the Group's risk management include: (1) collection of risk information; (2) identification and assessment of risks; (3) formulation and implementation of risk reduction measures; and (4) monitoring of risk management.

The Company has established a clear organizational structure to allocate responsibilities for formulation, implementation and monitoring as required. An information reporting mechanism has been formed for risk management, which covers the Company's main business units to ensure that significant risks are effectively monitored and coped with within the Group.

The Group ranks the risks based on priority so as to pay special attention to critical risks. It sets risk indicators for critical risks, and monitors and judges the key indicators on a regular basis so that the risks are always under control. All the business units are required to compile a summary of the risks and report to the Risk Management Working Group Office on a regular basis. The Risk Management Working Group Office has set up a monthly reporting procedure to regularly report the risk status and risk tracking to the management and regulatory authorities.

According to the risk assessment in 2021, the main risks that the Group is facing are set out in the section headed "Management's Discussion and Analysis of Financial Position and Operating Results – Risk Factors" of this annual report.

The Company has established an audit department and legal department to assist the Audit and Risk Control Committee (Supervision Committee) and to analyze and evaluate the adequacy and effectiveness of the Group's internal control and risk management system and to supervise and evaluate the risk management and internal control of the Group. The audit department and legal department regularly reports the annual, interim work reports and annual audit plans to the Audit and Risk Control Committee (Supervision Committee) for review of risk management and internal control system. The Audit and Risk Control Committee (Supervision Committee) reviews the reporting compliance, reviews and monitors the effectiveness of the internal audit, internal control development and risk compliance, keeps tracks of the corrective actions for the problems spotted and guides business units to operate efficiently.

The Company has implemented a registration and filing system for the insiders and established the profiles of the insiders, who should bear the responsibility of confidentiality for the inside information they are aware of. The Board should guarantee the truthfulness, accuracy and completeness of the profiles of the insiders. The Company will conduct regular and occasional inquiries on the trading of shares and derivatives of the Company by the insiders. If insiders are found to have involved in insider dealing or have breached the laws and regulations due to dereliction of duty, the Company will ensure that the relevant personnel are held accountable in accordance with relevant laws and regulations and the Company's policies. The Company is also aware of its obligations under the SFO and the Listing Rules for the handling and disclosure of inside information, and unless the information falls within the "Safe Harbor", the Company will disclose such inside information to the public as soon as practicable.

ARTICLES OF ASSOCIATION

During the Reporting Period, amendments were made to the Articles of Association as follows:

On 18 March 2021, the Board of Directors proposed to amend the articles relating to the Company's address and the business name of the promotor of the Company in the Articles of Association, of which the amendments were approved by the shareholders at the annual general meeting of the Company held on 25 May 2021. For details, please refer to the Company's circular dated 8 April 2021 and the announcement dated 25 May 2021.

On 26 November 2021, according to the provisions and regulatory requirements of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Official Reply of the State Council regarding Adjusting the Application of Provisions to Matters Including the Notice Period for Convention of Shareholders' Meetings by Overseas Listed Companies (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》), the Guidelines for the Articles of Association of Listed Companies (《上市公司章程指引》), the Code of Corporate Governance for Listed Companies (《上市公司治理準則》) and other laws and regulations and regulatory documents as well as the actual operational and management needs of the Company, the Board of Directors proposed to amend the Articles of Association as well as the "Rules and the Procedures of General Meeting" and "Rules and the Procedures of the Board". The proposed amendments were approved by the shareholders at the extraordinary general meeting of the Company held on 30 December 2021. For details, please refer to the Company's circular dated 14 December 2021 and the announcement dated 30 December 2021.

COMPANY SECRETARY

The joint company secretaries, namely Mr. Huang Bin and Mr. Huen Ho Yin, are responsible for facilitating the procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the joint company secretaries are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. During the Reporting Period, the joint company secretaries respectively attended a total of more than 15 hours of professional training to update their skills and knowledge.

AUDITORS AND THEIR REMUNERATION

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP respectively. Breakdown of the remuneration to the Company's external auditors for providing audit and non-audit services for the Reporting Period is as follows:

RMB9,522,000 (including value-added tax) was charged in aggregate for the review of the Group's condensed consolidated financial statements for the six months ended 30 June 2021 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2021; an aggregate amount of RMB7,495,000 (including value-added tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2021; an aggregate of RMB1,000,000 (including value-added tax) was charged for providing internal control audit services to the Group; and an aggregate of RMB1,581,000 (including value-added tax) was charged for the rendering of other non-audit services, such as tax advisory services, to the Group.

COMMUNICATION WITH SHAREHOLDERS

The Company has established and maintained various communication channels with its shareholders through the publication of annual reports, interim reports and quarterly reports, press releases and announcements on the websites of the Company and the stock exchanges (if applicable), results presentations, roadshows, briefings on dividend distribution, etc. The Company has formulated the "Measures for Investors Relation Management" to regulate and strengthen its communication with the shareholders and investors, so as to optimize its corporate governance and enhance its corporate image.

The annual general meeting represents an effective means for the shareholders to exchange their views with the Board. The Chairman of the Board, as well as the respective chairmen of the Audit and Risk Control Committee (Supervision Committee), Nomination and Remuneration Committee, Strategy and Investment Committee and Aviation Safety Committee will answer queries raised by shareholders at the annual general meeting. Resolutions in respect of independent matters, including the election and change of the Directors, shall be tabled as separate resolutions at the annual general meeting.

Other than the annual general meeting, the Company would also hold extraordinary general meeting ("EGM") as required. In accordance with articles 66 and 91 of the Articles of Association, shareholder(s), individually or in aggregate, holding more than 10% of the shares of the Company may request the Board to convene an extraordinary general meeting by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an extraordinary general meeting, it shall within five days of the Board resolution resolving to hold an extraordinary general meeting issue a notice convening an extraordinary general meeting within two months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within ten days of the receipt of such written request(s), such shareholder(s) shall request the Supervisory Committee to convene an extraordinary general meeting by written request(s). If the Supervisory Committee fails to issue a notice convening a meeting within five days of the receipt of such written request(s), shareholder(s), individually or in aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in article 68 of the Articles of Association which provides that shareholder(s), individually or in aggregate, holding more than 3% of the shares of the Company may put forward proposal(s) by providing a written request to the convener of the meeting not less than ten days before the meeting. The convener of the meeting shall, within two days of the receipt of such written request, give supplemental meeting notice to shareholders which specifies information on such proposal(s).

The Board values the views and input of shareholders. Shareholders may send their enquiries and concerns to the Board at any time by addressing them to the Company Secretary, whose contact details are as follows:

Address:	Air China Headquarter, 30 Tian Zhu Road, Airport Industrial Zone, Beijing, 101312
Email:	ir@airchina.com
Telephone number:	86-10-61462560
Fax number:	86-10-61462805

Report of the Directors

STRATEGIC OBJECTIVES

The Group will, on the basis of enhancing safety management, continue to advance the implementation of its strategies; improve global network coverage to increase the commercial value of hub network; optimise the allocation of its core resources to improve the efficiency of resource utilisation; reasonably deploy transport capacity to grasp opportunities in the market; take multiple measures to strengthen marketing competitiveness; enhance service management, promote product innovation to improve customer experience with an aim to ensure sound operation and bring better returns to its shareholders and investors.

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2021 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements of this annual report.

REVIEW OF BUSINESS

Description of the fair review of the Group's business and the analysis using the financial key performance indicators, description of the principal risks and uncertainties facing the Group, future prospects of the Group's business, the environment policy and performance and the important relations statement with employees, customers and suppliers of the Group are set out in this Report of the Directors, the section headed "Business Overview" and the section headed "Management's Discussion and Analysis of Financial Position and Operating Results" of this annual report.

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2021 are summarized and set out in the section headed "Summary of Financial Information" of this annual report.

SHARE CAPITAL STRUCTURE

As at the end of the Reporting Period, the Company had a total share capital of RMB14,524,815,185, divided into 14,524,815,185 shares of RMB1.00 each. The following table sets out the share capital structure of the Company as at the end of the Reporting Period:

Category of shares	Number of shares	Percentage of the total share capital
A Shares	9,962,131,821	68.59%
H Shares	4,562,683,364	31.41%
Total	14,524,815,185	100.00%

SIGNIFICANT INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests or short positions of the following persons (other than a Director, Supervisor or chief executive of the Company) in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO are as follows:

Total long positions in the shares and underlying shares of the Company

Name	Type of interests	Type and number of shares held by the Company	Percentage of the total issued shares of the Company	Percentage of the total issued A shares of the Company	Percentage of the total issued H shares of the Company	Short positions
CNAHC	Beneficial owner	5,952,236,697 A Shares	40.98%	59.75%	–	–
CNAHC[1]	Equity attributable	1,332,482,920 A Shares	9.17%	13.38%	–	–
CNAHC[1]	Equity attributable	223,852,000 H Shares	1.54%	–	4.91%	–
CNACG	Beneficial owner	1,332,482,920 A Shares	9.17%	13.38%	–	–
CNACG	Beneficial owner	223,852,000 H Shares	1.54%	–	4.91%	–
Cathay Pacific	Beneficial owner	2,633,725,455 H Shares	18.13%	–	57.72%	–
Swire Pacific Limited[2]	Equity attributable	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons (H.K.) Limited[2]	Equity attributable	2,633,725,455 H Shares	18.13%	–	57.72%	–
John Swire & Sons Limited[2]	Equity attributable	2,633,725,455 H Shares	18.13%	–	57.72%	–

Notes: Based on the information available to the Directors, Supervisors and chief executive (including such information as was available on the website of the Hong Kong Stock Exchange) and to the knowledge of the Directors, Supervisors and chief executive, as at the end of the Reporting Period:

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A Shares and 223,852,000 H Shares directly held by CNACG.

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 57.89% equity interest and 66.24% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

Total short positions in the shares and underlying shares of the Company

As at the end of the Reporting Period, the Company was not aware of any substantial shareholders holding short positions in the shares or underlying shares of the Company.

Save as disclosed above, as at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and chief executive of the Company, no other person had an interest or short position in the Shares or underlying shares of the Company which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

INFORMATION OF SHAREHOLDERS

Total number of shareholders

Total number of holders of ordinary shares as at the end of the Reporting Period (account)	120,745 accounts, of which 3,040 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at the end of the month preceding to the disclosing date of the annual report (account)	111,460 accounts, of which 3,203 accounts are registered holders of H Shares

Shareholdings of the top 10 shareholders and the top 10 holders of tradable shares (or shares not subject to selling restrictions) as at the end of the Reporting Period

Unit: Share

	Shareholdings of the top 10 shareholders						
Name of shareholder (full name)	Change(s) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)	Number of shares held subject to selling restrictions	Shares pledged, marked or frozen: Status	Shares pledged, marked or frozen: Number	Nature of shareholder
China National Aviation Holding Corporation Limited	0	5,952,236,697	40.98	0	Frozen	127,445,536	State-owned legal person
Cathay Pacific Airways Limited	0	2,633,725,455	18.13	0	Nil	0	Foreign legal person
HKSCC NOMINEES LIMITED	399,977	1,688,134,365	11.62	0	Nil	0	Foreign legal person
China National Aviation Corporation (Group) Limited	0	1,556,334,920	10.72	0	Frozen	36,454,464	Foreign legal person
China National Aviation Fuel Group Corporation	(40,910,035)	425,673,067	2.93	0	Nil	0	State-owned legal person
China Securities Finance Corporation Limited	0	311,302,365	2.14	0	Nil	0	State-owned legal person
Hong Kong Securities Clearing Company Limited	(78,569,831)	75,987,042	0.52	0	Nil	0	Foreign legal person
Agricultural Bank of China Limited – Guangfa Balanced Preferred Hybrid Securities Investment Fund (中國農業銀行股份有限公司－廣發均衡優選混合型證券投資基金)	67,263,829	67,263,829	0.46	0	Nil	0	Domestic non-State-owned legal person
Industrial Bank Co. Ltd. – Guangfa Stable Preferred Six-Month Holding Period Hybrid Securities Investment Fund (興業銀行股份有限公司－廣發穩健優選六個月持有期混合型證券投資基金)	33,734,114	33,734,114	0.23	0	Nil	0	Domestic non-State-owned legal person
China Construction Bank Corporation – Guangfa Value Leadership Hybrid Securities Investment Fund (中國建設銀行股份有限公司－廣發價值領先混合型證券投資基金)	28,410,985	28,410,985	0.20	0	Nil	0	Domestic non-State-owned legal person

Shareholdings of the top 10 shareholders not subject to selling restrictions

Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares: Class	Number
China National Aviation Holding Corporation Limited	5,952,236,697	RMB ordinary shares	5,952,236,697
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,688,134,365	Overseas listed foreign shares	1,688,134,365
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares	1,332,482,920
		Overseas listed foreign shares	223,852,000
China National Aviation Fuel Group Corporation	425,673,067	RMB ordinary shares	425,673,067
China Securities Finance Corporation Limited	311,302,365	RMB ordinary shares	311,302,365
Hong Kong Securities Clearing Company Limited	75,987,042	RMB ordinary shares	75,987,042
Agricultural Bank of China Limited – Guangfa Balanced Preferred Hybrid Securities Investment Fund (中國農業銀行股份有限公司－廣發均衡優選混合型證券投資基金)	67,263,829	RMB ordinary shares	67,263,829
Industrial Bank Co. Ltd. – Guangfa Stable Preferred Six-Month Holding Period Hybrid Securities Investment Fund (興業銀行股份有限公司－廣發穩健優選六個月持有期混合型證券投資基金)	33,734,114	RMB ordinary shares	33,734,114
China Construction Bank Corporation – Guangfa Value Leadership Hybrid Securities Investment Fund (中國建設銀行股份有限公司－廣發價值領先混合型證券投資基金)	28,410,985	RMB ordinary shares	28,410,985
Explanation on the repurchase special accounts among the top 10 shareholders	Nil		
Explanation on the right to vote by proxy, proxy and abstention from voting among the above shareholders	Nil		
Explanation on connected relationship or action in concert among the above shareholders	CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.		
Explanation on preference shareholders whose voting rights have been restored and the number of shares held	Nil		

1. HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,688,134,365 H shares held by it in the Company do not include the 166,852,000 shares held by it as nominee of CNACG.

2. According to the "Implementation Measures on Partial Transfer of State-owned Shares to the National Social Security Fund in the Domestic Securities Market" (Cai Qi [2009] No. 94) (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》(財企[2009]94號)) and the Notice ([2009] No. 63) jointly issued by the Ministry of Finance, the SASAC, China Securities Regulatory Commission and the National Council for Social Security Fund, 127,445,536 and 36,454,464 shares held by CNAHC, the controlling shareholder of the Company, and CNACG respectively are frozen at present.

PUBLIC FLOAT

Pursuant to public information available to the Company and to the knowledge of the Directors of the Company, the Company has maintained a public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange as at the date of this annual report.

DIVIDEND POLICY

In accordance with the relevant requirements of the China Securities Regulatory Commission and the CSRC Beijing Bureau on the cash dividends of listed companies and the provisions of the "Articles of Association of Air China Limited" (the "Articles of Association"), the Company implements an active dividend distribution policy and attaches importance to the reasonable return for investment of investors. The Company maintains a consistent and stable dividend distribution policy and prioritizes cash dividends when distributing profits. It is clearly stipulated in the Articles of Association that in the case that the distributable profits (representing the profit after tax after making up for the losses and making contributions to the common reserve fund in accordance with the provisions of the Articles of Association as well as deducting otherwise approved by the relevant national departments) realized for the current year in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards and regulations are positive, the Company will distribute dividends in cash with the cash dividends to be distributed each year no less than 15% of the applicable distributable profits. The applicable distributable profits represent the distributable profits in the financial statement of the parent company prepared in accordance with applicable domestic and overseas accounting standards and regulations, whichever is lower. The Company's profit distribution plan should be reviewed by independent non-executive Directors and the Board forms a resolution which is then submitted to the general meeting for consideration. The Company should actively communicate with shareholders, especially minority shareholders, through various means (including online voting and inviting minority shareholders to participate in the meetings) to fully understand the opinions and needs of minority shareholders and timely answer the questions of their concerns.

Please refer to Article 195, Article 196 and Article 197 of the Articles of Association for details of the principles and policies of dividend distribution of the Company.

DIVIDENDS

According to the audited financial statements of the Company prepared in accordance with the CASs and the IFRSs, the Company recorded a net loss attributable to the owner of the parent company in 2021. As considered and approved by the 2nd meeting of the sixth session of the Board of the Company, the Company proposed not to make profit distribution for the year of 2021. Such proposal is subject to the approval by the shareholders of the Company at the general meeting.

ANNUAL GENERAL MEETING

The Company proposed to convene the annual general meeting on 25 May 2022. The register of members of H Shares will be closed from Wednesday, 18 May 2022 to Wednesday, 25 May 2022 (both days inclusive), during which period no transfer of H Shares will be effected. In order to qualify for attendance and voting at the annual general meeting, the holders of H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Tuesday, 17 May 2022. The holders of H Shares whose names appear on the register of members of the Company after the close of business on Tuesday, 17 May 2022 are entitled to attend and vote at the annual general meeting.

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities (the term "securities" has the meaning ascribed to it under Paragraph 1 of Appendix 16 to the Listing Rules) of the Company.

PRE-EMPTIVE RIGHTS

The Articles of Association does not provide for any pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their existing shareholdings.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

Set out below is the list of Directors during the Reporting Period and as at the date of this annual report (unless otherwise stated).

Name	Date of election and if applicable, leaving office as Director
Song Zhiyong (Chairman and executive Director)	Elected as executive Director on 22 May 2014 and as Vice Chairman on 6 June 2016, elected as Chairman on 29 December 2020
Ma Chongxian (President, Vice Chairman and executive Director)	Elected as President on 31 May 2021 and as executive Director on 20 July 2021
Feng Gang (Non-executive Director)	Elected on 26 May 2020
Patrick Healy (Non-executive Director)	Elected on 19 December 2019
Xue Yasong (Then non-executive Director and employee representative Director)	Elected on 29 March 2018, retired on 25 February 2022
Wang Xiaokang (Then independent non-executive Director)	Elected on 25 May 2017, resigned on 9 February 2021
Duan Hongyi (Then independent non-executive Director)	Elected on 26 May 2020, retired on 25 February 2022
Stanley Hui Hon-chung (Then independent non-executive Director)	Elected on 22 May 2015, retired on 25 February 2022
Li Dajin (Then independent non-executive Director)	Elected on 22 December 2015, retired on 25 February 2022
Li Fushen (Independent non-executive Director)	Elected on 25 February 2022
He Yun (Independent non-executive Director)	Elected on 25 February 2022
Xu Junxin (Independent non-executive Director)	Elected on 25 February 2022
Winnie Tam Wan-chi (Independent non-executive Director)	Elected on 25 February 2022

Supervisors

Set out below is the list of Supervisors during the Reporting Period and as at the date of this annual report (unless otherwise stated).

Name	Date of election and if applicable, leaving office as Supervisor
Zhao Xiaohang (Then Chairman of the Supervisory Committee)	Elected on 19 December 2019, retired on 25 February 2022
He Chaofan (Chairman of the Supervisory Committee)	Elected on 29 October 2013
Wang Jie (Employee representative Supervisor)	Elected on 25 September 2020
Qin Hao (Employee representative Supervisor)	Elected on 25 September 2020
Lyu Yanfang	Elected on 18 December 2020
Guo Lina	Elected on 25 February 2022

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the Reporting Period or as at the end of the Reporting Period, none of the Company, its holding company, any of the Company's subsidiaries or fellow subsidiaries was a party to any agreement or arrangement which enables the Directors and Supervisors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures, of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at the end of the Reporting Period, none of the Directors, Supervisors or the chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) held by the Company or its associated corporations (within the meaning of Part XV of the SFO) which shall be recorded and maintained in the register pursuant to section 352 of the SFO, or which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. All Directors shall serve a term of three years.

None of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

Save as disclosed in the section headed "Connected Transactions" set out in this Report of the Directors, none of the Company, its holding company, or any of the Company's subsidiaries or fellow subsidiaries has entered into any significant transactions, arrangements or contracts relating to the Group's business, in which a Director or Supervisor or his or her connected entity directly or indirectly had any material interest, and which subsisted at the end of the Reporting Period or at any time during the Reporting Period.

During the Reporting Period, Mr. Song Zhiyong (executive Director), Mr. Ma Chongxian (executive Director) and Mr. Patrick Healy (non-executive Director) also served as directors of Cathay Pacific. Cathay Pacific competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates airline services to certain destinations, which are also served by the Company. At the same time, Mr. Song Zhiyong (executive Director of the Company) also served as director of Air China Cargo. Air China Cargo competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates cargo airline services by cargo aircraft to certain destinations, which are also served by the bellyhold cargo of the Company.

Save as disclosed above, none of the Directors and their respective close associates (as defined in the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if they were controlling shareholders of the Company.

PERMITTED INDEMNITY PROVISION

Appropriate directors' liability insurance coverage has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities. These directors' liability insurance was valid throughout the financial year ended 31 December 2021 and remains in effect as at the date of this report.

EMPLOYEES

As at the end of the Reporting Period, the Group had a total of 88,395 employees, among which, the Company had 46,485 employees and the subsidiaries of the Company had 41,910 employees. The categories of employees of the Group are as follows:

Professional Categories	**As at 31 December 2021**	As at 31 December 2020	**Increase/(Decrease)**
Management	**10,856**	11,001	(145)
Marketing and Sales	**5,337**	6,277	(940)
Operation	**4,531**	4,705	(174)
Ground Handling	**11,698**	11,278	420
Cabin Service	**23,382**	23,619	(237)
Logistics and Support	**6,964**	7,323	(359)
Flight Crew	**10,644**	9,632	1,012
Engineering and Maintenance	**13,146**	13,628	(482)
Information Technology	**809**	820	(11)
Others	**1,028**	1,090	(62)
Total	**88,395**	89,373	(978)

REMUNERATION POLICY

Upholding the concept of "paying salary with reference to the job value, personal ability as well as performance appraisal" and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company advances high-quality development. During the Reporting Period, the Company continued to deepen the reform of the distribution system and sought a breakthrough in the increase and decrease of salary. We improved the total labor cost management mechanism, and continuously enhanced the level of labor cost control and output efficiency; we promoted the reform of the assessment and incentive mechanism for heads of departments, and reasonably widened the salary gap for the heads; we advanced the reform of the market-oriented salary system for mixed reform enterprises and demonstration enterprises of scientific reform, while establishing and improving the medium- and long-term incentive mechanism to strengthen the positive incentives for core talents; furthermore, we dynamically optimized the pandemic subsidy policy, and continued to implement the subsidies for aircrew and front-line staff of pandemic prevention and control; we also improved the salary benchmarking and analysis mechanism, and continuously promoted differentiated and precise incentives to stimulate the vitality of the workforce.

TRAINING PROGRAMME

In 2021, the Company closely focused on strategic work priorities and actively explored ways to carry out cadre education and training under normalized pandemic prevention and control. In terms of online training, in response to the growing demand for personalized and differentiated online learning among cadres and employees, the Company iterated and optimized the WeChat learning platform "CNAHC Leadership", by enriching training course content, improving platform functions and operating innovative activities. A total of 3,777,726 participants completed 992,171 hours of learning in the year. In terms of off-the-job training, the Company took active measures to cope with the impact of the pandemic, completing the selection and deployment of 31 transferring training projects organized by higher-level units and implementing six categorized and graded training programs for middle to senior management. To maintain valid qualification of all operating staff, the Company provided various types of qualification training for pilots, flight attendants, flight trainees, aircraft maintenance personnel, aviation dispatch personnel and ground service personnel during the Covid-19 pandemic by organizing and completing 317 live broadcast training sessions, which recorded a total of 220,420 hours of training, and 131,836 hours of full-motion simulator training for pilots. Through continuously optimising the training content, actively developing course resources and flexibly using a variety of teaching methods to improve the quality and effectiveness of training, the relevance, practicality and effectiveness of training is constantly improved, providing a solid guarantee for the Company to achieve high-quality training.

In 2022, the Company will actively implement the cadre education and training plan, highlighting three aspects of training, namely political theory, Communist Party of China's history and character, and professional abilities. By continuously strengthening political attributes, further improving the system of cadre education and training, strengthening the construction of online learning platforms, and optimizing the setting of training programs, the Company will enhance the relevance and effectiveness of training, cultivate the roots and cast the spirit of our cadre to empower them, and provide talent and intellectual support for the development of a world-class aviation and transportation group with global competitiveness.

SUPPLIER MANAGEMENT

The Company firmly promoted open procurement with a focus on "compliance, efficiency and quality", and strived to improve procurement management capabilities. We facilitated the establishment of procurement system, comprehensively strengthened procurement risk management and control and continuously deepened standardized management, which has resulted in better procurement compliance. The Company also achieved steady improvement in procurement efficiency through dynamic integration of management optimization with service refinement. The Company improved the regulations concerning supplier selection, access management and annual performance appraisal to ensure the good operation and maintenance of supplier information base, and established a good cooperative relationship with its suppliers to achieve sustainable development together.

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

Details of the employees' pension scheme and other welfare are set out in note 9 to the financial statements, and retired employees are entitled to benefits under the social pension scheme approved and provided by the labour and social security authority of the local governments.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the subsidiaries, associates and joint ventures of the Group as at the end of the Reporting Period are set out respectively in notes 22, 23 and 24 to the financial statements of this annual report.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 37 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2021 are set out in note 17 to the financial statements of this annual report.

AIRCRAFT AND FLIGHT EQUIPMENT

The aggregate net book value of the Group's aircraft, engines and flight equipment as at the end of the Reporting Period are set out in note 17 to the financial statements of this annual report. The Group's capital commitment amounts for aircraft and flight equipment as at the end of the Reporting Period are set out in note 44 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2021 are set out in note 12 to the financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 42 and the consolidated statement of changes in equity to the financial statements of this annual report.

DONATIONS

During the Reporting Period, the Group made donations for charitable and other purposes amounting to RMB63.54 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the purchases of the Group from the largest supplier accounted for 20.77% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 32.47% of the total purchases of the Group. None of the Directors or Supervisors, their associates, nor any shareholder of the Company, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

During the Reporting Period, the sales of the Group to the five largest customers accounted for not more than 30% of the total sales of the Group.

PROPERTY TITLE CERTIFICATE

The Company effected the changes of titles of assets (land, buildings and vehicles), in accordance with its undertakings as disclosed in the Company's prospectus when shares were issued. The title transfer procedures for the underlying assets relating to the above undertakings have been completed.

ENVIRONMENTAL POLICY AND PERFORMANCE OF THE GROUP

Focusing on the task of building a strong civil aviation country in the new era and the requirements of high-quality development, taking reform and innovation as the driving force, as well as carbon reduction and pollution control as the approaches, and targeting to meet the demand for green aviation from relevant stakeholders, the Group has continuously improved its management and governance system, striven to improve the efficiency of energy use, strictly implemented the requirements of pollution prevention and control, enhanced the management capability of carbon assets in a scientific manner, actively participated in green public welfare, and integrated green development into the overall layout of the Group's high-quality development.

During the Reporting Period, the Group steadfastly pursued the major deployment of the Central Committee of CPC for the development of ecological civilization and solidly advanced the sound results of energy conservation and environmental protection. The Group continued to improve its management system and enhance its management capabilities, strengthened energy management and steadily achieved low-carbon development. We also enhanced risk control of pollution prevention and control to steadily promote the ban on plastic. Meanwhile, we implemented the requirements of the Civil Aviation's Blue Sky Protection Campaign, promoted APU (aircraft auxiliary power units) replacement facilities on the basis of "maximizing the use if appropriate", and continuously deepened the results of the "fuel-to-electricity" work. In addition, we scientifically managed carbon emissions and enhanced the management capabilities of carbon assets. We actively promoted the energy conservation and environmental protection and fulfilled our social responsibility. In 2021, Air China obtained the certificate of ISO14001, becoming the first airline in mainland China to be fully accredited with environmental management systems. In December, we launched a new green travel service, "Enjoy Low Carbon Flight (淨享飛行低碳行)", on Air China App, which allowed passengers to enjoy fast and efficient air travel services while participating in carbon emission reduction projects such as reforestation through flight miles and donations to offset their carbon emissions in the flights and achieve "carbon neutrality".

COMPLIANCE OPERATIONS

As a Chinese company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Company shall comply with regulations such as the Company Laws of the People's Republic of China, the Securities Law of the People's Republic of China, the Securities and Futures Ordinance, the Hong Kong Companies Ordinance, the Stock Listing Rules of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to listed companies' securities issue and trading. CNAF, a non-wholly owned subsidiary of the Company, as a non-bank financial institution established in Mainland China, shall comply with rules in respect of financial regulation in Mainland China. The Group, with civil aviation transportation and related services as its principal businesses, shall comply with requirements in relation to civil aviation safety regulations of locations where the Group operates, and laws and regulations in respect of consumer rights protection, environmental protection, anti-monopoly, anti-unfair competition and tax, etc.

The Group has the procedure of compliance in place to ensure compliance with applicable laws, regulations and normative legal documents, and in particular those having a significant impact on its principal businesses. The Group will notify the relevant employees and operating teams of any change in applicable laws, regulations and normative legal documents relating to its principal businesses from time to time.

During the Reporting Period, so far as the Directors of the Company were aware, the Group did not commit any violations of laws and regulations in all material aspects that would have a significant impact on the Group.

Save as disclosed in note 43 to the financial statements of this annual report, as at the end of the Reporting Period, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

The Group has entered into several connected transaction agreements with certain connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions in accordance with Chapter 14A of the Listing Rules.

For the purpose of this section headed "Connected Transactions" in this Report of the Directors, "CNAHC Group" refers to CNAHC, its subsidiaries and associates (as defined under the Listing Rules) excluding the Group, "ACC Group" refers to Air China Cargo, its subsidiaries and its 30%-controlled companies (as defined under the Listing Rules), "Cathay Pacific Group" refers to Cathay Pacific and its subsidiaries (as defined under the Listing Rules).

Continuing connected transactions

During the Reporting Period, the transactions under the following continuing connected transaction framework agreements constituted non-exempt continuing connected transactions of the Company:

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
1	Properties Leasing Framework Agreement	The Company and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 30 October 2018 with a term from 1 January 2019 to 31 December 2021 The details are set out in the announcement of the Company dated 30 October 2018	The Group agreed to lease from and to CNAHC Group a number of properties.	The rent payable will be consulted and determined based on the price for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including property service quality, location, district of properties and specific needs of the parties.
2	Sales Agency Services Framework Agreement	The same as above	The same as above	Certain subsidiaries of CNAHC Group will (i) solicit customers and act as the Group's sales agents for the Group's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Group and resell such air tickets and cargo spaces to end customers.	The air passenger agency services: agency service fee shall be consulted and determined on a fair and voluntary basis; specific sales targets and the corresponding incentive plans for achieving such targets may be agreed to the extent permitted by law and in accordance with the industry practice. The air cargo agency services: the transportation prices shall be not less favourable than the prices offered by independent third parties in China's air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type as well as the specific product types and required transportation time; specific sales targets and the corresponding price discounts on cargo transportation for achieving such sales targets may be agreed in accordance with the industry practice.
3	Comprehensive Services Framework Agreement	The same as above	The same as above	(i) The subsidiaries of CNAHC engaged in ancillary services in relation to air transportation business will be appointed as suppliers of ancillary services in relation to production or supply services business to the Company. (ii) The Company is commissioned by CNAHC to provide welfare logistics services for CNAHC's retired employees.	Ancillary services in relation to air transportation business: (i) the prices of airline catering services will be consulted and determined based on the price for the same type of catering services available from independent third parties with reference to relevant factors; (ii) the prices of property management services will be consulted and determined based on the price for the same type of property management services available from independent third parties with reference to relevant factors; (iii) the prices of hotel accommodation and staff recuperation services shall be no less favourable than the price for the same type of guest room products or services available to the Group from independent third parties with equivalent level in the same location of the hotel and determined with reference to relevant factors; and (iv) catering supplies, publications and other services are provided in accordance with the bidding management requirements of the Group, and the prices shall be no less favourable than the price of similar products or services available from independent third parties to the Group. Welfare-logistics services for CNAHC's retired employees: management fee charged by the Company at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.
4	Government Charter Flight Service Framework Agreement	The same as above	The same as above	CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment.	Hourly rate of the charter flight services = Total cost per flight hour * (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs.

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
5	Media Services Framework Agreement	The Company and CNAMC (CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNAMC provided the Group with media services. Among them, the Company grants CNAMC an exclusive right to distribute the in-flight reading materials of the Company.	For the entrusted media services provided by CNAMC to the Company, the Company should pay the relevant service fee at market price to CNAMC. For the media resources of the Company used in the course of the Company's media business by CNAMC, CNAMC should pay the Company RMB13.8915 million as media usage fee for each year within the term of the agreement.
6	Construction Project Management Framework Agreement	The Company and CNACD (a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNACD was commissioned by the Company to serve as the manager of the construction projects and establish project headquarters. It shall provide management services for the Company's projects based on its project characteristics using its industry expertise and professional skills.	CNACD receives service fees based on the audited amounts in the financial settlement of specific commissioned projects in accordance with the commissioned management contract. The service fees shall be calculated at 3% of the audited amount in the financial settlement of the investment relating to the management contents provided by CNACD as commissioned by the Company, with the rewards and penalties agreed by both parties based on the project management progress and the balance. Alternatively, CNACD may receive service fees from the Company as per the commissioned management contents based on the size of or investment in the projects to be commissioned, and the service fees shall be calculated as per the full-labour cost (including management fee) based on the human resources and materials invested by CNACD, with the rewards and penalties agreed by both parties based on the project management progress and the balance.
7	Financial Services Agreement	The Company and CNAF (CNAF is a non-wholly owned subsidiary of the Company that CNAHC holds 49% of its equity interest and therefore a connected subsidiary of the Company)	Renewed on 28 August 2020 with a term from 1 January 2021 to 31 December 2023 The details are set out in the announcement of the Company dated 28 August 2020	CNAF agreed to provide the Group with a range of financial services including deposit services, credit services and other financial services.	Interest rates applicable to deposits: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of deposit; (ii) not be lower than the interest rates for the same type of services charged by State-owned commercial banks to the Group under the same conditions; and (iii) not be lower than the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions. Interest rates applicable to credit services: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of loan; (ii) not be higher than the interest rates for the same type of services offered by State-owned commercial banks to the Group under the same conditions; and (iii) not be higher than the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions. Fees for other paid financial services: should (i) comply with the relevant charging standards (if any) prescribed by the People's Bank of China, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) not be higher than those for the same type of services charged by State-owned commercial banks to the Group under the same conditions; and (iii) not be higher than those for the same type of services charged by CNAF to other CNAHC member companies under the same conditions.

Report of the Directors

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
8	Financial Services Framework Agreement1	CNAF (a non-wholly owned subsidiary of the Company), and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	The same as above	CNAF agreed to provide CNAHC Group with a range of financial services including deposit services, credit services and other financial services.	Interest rates applicable to deposits: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of deposit; (ii) not be higher than the interest rates for the same type of services charged by State-owned commercial banks to CNAHC Group under the same conditions; and (iii) not be higher than the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions. Interest rates applicable to credit services: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of loan; (ii) not be lower than the interest rates for the same type of services offered by State-owned commercial banks to the CNAHC Group under the same conditions; and (iii) not be lower than the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions. Fees for other paid financial services: should (i) comply with the relevant charging standards (if any) prescribed by the People's Bank of China, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) not be lower than those for the same type of services charged by State-owned commercial banks to the CNAHC Group under the same conditions; and (iii) not be lower than those for the same type of services charged by CNAF to other CNAHC member companies under the same conditions.
9	Framework Agreement	The Company and CNACG (CNACG is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed and revised on 30 October 2019 with a term from 1 January 2020 to 31 December 2022 The details are set out in the announcement of the Company dated 30 October 2019	Finance and operating lease services: CNACG Group agreed to provide finance and operating lease services in respect of, among other things, aircraft, engines, simulators, equipment and vehicles to the Group; the Group agreed to provide finance and operating lease services in respect of, among other things, equipment and vehicles to CNACG Group. Ground support services and other services: including but not limited to the following transactions conducted between any member of the Group on the one hand and any member of CNACG Group on the other hand: ground support services, aircraft maintenance services, aircraft repair services, property investment and management services, ticket and tourism services, logistics services, administrative management services, cleaning and washing services, resident security services, lounge supplies procurement services and aircraft material procurement services.	Finance and operating lease services: The final transaction price will be determined on arm's length negotiations between both parties with reference to the prices for the same type of lease services offered by independent third parties and after taking into account certain factors. Such factors include purchasing price of the leasing subject, interest rate and arrangement fees (if any) (for finance lease), rental fee (for operating lease), the lease terms, the features of the leasing subject and the comparable market rental prices. The final transaction price shall not be higher than the transaction prices offered by at least two independent third parties on the same conditions. Ground support services and other services: (1) Follow the government pricing or guidance price if it is available; (2) If no government pricing or guidance price is available, the final transaction price will be determined on arm's length negotiations between the parties, with reference to the market prices offered by at least two independent third parties on the market for the same type of service, and after taking into account certain factors such as the service standard, service scope, business volume and specific needs of the parties. If any service needs of the service recipient changes, appropriate adjustment will be made to the transaction price after negotiation between both parties based on the extent of variation in the relevant costs, service quality or other factors; (3) If neither of the above cases is applicable, the price will be determined on the basis of costs plus reasonable profit. The costs are mainly based on the costs and expenses of the service provider, including costs of human resources, facility, equipment and materials. Reasonable profit margin will be determined with mainly making reference to the historical average prices of similar products or services (where possible) published in the relevant industry, and/or the profit margin of the comparable products and services disclosed by other listed companies. The profit margin of CNACG Group shall not exceed 10%. The final transaction prices shall be determined on terms that, to the Group, are no less favorable to those provided by independent third parties to the Group or those provided by CNACG Group to independent third parties (with regards to the receipt of services by the Group), or no more favorable than those provided by the Group to the independent third parties (with regards to the rendering of services by the Group).

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
10	Framework Agreement	The Company and Cathay Pacific (Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 1 October 2019 with a term from 1 January 2020 to 31 December 2022 The details are set out in the announcement of the Company dated 28 August 2019	Providing a framework for the transactions between the Group and Cathay Pacific Group arising from interline arrangements, code sharing arrangements, joint operating arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Cathay Pacific Framework Agreement.	Interline arrangements and code share arrangements: Revenue is apportioned between the parties in accordance with bilateral prorate agreements which follow the principles in the Multi-lateral Prorate Agreement of International Air Transport Association. Joint operating arrangements: Revenue is apportioned between the parties having regard to the fleet capacity of both parties and the values of seats sold by each party. Aircraft leasing: Rentals payable under aircraft leases are determined after negotiations at arm's length between the parties having regard to rentals payable under comparable leases between unconnected parties for comparable aircraft and comparable periods and prevailing long-term interest rates. Frequent flyer programmes: Frequent flyers of either party can earn mileage credits by taking the other party's flights. Payments by each party to the other for mileage values are determined by the parties on an arm's length basis having regard to comparable mileage values payable by unconnected airlines to each other. Airline catering: The parties determine the pricing of airline catering having regard to quotations provided by unconnected caterers, taking due account of material and labor costs, quality, assurance of supply, safety and innovation (including changes in the foregoing matters). Ground support and engineering services: The pricing is required to be no less favorable than that offered for comparable services to unconnected parties taking due account of the quality of services. Other products and services (including leasing premises and customs declaration services): The pricing is determined having regard to relevant market information (including independent third party quotations for comparable products and services), costs incurred by the relevant party and the quality of products and services.

Report of the Directors

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
11	Framework Agreement	The Company and Air China Cargo (a 51%-owned subsidiary of CNAHC and therefore a connected person of the Company)	Renewed and revised on 30 October 2019 with a term from 1 January 2020 to 31 December 2022 The details are set out in the announcement of the Company dated 30 October 2019	Bellyhold space business contracting operation: The Company has contracted the operation of all bellyhold space business to Air China Cargo. Air China Cargo shall undertake the overall responsibilities for transporting the cargos in the capacity of contracted carrier to the consignors with respect to the cargos which are transported through the bellyhold spaces of passenger aircraft. Ground support services and other services: The ground support services and other services provided by the Group to ACC Group include but are not limited to operation support services, IT sharing services, comprehensive support services, engine and other aircraft-related materials lease services and labor management services. The ground support services and other services provided by ACC Group to the Group include but are not limited to terminal cargo and mail services, airport apron services, container and pallet management services, engine and other aircraft related materials lease services.	Contracting Operation Income: The Company will regularly receive the contracting operation income from Air China Cargo in respect of bellyhold space business each year. The parties shall determine the benchmark income (excluding tax) of bellyhold space business contracting operation after arm's length negotiations with reference to the Company's fleet capacity, overall load factor and yield level. The specific formula is as follows: benchmark income (excluding tax) = ATK (available tonne kilometres) × OLF (overall load factor) × yield level per kilometer. The parties agreed to jointly appoint a qualified accounting firm to conduct a special audit on the actual income (excluding tax) of Air China Cargo for the operation of bellyhold space business of the previous financial year within three months after the end of each financial year. Where there is any difference between the benchmark income (excluding tax) and the actual income (excluding tax), the excess income or risk incurred shall be allocated between Air China Cargo and the Company at the proportion of 51% and 49%, respectively, and paid accordingly. The operation expense of the bellyhold space business: The Company shall pay the operation expenses of the bellyhold space business to Air China Cargo on a regular basis per year. In accordance with the common industry practice, the operation expense shall be determined according to the settlement price (determined according to the method as set out above in the paragraph headed "Contracting Operation Income") and the Expense Rate, and the calculation formula is as follows: Operation Expense = Settlement Price × Expense Rate. The expense rate shall be determined by the parties through arm's length negotiation with reference to historical expense rates and other factors such as expense rates of companies in the relevant industry and their variation trends. Ground support services and other services: The pricing policies for the ground support services and other services provided to or by the Group are set forth below: (1) Follow the government pricing or guidance price if it is available; (2) If no government pricing or guidance price is available, the final transaction price will be determined on arm's length negotiations between the parties, with reference to the market prices offered by at least two independent third parties on the market for the same type of service, and after taking certain factors into account such as the service standard, service scope, business volume and specific need of parties. If any service needs of the service recipient changes, appropriate adjustment will be made to the transaction price after negotiation between both parties based on the extent of variation in relevant costs, service quality or other factors; (3) If neither of the above cases is applicable, the price will be determined on the basis of costs plus reasonable profit. The costs are mainly based on the costs and expenses of the service provider, including costs of human resources and costs of facility, equipment and materials. Reasonable profit margin will be determined with mainly making reference to the historical average prices of similar products or services (where possible) published in the relevant industry, and/or the profit margin of the comparable products and services disclosed by other listed companies. The profit margin of ACC Group shall not exceed 10%. The final transaction prices shall be determined on terms that, to the Group, are no less favorable to those provided by independent third parties to the Group or those provided by ACC Group to independent third parties (with regards to the receipt of services by the Group), or no more favorable than those provided by the Group to the independent third parties (with regards to the rendering of services by the Group).

The agreements No.1 to No.6 as set out above were renewed and revised for a term of three years from 1 January 2022 to 31 December 2024 as approved by the independent shareholders on 30 December 2021. Please refer to the Company's announcements dated 29 October 2021 and 30 December 2021 for further details.

The Company has confirmed that the execution and implementation of the specific agreements under the continuing connected transactions set out above during the Reporting Period has followed the pricing policies of such continuing connected transactions.

Transaction Caps and Actual Transaction Amounts for the Reporting Period

Actual transaction amounts and transaction caps of the above-mentioned continuing connected transactions for the Reporting Period are as follows:

		Total amount for the Reporting Period	
	Currency	Annual cap (in millions)	Actual amount (in millions)
Transactions with CNAHC Group:			
Charter flight services	RMB	900	365
Comprehensive services	RMB	3,000	1,123
Total value of right-of-use assets involved in property leasing	RMB	620	92
Media and advertising services	RMB	750	152
Expenditure on construction project management services	RMB	130	34
Financial services			
Maximum daily balance of loans and other credit services granted by CNAF to CNAHC Group	RMB	6,500	90
Transactions with CNACG Group:			
Ground handling and other services	RMB	696	91
Total value of right-of-use assets involved in financing and operating leasing	RMB	16,000	3,526
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Group to Cathy Pacific Group	HKD	900	20
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	39
Transactions with ACC Group:			
Operation expenses of bellyhold space paid by the Group to ACC Group	RMB	960	609
Aggregate amount of ground handling and other services paid by the Group to ACC Group	RMB	1,200	630
Bellyhold space business contracting operation paid by ACC Group to the Group(1)	RMB	11,000	10,491
Aggregate amount of ground handling and other services paid by ACC Group to the Group	RMB	1,000	789
Transactions with CNAF:			
Maximum daily balance of deposits placed by the Group with CNAF	RMB	15,000	10,798

Note: (1) The revised annual caps applicable to the contracting operation income from bellyhold space business payable to the Group by ACC Group for the two years ending 31 December 2022 have been approved on 30 December 2021 at the EGM of the Company. Please refer to the Company's announcements dated 10 December 2021 and 30 December 2021 for details.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have confirmed that during the Reporting Period, all continuing connected transactions to which the Company was a party have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms or better and have been carried out according to the agreements governing them and that the terms of them were fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATION FROM THE AUDITOR

Pursuant to Rule 14A.56 of the Listing Rules, the listed issuer must engage its auditors to report on the continuing connected transactions every year. The auditors must provide a letter to the listed issuer's board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the listed issuer's board of directors;

(2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap.

Pursuant to the above requirement under Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unmodified letter containing their conclusion in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Reporting Period are set out in note 48 to the financial statements of this annual report. None of these related party transactions constitutes a disclosable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this Report of the Directors, none of the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, and there is no contract of significance in relation to provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

CORPORATE BONDS

The Group's corporate bonds as at the end of the Reporting Period are summarised as the followings:

Unit: RMB billion, Currency: RMB

Name of Corporate Bond	Abbreviation	Code	Issue Date	Value Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest	Investor suitability arrangement (if any)	Trading Mechanism
Air China Limited 2012 Corporate Bond (First Tranche)	12AC01	122218	18 January 2013	18 January 2013	18 January 2023	5.243	5.10	Interest on annual basis Repayment of principal on maturity	Issued to public and institutional investors	Listed and traded on the Auction Trading System and Fixed Income Platform of SSE
Air China Limited 2012 Corporate Bond (Second Tranche)	12AC03	122269	16 August 2013	16 August 2013	16 August 2023	1.530	5.30	Interest on annual basis Repayment of principal on maturity	Issued to public and institutional investors	Listed and traded on the Auction Trading System and Fixed Income Platform of SSE
Shenzhen Airlines Company Limited 2019 Corporate Bond (First Tranche)	19SA01	155388	25 April 2019	26 April 2019	26 April 2022	1.027	4.00	Interest on annual basis Repayment of principal on maturity	Issued to qualified investors only	Listed and traded on the Auction Trading System and Fixed Income Platform of SSE
Shenzhen Airlines Company Limited 2021 Public Offering of Short-term Corporate Bond for Professional Investors (First Tranche)	21SAD1	149379	4 February 2021	5 February 2021	5 February 2022	0.514	3.09	Payment of principal and interest on maturity	For institutional investors among professional investors only	Bilateral listed and traded on the Centralized Bidding System and Integrated Agreement Trading Platform of SZSE
Shenzhen Airlines Company Limited 2021 Non-public Offering Short-term Corporate Bond (First Tranche)	21SAD2	133010	3 June 2021	4 June 2021	4 June 2022	2.036	3.10	Payment of principal and interest on maturity	For not more than 200 institutional investors among professional investors only	Listed and Transfered on the Integrated Agreement Trading Platform of SZSE

"12AC01", "12AC03" and "19SA01" are traded on the Shanghai Stock Exchange (SSE), while "21SAD1" and "21SAD2" are traded on the Shenzhen Stock Exchange (SZSE). No bond in the table is subject to the risk of termination of listing and trading.

Payment of principal and interest for corporate bonds during the Reporting Period

Name of Corporate Bond	Payment of Principal and Interest
Air China Limited 2012 Corporate Bond (First Tranche)	On 18 January 2021, the Company completed the interest payment on "12AC01" Corporate Bond.
Air China Limited 2012 Corporate Bond (Second Tranche)	On 16 August 2021, the Company completed the interest payment on "12AC03" Corporate Bond.
Air China Limited 2016 Corporate Bond (Second Tranche)	On 22 October 2021, the Company completed the payment of principal and interest on "16AC02" Corporate Bond.
Air China Limited 2020 Public Offering Corporate Bond (First Tranche)	On 19 April 2021, the Company completed the payment of principal and interest on "20AC01" Corporate Bond.
Shenzhen Airlines Company Limited 2019 Public Offering Corporate Bond (First Tranche)	On 25 April 2021, Shenzhen Airlines completed the interest payment on "19SA01" Corporate Bond.
Shenzhen Airlines Company Limited 2018 Public Offering Corporate Bond (Second Tranche)	On 14 March 2021, Shenzhen Airlines completed the payment of principal and interest on "18SA02" Corporate Bond.
Shenzhen Airlines Company Limited 2018 Public Offering Corporate Bond (Fourth Tranche)	On 23 April 2021, Shenzhen Airlines completed the payment of principal and interest on "18SA04" Corporate Bond.
Shenzhen Airlines Company Limited 2018 Public Offering Corporate Bond (Sixth Tranche)	On 7 September 2021, Shenzhen Airlines completed the payment of principal and interest on "18SA06" Corporate Bond.
Shenzhen Airlines Company Limited 2020 Public Offering Short-term Corporate Bond (First Tranche)	On 19 March 2021, Shenzhen Airlines completed the payment of principal and interest on "20SAD1" Short-term Corporate Bond.

The proceeds from the issuance of "12AC01" and "12AC03" Corporate Bonds were used towards the replenishment of liquidity and repayment of bank loans so as to satisfy the needs of the Company's daily production and operation. The proceeds from the issuance of "19SA01", "21SAD1" and "21SAD2"Corporate Bonds were used towards the repayment of corporate debts and replenishment of working capital. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectuses and the balance of proceed as at the end of the Reporting Period is zero.

Basic information on debt financing instruments as at the end of the Reporting Period

Unit: RMB billion, Currency: RMB

Name of Bond	Abbreviation	Code	Issue Date	Value Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest
Air China Limited 2021 Super Short-term Commercial Paper (First Tranche)	21ACSCP001	012103630	8 October 2021	8 October 2021	8 April 2022	2.011	2.42	One-off payment of principal and interest on maturity
Air China Limited 2021 Super Short-term Commercial Paper (Second Tranche)	21ACSCP002	012103651	11 October 2021	11 October 2021	8 July 2022	1.005	2.43	One-off payment of principal and interest on maturity
Air China Limited 2021 Super Short-term Commercial Paper (Third Tranche)	21ACSCP003	012103822	20 October 2021	21 October 2021	19 January 2022	1.758	2.34	One-off payment of principal and interest on maturity
Air China Limited 2021 Super Short-term Commercial Paper (Fourth Tranche)	21ACSCP004	012103867	22 October 2021	25 October 2021	22 July 2022	1.005	2.5	One-off payment of principal and interest on maturity
Air China Limited 2021 Super Short-term Commercial Paper (Fifth Tranche)	21ACSCP005	012105420	15 December 2021	16 December 2021	14 June 2022	2.002	2.34	One-off payment of principal and interest on maturity
Air China Limited 2021 Super Short-term Commercial Paper (Sixth Tranche)	21ACSCP006	012105483	21 December 2021	22 December 2021	16 September 2022	2.001	2.49	One-off payment of principal and interest on maturity
Shenzhen Airlines Company Limited 2019 Medium Term Note (First Tranche)	19SAMTN001	101900344	14 March 2019	18 March 2019	18 March 2022	1.030	3.73	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2019 Medium Term Note (Second Tranche)	19SAMTN002	101900725	21 May 2019	23 May 2019	23 May 2022	1.023	3.79	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2020 Medium Term Note (First Tranche) (i.e. Bond for COVID-19 prevention and control)	20SAMTN001(Bond for COVID-19 prevention and control)	102000224	3 March 2020	5 March 2020	5 March 2023	1.024	3.00	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2021 Medium Term Note (First Tranche)	21SAMTN001	102101631	19 August 2021	23 August 2021	23 August 2024	2.023	3.2	Interest on annual basis Repayment of principal on maturity

The bonds set out in the table, namely "21ACSCP001", "21ACSCP002", "21ACSCP003", "21ACSCP004", "21ACSCP005", "21ACSCP006", "19SAMTN001", "19SAMTN002", "20SAMTN001(Bond for COVID-19 prevention and control)" and "21SAMTN001", are all traded on the interbank bond market, issued to institutional investors in the national interbank bond market, performed in accordance with the trading rules of the National Interbank Funding Centre (全國銀行間同業拆借中心), and are not subject to the risk of termination of listing and trading.

Payment of principal and interest for bonds during the Reporting Period

Name of Bond	Payment of Principal and Interest
Shenzhen Airlines Company Limited 2021 Super Short-term Commercial Paper (First Tranche)	On 9 July 2021, Shenzhen Airlines completed the payment of principal and interest on "21SASCP001" Super Short-term Commercial Paper
Shenzhen Airlines Company Limited 2021 Super Short-term Commercial Paper (Second Tranche)	On 26 August 2021, Shenzhen Airlines completed the payment of principal and interest on "21SASCP002" Super Short-term Commercial Paper
Shenzhen Airlines Company Limited 2021 Super Short-term Commercial Paper (Third Tranche)	On 31 August 2021, Shenzhen Airlines completed the payment of principal and interest on "21SASCP003" Super Short-term Commercial Paper
Shenzhen Airlines Company Limited 2021 Super Short-term Commercial Paper (Fourth Tranche)	On 1 September 2021, Shenzhen Airlines completed the payment of principal and interest on "21SASCP004" Super Short-term Commercial Paper
Shenzhen Airlines Company Limited 2019 Medium Term Note (First Tranche)	On 1 March 2021, Shenzhen Airlines completed the interest payment on "19SAMTN001" Medium Term Note
Shenzhen Airlines Company Limited 2019 Medium Term Note (Second Tranche)	On 23 May 2021, Shenzhen Airlines completed the interest payment on "19SAMTN002" Medium Term Note
Shenzhen Airlines Company Limited 2020 Medium Term Note (First Tranche) (i.e. Bond for COVID-19 prevention and control)	On 5 March 2021, Shenzhen Airlines completed the interest payment on "20SAMTN001(Bond for COVID-19 prevention and control)" Medium Term Note

The proceeds from the issuance of "21ACSCP001", "21ACSCP002", "21ACSCP003", "21ACSCP004", "21ACSCP005", "21ACSCP006", "19SAMTN001", "19SAMTN002""20SAMTN001(Bond for COVID-19 prevention and control)" and "21SAMTN001" were used towards the repayment of corporate debts and replenishment of working capital. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectus and the balance of proceed as at the end of the Reporting Period is zero.

SUBSEQUENT EVENT

The Company completed the re-election and appointment of members of the Board and the Supervisory Committee on 25 February 2022. For details, please refer to the announcement of the Company dated 25 February 2022.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP (collectively, "Deloitte") as the Company's international auditor and domestic auditor respectively for the year of 2021. The auditor of the Company has been changed to Deloitte since 2017.

The sections, reports or notes of this annual report mentioned above constitute a part of this Report of the Directors.

By Order of the Board
Song Zhiyong
Chairman
30 March 2022

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Mr. Song Zhiyong, aged 56, is a senior pilot and graduated from the First Flying Academy of China Air Force with a bachelor's degree in aviation. He started his career in the civil aviation industry in 1987. From January 2014 to December 2020, he served as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company. Mr. Song served as a non-executive Director of Cathay Pacific since March 2014. He has served as an executive Director of the Company since May 2014. He served as the Vice Chairman of the Company from June 2016 to December 2020, the director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC from December 2016 to October 2020. He has been serving as the Chairman and Secretary of the Communist Party Group of CNAHC since October 2020, and the Chairman and Secretary of the Communist Party Committee of the Company since December 2020. He has served as the vice chairman of the board of directors of Cathay Pacific since December 2020.

Mr. Ma Chongxian, aged 56, graduated from the department of economics of Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA in Tsinghua University. Mr. Ma started his career in the civil aviation industry in July 1988. Mr. Ma has been serving as the Vice President and a member of the Standing Committee of the Communist Party Committee of Air China from April 2010 to May 2021. From December 2016 to April 2021, he served as Deputy General Manager and a member of the Communist Party Group of CNAHC. He was the Deputy Secretary of the Communist Party Group of CNAHC from April 2021, as well as the director and General Manager of CNAHC, and concurrently the President and Deputy Secretary of the Communist Party Committee of the Company from May 2021. He has served as non-executive director of Cathay Pacific since June 2021 and an executive Director and the Vice Chairman of the Company since July 2021.

Mr. Feng Gang, aged 58, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. From April 2014 to November 2019, he served as the Deputy General Manager of CNAHC. He served as non-executive Director of the Company between August 2014 and October 2017. From May 2017 to November 2019, he served as Deputy President of the Company. Since November 2019, he has served as the director and the Deputy Secretary of the Communist Party Group of CNAHC and the Deputy Secretary of the Communist Party Committee of the Company. From May 2020, he has been the non-executive Director of the Company.

Mr. Patrick Healy, aged 56, graduated from the University of Cambridge with a Bachelor of Arts (Honours) degree in Modern Languages. He has acted as an executive director of the beverages division of Swire Pacific Limited since January 2013, a director of John Swire & Sons (H.K.) Limited since December 2014. He has been serving as the chairman of Swire Coca-Cola Limited since October 2019 and the executive Director and chairman of Cathay Pacific Airways Limited since November 2019. He has been serving as a non-executive Director of Air China Limited since December 2019, and a director of Swire Pacific Limited since August 2021.

Mr. Xue Yasong, aged 60, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He served as the deputy general manager of CNAHC from November 2004 to July 2009, and the chairman of the labour union of CNAHC from July 2009 to December 2021. He was the chairman of the labour union of the Company from October 2016 to December 2021. He has been serving as an employee representative director of CNAHC since December 2017, and was the employee representative Director of the Company from March 2018 to February 2022.

Mr. Wang Xiaokang, aged 66, graduated from Peking University majoring in law. Since December 2011, he has been serving as the president of China Industrial Energy Conservation and Clean Production Association. He served as an independent non-executive Director of the Company between May 2017 and February 2021, and an external director of China Datang Corporation Ltd. from August 2018 to August 2019.

Mr. Duan Hongyi, aged 58, is a professorate senior accountant and a holder of master's degree in business administration. He held various positions including a director and general manager of Nam Kwong (Group) Company Limited [China Nam Kwong (Group) Company Limited]. He has been a professional external director for State-owned enterprises since November 2019. He has also served as the external director of both China Telecommunications Corporation and China National Nuclear Corporation since March 2020. He served as an independent non-executive Director of the Company from May 2020 to February 2022.

Mr. Stanley Hui Hon-chung, aged 71, holds the bachelor's degree of Science from the Chinese University of Hong Kong. Mr. Hui is the member of the 13th session of National Committee of CPPCC and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui served as an independent non-executive Director of the Company from May 2015 to February 2022. He served as independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. from December 2016, and the independent non-executive director of Beijing Capital International Airport Co., Ltd. since June 2020. In October 2020, he was appointed as the director of NWFB Services and Citybus Limited. In December 2020, he was appointed as the Director of Greater Bay Airlines Company Limited in Hong Kong, and in June 2021, he was appointed as a director of China Power International Development Limited.

Mr. Li Dajin, aged 63, graduated from Peking University majoring in law. He is a director, partner and lawyer of East & Concord Partners. Mr. Li currently serves as a member of the 13th CPPCC, legislative consultant to the Standing Committee of Beijing Municipal People's Congress, invited supervisor to the PRC Supreme People's Court, visiting professor to Lawyer College Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. From December 2015 to February 2022, he served as an independent non-executive Director of the Company.

Profile of Directors, Supervisors and Senior Management

Mr. Li Fushen, aged 59, is a senior accountant with a bachelor's degree in engineering. He was a non-executive director of PCCW Limited from July 2007 to December 2021. He held various positions from January 2009 to May 2021, including deputy general manager, a member of the Communist Party Group, chief accountant, executive director and deputy secretary of the Communist Party Group of China United Network Communications Group Company Limited. He served as an executive director of China Unicom (Hong Kong) Limited from March 2011 to June 2021, a director of China United Network Communications Limited from May 2011 to June 2021, and a non-executive director of HKT Trust and HKT Limited as well as a non-executive director of HKT Management Limited from November 2011 to December 2021. He has been a professional external director for State-owned enterprises since June 2021, and has been an external director of China Energy Conservation and Environmental Protection Group and COFCO Corporation since July 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Mr. He Yun, aged 60, holds a postgraduate diploma in software engineering from Beijing Institute of Technology. He served as the deputy director and director of the Supervisory Committee of Central Enterprises Working Commission and the Board of Supervisors Office of the State-owned Assets Supervision and Administration Commission of the State Council, head of the work department of Board of Supervisors and head of the first supervision department of the State-owned Assets Supervision and Administration Commission of the State Council from July 2000 to March 2018; and the head of the fourth corporate audit office of the National Audit Office from April 2018 to March 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Mr. Xu Junxin, aged 57, is a senior economist and holds a doctorate's degree in technical economics and management. From June 2018 to September 2021, he served as the secretary to the Board and director of the general office (office of the Communist Party Group as well as office of the board of directors and supervisory committee), assistant to general manager, secretary to the Board and director of group affairs office (office of the Communist Party Group and office of the board of directors) of China Three Gorges Corporation (中國長江三峽集團有限公司). He has been a professional external director for State-owned enterprises since September 2021. He has been an external director of China Anneng Construction Group Corporation Limited since December 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Ms. Winnie Tam Wan-chi, aged 60, graduated from the Faculty of Law of The University of Hong Kong, a barrister, international arbitrator and mediator. She was appointed as a "Senior Counsel" in 2006, and was awarded the Justice of the Peace and the Silver Bauhinia Star for her contributions to public service. She is currently the Head of Chambers of Des Voeux Chambers and a recorder of the Court of First Instance of the High Court of Hong Kong. She is the Chairman of the Hong Kong Communications Authority, the Chairman of the Committee on Sports Law of the Hong Kong Bar Association, a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development, a member of the Qianhai and Shekou Free Trade Zone Development Advisory Committee, a member of the Law Reform Commission, a member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature and Officials under the Political Appointment System of the Hong Kong Special Administrative Region, a member of the board of directors of eBRAM International Online Dispute Resolution Centre Limited, a member of the Board of the West Kowloon Cultural District Authority, a member of the board of governors of Hong Kong Philharmonic Society Limited and a member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. She has been serving as an independent non-executive Director of the Company since February 2022.

SUPERVISORS

Mr. Zhao Xiaohang, aged 60, graduated from the School of Economics and Management of Tsinghua University majoring in management engineering, and holds a postgraduate diploma. He started his career in the civil aviation industry in August 1986. Mr. Zhao served as the Vice President and a member of the Standing Committee of Communist Party Committee of the Company from February 2011 to February 2022. He has been serving as the chairman of Air Macau since March 2016, and a member of the Communist Party Group of CNAHC from August 2016 to February 2022. He was the Vice General Manager of CNAHC from December 2016 to March 2022, the chairman of CNAMC since December 2016, and the deputy chairman of CNACG between December 2016 and May 2020. He has been serving as chairman of Capital Holding since September 2018. From December 2019 to February 2022, he served as Chairman of the Supervisory Committee of the Company. He was appointed as the chairman of CNACG in May 2020.

Mr. He Chaofan, aged 59, graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in the civil aviation industry in 1983. He served as the chairman of Zhongyi Aviation Investment Co., Ltd. between February 2019 and September 2020. He has been serving as the chairman of China National Aviation Leasing Company Limited (中國航空租賃有限公司), chairman of CNAC (Macau) Aviation Limited (中航(澳門)航空有限公司), chairman of CNAC (Beijing) Financial Leasing Company Limited (中航(北京)融資租賃有限公司) and chairman of China National Aviation Corporation (Hong Kong) Limited (中國航空公司(香港)有限公司) since February 2019. Mr. He was appointed as a Supervisor of the Company in October 2013 and has been serving as the director, president, member of Communist Party Committee of CNACG since December 2018. He has been serving as Chairman of the Supervisory Committee of the Company since February 2022.

Mr. Wang Jie, aged 56, graduated from China Europe International Business School with a master's degree in Business Administration. He joined Air China in August 1989 and served as the general manager of the human resource department of the Company from December 2009 to November 2014. He has been serving as the deputy director and secretary of the Communist Party Committee of the commercial committee of the Company since November 2014 as well as chairman of the labor union of the commercial committee of the Company since May 2019. He has been serving as an employee representative Supervisor of the Company since September 2020.

Mr. Qin Hao, aged 53, graduated from Party School of the Central Committee of the Communist Party of China with a master's degree in Political Economics. He joined Air China in August 1989. He was the Deputy General Manager and secretary of the Communist Party Committee of the passenger cabin service department of the Company between November 2014 and April 2021, as well as chairman of the labor union of the passenger cabin service department of the Company from August 2019 to April 2021. He has been serving as an employee representative Supervisor of the Company since September 2020. He has been the secretary of the Communist Party Committee of Air China Inner Mongolia Co., Ltd. since April 2021 and the deputy general manager of Air China Inner Mongolia Co., Ltd. since May 2021.

Ms. Lyu Yanfang, aged 50, graduated from Northwest Institute of Politics and Law majoring in law and holds a bachelor's degree in law. She joined Air China in 1996 and served as the general manager of the legal department of CNAHC (Air China) since August 2017. From April 2018, she has been serving as the supervisor of China National Aviation Capital Holding Co., Ltd. From August 2018, she has served as the chairwoman of the supervisory committee of China National Aviation Finance Co., Ltd. She has been serving as the Supervisor of the Company since December 2020. She has been a supervisor of Shenzhen Airlines Company Limited since June 2021 and was appointed as the chairwoman of the supervisory committee since October 2021.

Ms. Guo Lina, aged 51, graduated from Chinese Academy of Fiscal Sciences of the Ministry of Finance majoring in finance and obtained a master degree in economics. She also graduated from the School of Economics and Management of Tsinghua University majoring in executive business administration and obtained a master's degree in business administration, and is a senior accountant. She started her career in the civil aviation industry in October 2001. From April 2017, she has served as the supervisor of Air China Inner Mongolia Co., Ltd. She served as the deputy general manager of the finance department of CNAHC (Air China) from May 2017 to April 2021. She has also served as a supervisor of Dalian Airlines Company Limited since July 2020 and was appointed as the chairwoman of the supervisory committee since September 2020. She served as the deputy general manager of the audit department of CNAHC (Air China) from April 2021 to February 2022. Since February 2022, she has been serving as a Supervisor of the Company, and general manager of the audit department of CNAHC. She was appointed the general manager of the audit department of the Company in March 2022.

SENIOR MANAGEMENT

Mr. Ma Chongxian, aged 56, graduated from the department of economics of Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA in Tsinghua University. Mr. Ma started his career in the civil aviation industry in July 1988. Mr. Ma has been serving as the Vice President and a member of the Standing Committee of the Communist Party Committee of Air China from April 2010 to May 2021. From December 2016 to April 2021, he served as Deputy General Manager and a member of the Communist Party Group of CNAHC. He was the Deputy Secretary of the Communist Party Group of CNAHC from April 2021, as well as the director and General Manager of CNAHC, and concurrently the President and Deputy Secretary of the Communist Party Committee of the Company from May 2021. He has served as the non-executive director of Cathay Pacific since June 2021 and an executive Director and the Vice Chairman of the Company since July 2021.

Mr. Zhao Xiaohang, aged 60, graduated from the School of Economics and Management of Tsinghua University majoring in management engineering, and holds a postgraduate diploma. He started his career in the civil aviation industry in August 1986. Mr. Zhao served as the Vice President and a member of the Standing Committee of Communist Party Committee of the Company from February 2011 to February 2022. He has been serving as the chairman of Air Macau since March 2016, and a member of the Communist Party Group of CNAHC from August 2016 to February 2022. He was the Vice General Manager of CNAHC from December 2016 to March 2022, the chairman of CNAMC since December 2016, and the deputy chairman of CNACG between December 2016 and May 2020. He has been serving as chairman of Capital Holding since September 2018. From December 2019 to February 2022, he served as Chairman of the Supervisory Committee of the Company. He was appointed as the chairman of CNACG in May 2020.

Mr. Tan Huanmin, aged 57, graduated from Jilin University School of Law majoring in constitutional law. From December 2016 to January 2019, Mr. Tan was a member of the Communist Party Group and team leader of the Discipline Inspection Group of Communist Party Group of China Aerospace Science & Technology Corporation. Since January 2019, Mr. Tan has been serving as team leader of the Discipline Inspection and Supervision Group and a member of the Communist Party Group of CNAHC, and in January 2019, he was appointed as a standing member of the Communist Party Committee and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Wang Mingyuan, aged 56, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in the civil aviation industry in July 1988. He served as a director of Shandong Airlines Co., Ltd. from March 2006 to June 2021, and a director and a member of the Executive Board Committee of Air Macau Company Limited from March 2007 to July 2021. Mr. Wang was appointed as the Vice President and a member of the Standing Committee of CPC of the Company in February 2011. Since April 2011, he has served as chairman of Air China Development Corporation (Hong Kong) Limited. He was appointed as the deputy general manager and a member of the Communist Party Group of CNAHC in April 2020. He has been serving as vice chairman of Tibet Airlines Co., Ltd. since June 2020.

Mr. Zhang Sheng, aged 49, graduated from the Renmin University of China/American City University with a bachelor's degree in business administration and a master's degree in business administration. Mr. Zhang started his career in the civil aviation industry in July 1992. From August 2017 to May 2020, he served as the general manager and the deputy secretary of the Communist Party Committee of the Beijing Branch of China Southern Airlines Company Limited. In May 2020, he was appointed as the deputy general manager and a member of the Communist Party Group of CNAHC as well as a member of the Standing Committee of the Communist Party Committee of the Company. In June 2020, he was appointed as the Vice President of the Company.

Mr. Chen Zhiyong, aged 58, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class pilot. Mr. Chen started his career in the civil aviation industry in October 1982. Mr. Chen has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since December 2012. He was appointed as the director of Shenzhen Airlines in May 2014. Between May 2014 and September 2020, he was also the president and deputy secretary of the Community Party Committee of Shenzhen Airlines. He was appointed as the Chairman of Shenzhen Airlines in March 2020. Since July 2020, he served as the deputy general manager and a member of the Communist Party Group of CNAHC.

Mr. Chai Weixi, aged 59, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai joined Air China in September 1980. He was the director of Ameco between October 2005 and January 2020, and was appointed as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company in March 2012. Mr. Chai has been the chairman of Sichuan Services Aero-Engine Maintenance Co., Ltd. since October 2012. Since October 2020, he has been serving as the chairman of Beijing Airlines Company Limited.

Mr. Xue Yasong, aged 60, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He served as the deputy general manager of CNAHC from November 2004 to July 2009, and the chairman of the labor union of CNAHC from July 2009 to December 2021. He was the chairman of the labor union of the Company from October 2016 to December 2021. He has been serving as an employee representative director of CNAHC since December 2017, and was the employee representative Director of the Company from March 2018 to February 2022.

Mr. Xu Chuanyu, aged 57, graduated from Civil Aviation Flight University of China majoring in airplane piloting and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He joined Air China in July 1985. He has been serving as the Chief Pilot of CNAHC and chief safety officer of the Company since December 2012. Mr. Xu was appointed as chairman, president, deputy secretary of the Communist Party Committee of Shandong Aviation Group Corporation in November 2016.

Mr. Zhang Hua, aged 56, graduated from Zhongnan University of Finance and Economics majoring in industrial economics and is an on-job postgraduate of the Party School of the Central Committee of the Communist Party of China majoring in economics and management. He was appointed as the general legal counsel of CNAHC and of the Company in August 2016 and August 2017, respectively. He has been a supervisor of Zhongyi Aviation Investment Co., Ltd. since April 2018, chairman of Dalian Airlines Company Limited since March 2020, and a director of Air China Cargo Co. Ltd. since September 2021.

Mr. Xiao Feng, aged 53, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He joined Air China in July 1990. He has been serving as a director of Ameco since September 2012 and the chief accountant of the Company since July 2014. In October 2015, he became a director of Air China Overseas Holding Company (國航海外控股公司). Since November 2015, he has been serving as the chairman of the board of directors of China National Aviation Company Limited, and in February 2016, he became the chairman of China National Aviation Finance Co., Ltd. He has served as a non-executive director of Cathay Pacific since January 2017, and a director of Air China Cargo Co. Ltd. since September 2021.

Profile of Directors, Supervisors and Senior Management

Mr. Wang Yingnian, aged 58, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a firstclass pilot. Mr. Wang started his career in the civil aviation industry in August 1984. He has been serving as a director of Beijing Airlines Company Limited since February 2011, and Chief Pilot of the Company since November 2014. He served concurrently as general manager and Deputy Secretary of Communist Party Committee of the training department of the Company from February 2017 to November 2019. He has also been serving as the chairman of Air China Inner Mongolia Co., Ltd. since November 2017.

Mr. Ni Jiliang, aged 55, graduated from Civil Aviation College of China majoring in maintenance of aircraft, engines and equipment under the department of aviation machinery. He joined Air China in July 1988. He has been the chief executive officer and the deputy secretary of the Communist Party Committee of Ameco between September 2017 and April 2020, and the chief engineer of the Company since January 2020. Since April 2020, he has served as the chairman and secretary to the Communist Party Committee of Ameco. Since November 2021, he has been serving as a director of China Aircraft Services Limited (中國飛機服務有限公司).

Mr. Yan Simeng, aged 39, graduated from the Department of Physics of Peking University and obtained his doctorate in theoretical and computational physics from the University of California, Irvine. He was a senior data scientist of Google (formerly Fitbit) in the United States from November 2017 to April 2018. He served as vice president of engineering at All in Eyes Co. Ltd. (瞰天科技有限公司) from April 2018 to July 2021. Mr. Yan has been serving as Chief Information Officer of the Company since September 2021.

Mr. Zhou Feng, aged 60, obtained a master's degree in economics from Shanghai University of Finance and Economics and a master's degree of business administration (EMBA) from China Europe International Business School, and is a senior accountant. He started his career in the civil aviation industry in 1983. He served as the head of the office of the board of CNAHC and the Company from June 2017 to June 2021, and the Secretary to the Board of the Company from August 2017 to September 2021.

Mr. Huang Bin, aged 58, graduated from the Civil Aviation Institute of China, majoring in Planning and Finance, is a senior accountant. He joined Air China in 1983. Between April 2011 and August 2021, he served as secretary of the Communist Party Committee, vice president, member of the Communist Party Committee and Standing Committee of Air China Cargo Co. Ltd.. He was appointed as a director and a member of the Executive Committee of Air China Cargo Co. Ltd. in April 2011, secretary to the Board and Joint Company Secretary of Air China Limited in September 2021 and assistant to the President of the Company in December 2021.

Mr. Shao Bin, aged 56, graduated from Tsinghua University School of Economics and Management majoring in EMBA, and is a senior pilot. He joined Air China in July 1987. He served as assistant to the president of the Company from November 2014 to November 2021. He has been serving as vice president of Shenzhen Airlines since December 2014. He was also the chief pilot of Shenzhen Airlines from July 2016 to August 2017. He has been concurrently serving as chairman of Kunming Airlines Company Limited since January 2022.

Mr. Zhao Yang, aged 54, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Zhao started his career in the civil aviation industry in August 1988. Mr. Zhao served as the deputy general manager and Chief Pilot, a member and standing member of the Communist Party Committee of the southwest branch of the Company since November 2014. He served as the deputy operation officer of the Company and the general manager of the operation control centre, and Deputy Secretary of the Communist Party Committee of the operation control centre since October 2017. Mr. Zhao has been serving as assistant to the President of the Company since October 2017.

JOINT COMPANY SECRETARIES

Mr. Huang Bin, aged 58, graduated from the Civil Aviation Institute of China, majoring in Planning and Finance, is a senior accountant. He joined Air China in 1983. Between April 2011 and August 2021 he served as secretary of the Communist Party Committee, vice president, member of the Communist Party Committee and Standing Committee of Air China Cargo Co. Ltd.. He was appointed as a director and a member of the Executive Committee of Air China Cargo Co. Ltd. in April 2011, secretary to the Board and joint company secretary of Air China Limited in September 2021 and assistant to the President of the Company in December 2021.

Mr. Huen Ho Yin, aged 59, holds a Bachelor of Laws (Hons) Degree from the University of Leicester in the United Kingdom and a Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Huen has been practicing as a solicitor of the High Court of Hong Kong. He is currently a partner of Huen & Partners Solicitors. From August 1994 to April 2003, he served as a partner of Richard Tai & Co., Solicitors. Since April 2003, he has been serving as a partner of Huen & Partners Solicitors. From June 2018 to February 2020, he served as an independent non-executive director of Grand Peace Group Holdings Limited. From April 2020 to August 2020, Mr. Huen served as joint company secretary of the Company. Mr. Huen has been serving as joint company secretary of the Company since September 2021.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF AIR CHINA LIMITED
(中國國際航空股份有限公司)
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 188, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for major overhauls	
As at 31 December 2021, the provision for major overhauls of RMB6,373 million was recorded in the consolidated statement of financial position. The Group held certain aircraft under leases at 31 December 2021. Under the terms of the lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Management estimates the maintenance costs of major overhauls for aircraft held under leases at the end of each reporting period and accrues such costs over the lease terms. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. We identified provision for major overhauls to fulfil the return condition of aircraft under leases as a key audit matter because of the significant management estimation and judgement required in assessing the variable factors and assumptions in order to quantify the amount of provision required at each reporting date. Details of the related estimation uncertainty are set out in Notes 4, 5 and 38 to the consolidated financial statements.	Our procedures in relation to provision for major overhauls to fulfil the return condition of aircraft under leases included: • Testing and evaluating the design and operating effectiveness of the key internal controls relevant to the audit of provision for major overhauls to fulfil the return condition of aircraft under leases. • Evaluating the appropriateness of the methodology and key assumptions adopted by management in estimating the provision for these major overhauls. This evaluation based on the terms of the leases and the Group's maintenance cost experience. • Performing a retrospective review of the provision for major overhauls to evaluate the appropriateness of the assumptions adopted by management by comparing the assumptions adopted by management in prior years with actual maintenance costs incurred. • Discussing with managers in the engineering department responsible for aircraft engineering about the utilisation pattern of aircraft, obtaining relevant operating data, performing recalculation and checking the assumptions adopted by management and the mathematical accuracy of the calculation of provision for major overhauls prepared by management for those aircraft under leases.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Passenger revenue recognition	
The Group's revenue primarily consists of passenger revenue amounting to RMB58,317 million for the year ended 31 December 2021. Passenger revenue are recognised as revenue when the related transportation service is provided. The value of passenger revenue for which the related transportation service has not yet been provided at the end of the reporting period is recorded as air traffic liabilities in the consolidated statement of financial position. The Group allocates the transaction price to passenger revenue and miles awards on a relative stand-alone selling price basis. The transaction price allocated to miles awards under the Group's frequent-flyer programme is deferred and included in contract liabilities in the consolidated statement of financial position. The Group maintains complex information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme awards. We identified passenger revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and an estimation of the stand-alone selling price of miles in the frequent-flyer programme, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to management manipulation. Details of passenger revenue are set out in Notes 4, 5, and 6 to the consolidated financial statements.	Our procedures in relation to passenger revenue recognition included: • Testing and evaluating the design and operating effectiveness of the key internal controls, including IT controls, relevant to our audit of passenger revenue recognition. • Performing substantive analytical procedures on passenger revenue by developing an expectation for passenger revenue using independent inputs and information generated from the Group's IT systems and to obtain evidence to support the reasonableness of the amounts recorded. • Evaluating the appropriateness of the assumptions adopted by management in estimating the stand-alone selling price of miles in the frequent-flyer programme by comparison with historical experience and planned changes to the programme that may impact future redemption activities. • Checking underlying supporting documents for passenger revenue transactions which are material or meet other specified criteria on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2022

Consolidated Statement of Profit or Loss

For the Year Ended 31 December 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	6	**74,531,670**	69,503,749
Other income and gains	8	**4,070,762**	4,356,946
		78,602,432	73,860,695
Operating expenses			
Jet fuel costs		**(20,703,780)**	(14,817,474)
Employee compensation costs	9	**(24,230,071)**	(22,012,834)
Depreciation and amortisation	11	**(20,934,502)**	(20,408,317)
Take-off, landing and depot charges		**(9,667,650)**	(9,239,943)
Aircraft maintenance, repair and overhaul costs		**(6,910,741)**	(6,423,313)
Air catering charges		**(1,650,028)**	(1,605,027)
Aircraft and engine lease expenses		**(236,287)**	(223,034)
Other lease expenses		**(673,261)**	(463,265)
Other flight operation expenses		**(6,488,734)**	(5,869,393)
Selling and marketing expenses		**(2,576,346)**	(2,568,362)
General and administrative expenses		**(1,263,044)**	(1,051,495)
Impairment loss recognised on property, plant and equipment	17	**(292,562)**	(439,656)
Impairment loss recognised on intangible assets	20	**(750)**	–
Net impairment loss reversed under expected credit loss model	10	**163,148**	92,598
		(95,464,608)	(85,029,515)
Loss from operations	11	**(16,862,176)**	(11,168,820)
Finance income		**112,062**	191,598
Finance costs	12	**(5,495,052)**	(5,099,785)
Share of results of associates		**(1,088,759)**	(6,148,692)
Share of results of joint ventures		**272,965**	155,541
Exchange gain, net		**1,235,430**	3,603,752
Loss before taxation		**(21,825,530)**	(18,466,406)
Income tax credit	14	**3,003,292**	2,650,275
Loss for the year		**(18,822,238)**	(15,816,131)
Attributable to:			
– Equity shareholders of the Company		**(16,635,178)**	(14,403,343)
– Non-controlling interests		**(2,187,060)**	(1,412,788)
		(18,822,238)	(15,816,131)
Loss per share			
– Basic and diluted	15	**RMB(121.12) cents**	RMB(104.87) cents

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the Year Ended 31 December 2021

	2021 RMB'000	2020 RMB'000
Loss for the year	**(18,822,238)**	(15,816,131)
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss:		
– Fair value losses on investments in equity instruments at fair value through other comprehensive income	**(56,457)**	(19,933)
– Remeasurement of net defined benefit liability	**(5,787)**	3,265
– Share of other comprehensive income of associates	**121,787**	94,761
– Income tax relating to items that will not be reclassified to profit or loss	**14,114**	4,983
Items that may be reclassified subsequently to profit or loss:		
– Fair value gains/(losses) on investments in debt instruments at fair value through other comprehensive income	**3,234**	(4,310)
– Impairment loss (recognised)/reversed on investments in debt instruments at fair value through other comprehensive income included in profit or loss	**(10,647)**	7,637
– Share of other comprehensive income of associates	**813,808**	139,255
– Exchange differences on translation of foreign operations	**(464,804)**	(1,111,691)
– Income tax relating to items that may be reclassified subsequently to profit or loss	**1,854**	(832)
Other comprehensive income/(expense) for the year (net of tax)	**417,102**	(886,865)
Total comprehensive expense for the year	**(18,405,136)**	(16,702,996)
Attributable to:		
– Equity shareholders of the Company	**(16,172,537)**	(15,260,368)
– Non-controlling interests	**(2,232,599)**	(1,442,628)
	(18,405,136)	(16,702,996)

Consolidated Statement of Financial Position

At 31 December 2021

	NOTES	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	17	**98,804,707**	101,346,490
Right-of-use assets	18	**121,610,254**	114,539,680
Investment properties	19	**571,798**	600,329
Intangible assets	20	**35,430**	36,580
Goodwill	21	**1,099,975**	1,099,975
Interests in associates	23	**10,390,940**	10,938,428
Interests in joint ventures	24	**1,830,070**	1,581,105
Advance payments for aircraft and flight equipment		**21,510,230**	24,907,862
Deposits for aircraft under leases		**566,684**	615,537
Equity instruments at fair value through other comprehensive income	25	**176,323**	233,180
Debt instruments at fair value through other comprehensive income	26	**1,373,634**	1,344,829
Deferred tax assets	27	**9,757,097**	6,750,883
Other non-current assets		**257,320**	298,836
		267,984,462	264,293,714
Current assets			
Inventories	28	**2,050,282**	1,853,990
Accounts receivable	29	**2,991,037**	2,942,799
Bills receivable		**3,591**	6,593
Prepayments, deposits and other receivables	30	**3,631,521**	3,912,471
Financial assets at fair value through profit or loss		**4,157**	–
Restricted bank deposits	31	**774,951**	737,245
Cash and cash equivalents	31	**15,934,713**	5,837,998
Assets held for sale	32	**333,884**	–
Other current assets	33	**4,672,592**	4,444,806
		30,396,728	19,735,902
Total assets		**298,381,190**	284,029,616
Current liabilities			
Air traffic liabilities		**(2,116,028)**	(2,002,649)
Accounts payable	34	**(12,590,775)**	(12,510,582)
Bills payable		**(199,276)**	(62,570)
Dividends payable		**(98,000)**	(98,000)
Other payables and accruals	35	**(19,593,940)**	(11,177,928)
Current taxation		**(4,572)**	(45,614)
Lease liabilities	36	**(14,534,309)**	(13,560,862)
Interest-bearing borrowings	37	**(40,201,875)**	(39,630,365)
Provision for return condition checks	38	**(801,235)**	(229,514)
Contract liabilities	39	**(1,479,717)**	(1,280,102)
		(91,619,727)	(80,598,186)
Net current liabilities		**(61,222,999)**	(60,862,284)

Consolidated Statement of Financial Position

At 31 December 2021

	NOTES	31 December 2021 RMB'000	31 December 2020 RMB'000
Total assets less current liabilities		**206,761,463**	203,431,430
Non-current liabilities			
Lease liabilities	36	**(76,347,051)**	(76,098,678)
Interest-bearing borrowings	37	**(53,120,047)**	(31,639,097)
Provision for return condition checks	38	**(8,583,611)**	(8,580,560)
Provision for early retirement benefit obligations		**(1,006)**	(1,351)
Long-term payables		**(15,646)**	(21,022)
Contract liabilities	39	**(1,772,209)**	(2,264,843)
Defined benefit obligations	40	**(218,336)**	(229,332)
Deferred income	41	**(544,383)**	(488,791)
Deferred tax liabilities	27	**(328,063)**	(334,720)
		(140,930,352)	(119,658,394)
NET ASSETS		**65,831,111**	83,773,036
CAPITAL AND RESERVES			
Issued capital	42	**14,524,815**	14,524,815
Treasury shares	42	**(3,047,564)**	(3,047,564)
Reserves		**49,891,306**	66,064,076
Total equity attributable to equity shareholders of the Company		**61,368,557**	77,541,327
Non-controlling interests		**4,462,554**	6,231,709
TOTAL EQUITY		**65,831,111**	83,773,036

The consolidated financial statements on pages 84 to 188 were approved and authorised for issue by the board of directors on 30 March 2022 and signed on its behalf by:

Song Zhiyong
DIRECTOR

Ma Chongxian
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2021

	Note	Attributable to equity shareholders of the Company									
		Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2020		14,524,815	(3,047,564)	29,916,386	11,026,605	110,628	(1,223,899)	42,151,706	93,458,677	7,870,786	101,329,463
Changes in equity for 2020											
Loss for the year		–	–	–	–	–	–	(14,403,343)	(14,403,343)	(1,412,788)	(15,816,131)
Other comprehensive income/(expense)		–	–	230,112	–	–	(1,087,137)	–	(857,025)	(29,840)	(886,865)
Total comprehensive income/(expense)		–	–	230,112	–	–	(1,087,137)	(14,403,343)	(15,260,368)	(1,442,628)	(16,702,996)
Appropriation of discretionary reserve funds and others		–	–	–	537,682	–	–	(549,472)	(11,790)	(3,944)	(15,734)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(192,505)	(192,505)
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	(645,192)	(645,192)	–	(645,192)
As at 31 December 2020 and 1 January 2021		**14,524,815**	**(3,047,564)**	**30,146,498**	**11,564,287**	**110,628**	**(2,311,036)**	**26,553,699**	**77,541,327**	**6,231,709**	**83,773,036**
Changes in equity for 2021											
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(16,635,178)**	**(16,635,178)**	**(2,187,060)**	**(18,822,238)**
Other comprehensive income/(expense)		**–**	**–**	**906,826**	**–**	**–**	**(444,185)**	**–**	**462,641**	**(45,539)**	**417,102**
Total comprehensive income/(expense)		**–**	**–**	**906,826**	**–**	**–**	**(444,185)**	**(16,635,178)**	**(16,172,537)**	**(2,232,599)**	**(18,405,136)**
Capital contribution from non-controlling shareholder of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**490,148**	**490,148**
Appropriation of discretionary reserve funds and others		**–**	**–**	**–**	**–**	**–**	**–**	**(233)**	**(233)**	**(155)**	**(388)**
Appropriation of general reserve		**–**	**–**	**–**	**–**	**21,288**	**–**	**(21,288)**	**–**	**–**	**–**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,549)**	**(26,549)**
Others		**–**	**–**	**3,637**	**–**	**–**	**–**	**(3,637)**	**–**	**–**	**–**
As at 31 December 2021		**14,524,815**	**(3,047,564)**	**31,056,961**	**11,564,287**	**131,916**	**(2,755,221)**	**9,893,363**	**61,368,557**	**4,462,554**	**65,831,111**

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2021

	2021 RMB'000	2020 RMB'000
Operating activities		
Loss before taxation	**(21,825,530)**	(18,466,406)
Adjustments for:		
Share of results of associates and joint ventures	**815,794**	5,993,151
Exchange gains, net	**(1,235,430)**	(3,603,752)
Finance income	**(112,062)**	(191,598)
Finance costs	**5,495,052**	5,099,785
Fair value changes of financial assets at fair value through profit or loss	**404**	–
Depreciation of property, plant and equipment	**9,259,782**	9,168,355
Depreciation of right-of-use assets	**11,649,695**	11,214,630
Gain on disposal of property, plant and equipment	**(21,112)**	(38,943)
Loss/(gain) on disposal of right-of-use assets	**–**	(348)
Depreciation of investment properties	**24,961**	25,302
Amortisation of intangible assets	**64**	30
Impairment loss on property, plant and equipment	**292,562**	439,656
Impairment loss recognised on intangible assets	**750**	–
Impairment loss (reversed)/recognised on debt instruments at fair value through other comprehensive income	**(10,647)**	7,637
Impairment losses on inventories	**44,122**	35,958
Impairment loss recognised/(reversed) on accounts receivable, net	**5,915**	(73,882)
Impairment losses (reversed)/recognised on deposits and other receivables, net	**(170,783)**	2,508
Impairment losses recognised/(reversed) on other non-current assets, net	**–**	(4,155)
Impairment losses recognised/(reversed) on other current assets, net	**6,812**	(25,687)
Impairment losses recognized on others, net	**5,555**	981
Dividend income	**(4,904)**	(8,034)
Operating cash flows before movements in working capital	**4,221,000**	9,575,188
Decrease in deposits for aircraft under leases	**48,853**	21,134
(Increase)/decrease in other non-current assets	**(128,970)**	115,531
(Increase)/decrease in inventories	**(294,893)**	212,825
(Increase)/decrease in accounts receivable	**(63,057)**	3,174,548
Decrease/(increase) in bills receivable	**3,002**	(6,231)
Decrease/(increase) in prepayments, deposits and other receivables	**182,212**	(56,132)
(Increase)/decrease in other current assets	**(234,598)**	599,807
Increase/(decrease) in air traffic liabilities	**113,379**	(7,977,651)
Increase/(decrease) in accounts payable	**713,192**	(4,419,169)
Increase in bills payables	**136,706**	62,570
Increase in dividends payable	**–**	98,000
Increase in other payables and accruals	**8,043,213**	1,002,580
Increase in provision for return condition checks	**419,460**	247,016
Decrease in provision for early retirement benefit obligations	**(345)**	(638)
Decrease in defined benefit obligations	**(25,548)**	(26,548)
Increase/(decrease) in deferred income	**55,592**	(32,436)
Decrease in contract liabilities	**(293,019)**	(162,996)
Decrease in long-term payables	**(5,376)**	(94,168)
Cash generated from operations	**12,890,803**	2,333,230
Income tax paid	**(3,031)**	(925,056)
Interest paid	**(5,757,299)**	(5,425,047)
Net cash from/(used) in operating activities	**7,130,473**	(4,016,873)

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2021

	NOTE	2021 RMB'000	2020 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(1,824,030)**	(5,030,019)
Advance payments for aircraft and flight equipment		**(4,250,608)**	(7,008,116)
Proceeds from disposal of property, plant and equipment		**213,252**	133,118
Decrease/(increase) in restricted bank deposits against aircraft leases and others		**31,279**	(920)
Payment for ordinary shares of an associate	23	**–**	(2,957,136)
Proceeds from disposal of equity instruments at fair value through other comprehensive income		**808**	–
Proceeds/(purchase) of debt instruments at fair value through other comprehensive income		**1,649,011**	(1,331,309)
Purchase of debt instruments at amortised cost		**(500,000)**	–
Interest received		**112,062**	191,598
Dividends received from associates and joint ventures		**30,831**	129,999
Interests received from debt instruments at fair value through other comprehensive income		**82,696**	–
Dividends received from equity instruments at fair value through other comprehensive income		**1,916**	7,472
Net cash used in investing activities		**(4,452,783)**	(15,865,313)
Financing activities			
Capital contribution from a non-controlling shareholder of a subsidiary		**490,148**	–
New bank loans and other loans		**54,273,008**	63,607,615
Proceeds from issuance of corporate bonds and short-term commercial papers		**16,050,000**	29,700,000
Repayments of bank loans and other loans		**(38,535,887)**	(27,348,267)
Repayments of lease liabilities		**(15,082,110)**	(14,332,052)
Repayments of corporate bonds and short-term commercial papers		**(9,700,000)**	(34,000,000)
Dividends paid		**(26,549)**	(739,697)
Net cash from financing activities		**7,468,610**	16,887,599
Net increase/(decrease) in cash and cash equivalents		**10,146,300**	(2,994,587)
Cash and cash equivalents at 1 January	31	**5,837,998**	8,935,282
Effect of foreign exchange rate changes		**(49,585)**	(102,697)
Cash and cash equivalents at 31 December	31	**15,934,713**	5,837,998

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

1. CORPORATE INFORMATION

Air China Limited (the "Company") was established as a joint stock limited company in Beijing, the People's Republic of China (the "PRC"), on 30 September 2004. The Company's H shares are listed on The Stock Exchange of Hong Kong Limited (the "HKSE") and the London Stock Exchange (the "LSE") while the Company's A shares are listed on the Shanghai Stock Exchange. In the opinion of the directors of the Company (the "Directors"), the Company's parent and ultimate holding company is China National Aviation Holding Corporation Limited ("CNAHC"), a PRC state-owned enterprise under the supervision of the State Council.

The principal activities of the Company and its subsidiaries (together referred to as the "Group") are provision of airline and airline-related services, including aircraft engineering services and airport ground handling services.

The registered office of the Company is located at 1st Floor – 9th Floor 101, Building 1, 30 Tianzhu Road, Shunyi District, Beijing 101312, the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which most of the group entities operate (the functional currency of the Company and most of the entities comprising the Group), and all values are rounded to the nearest thousand ('000) unless otherwise indicated.

2. BASIS OF PREPARATION

As at 31 December 2021, the Group's current liabilities exceeded its current assets by approximately RMB61,223 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilised bank facilities of RMB113,477 million as at 31 December 2021, the Directors believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements when preparing the consolidated financial statements for the year ended 31 December 2021. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("Companies Ordinance").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. If there is assets impairment, the corresponding impairment will be made in accordance with relevant accounting policies.

2. BASIS OF PREPARATION (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16 *Leases,* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. APPLICATION OF AMENDMENTS TO IFRSS

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group has early applied the Amendment to IFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021.*

3. APPLICATION OF AMENDMENTS TO IFRSS (continued)

The Group also applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts on application of Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures*.

As at 1 January 2021, the Group has certain lease liabilities denominated in United States Dollar ("USD") amounting to RMB10,678 million and lease liabilities denominated in Japanese Yen ("JPY") amounting to RMB830 million, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for lease liabilities. Additional disclosures as required by IFRS 7 are set out in Note 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2021

3. APPLICATION OF AMENDMENTS TO IFRSS (continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts and the related Amendments*[2]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts-Cost of Fulfilling a Contract*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2018-2020*[1]

[1] Effective for annual periods beginning on or after 1 January 2022.
[2] Effective for annual periods beginning on or after 1 January 2023.
[3] Effective for annual periods beginning on or after a date to be determined.

The Directors anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. Appropriate adjustments have been made to conform the associates' and the joint ventures' accounting policies to those of the Group if these accounting policies differ from those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9 *Financial instruments*, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group maintains complex IT systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme awards. The amount allocated to the miles earned by the frequent-flyer programme members is deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire.

For contracts that contain more than one performance obligations, i.e. frequent-flyer programme, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and overhaul costs

In respect of aircraft and engines, costs of major overhauls are recognised in the carrying amount of the property, plant and equipment or right-of-use asset as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

The Group has the responsibility to fulfil certain return conditions under the relevant leases agreements. In order to fulfil these return conditions, major overhauls are required to be conducted. Accordingly, estimated overhaul costs for aircraft under leases are accrued and charged to the profit or loss over the lease terms using the ratios per flying hours/cycles. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul.

All other routine repair and maintenance costs incurred in restoring such property, plant and equipment and leased assets to their normal working condition are charged to the profit or loss as and when incurred.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19 related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Covid-19 related rent concessions (continued)

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group applies the requirements of IFRS 15 *Revenue from Contracts with Customers* to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as borrowings within the scope of IFRS 9.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the periods in which they become receivable.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs (continued)

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line items of administrative expenses and finance costs or finance income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. All short-term employee benefits are recognised as an expense unless another IFRS require or permits the inclusion of the benefits in the cost of an asset.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost or deemed cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of each item of investment property over its estimated useful life and after taking into account its estimated residual value, using straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less recognised impairment loss, if any. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation of overhaul components of engines is calculated using the units of production method based on the estimated flying hours. Depreciation for other property, plant and equipment is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives as well as the estimated flying hours, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an owner-occupied property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Non-current assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are recorded at cost on initial acquisition and subsequently stated at cost less accumulated amortisation and impairment. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash- generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and other necessary costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial assets from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of capital reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amount of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the capital reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" line item.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including accounts receivable, bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, financial assets included in other current assets and other non-current assets and debt instruments at FVTOCI) and financial guarantee contracts which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk (continued)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on accounts receivable not credit-impaired using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

When collective assessment is performed, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for investments in debt instruments that are measured at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the capital reserve without reducing the carrying amounts of these debt instruments. Such amount represents the changes in the capital reserve in relation to accumulated loss allowance.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the capital reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected to measure at FVTOCI upon initial recognition/application of IFRS 9, the cumulative gain or loss previously accumulated in the capital reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments (treasury shares) is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities (including accounts payable, bills payable, dividends payable, other payables, interest-bearing borrowings and long-term payables) are subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of the future cash flows or upward revision of discount rate, a further impairment loss may rise.

As at 31 December 2021, the carrying amount of goodwill was RMB1,100 million (2020: RMB1,100 million) (net of impairment). Details of the recoverable amount calculation are disclosed in Note 21.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets with indefinite life are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be fully recoverable. If any such indication exists, the recoverable amount of the individual asset or the cash-generating unit to which the asset belongs is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of the individual asset or the cash-generating unit is determined based on the higher of fair value less costs of disposal and value in use.

In estimating the aforesaid recoverable amount of the individual asset or the cash-generating unit, management consider all relevant factors, including but not limited to the future cash flows and discount rate with reasonable and supportable assumptions to make significant accounting estimations and judgement.

The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

During the year, the Group recognised impairment loss of approximately RMB292.5 million for certain aircrafts included in property, plant and equipment that will be retired. As at 31 December 2021, the aggregate carrying amount of property, plant and equipment, right-of-use assets, investment properties, intangible assets, interests in associates and interests in joint ventures was RMB233,243 million (2020: RMB229,043 million). Details of these items are set out in Notes 17, 18, 19, 20, 23 and 24.

Overhaul provisions

Overhaul provisions for aircraft under leases are accrued using the estimated maintenance costs for aircraft to fulfil these return conditions. Management estimates the maintenance costs of major overhauls for aircraft held under leases at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. Different estimates could significantly affect the estimated overhaul provision and the results of operations.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Overhaul provisions (continued)

As at 31 December 2021, overhaul provisions of the Group amounted to RMB6,373 million (2020: RMB6,011 million) and details are disclosed in Note 38.

Frequent-flyer programme

The transaction price allocated to the miles earned by the members of the Group's frequent-flyer programme is estimated based on the stand-alone selling price of the miles awarded. The stand-alone selling price of the miles awarded is estimated relating to the expected redemption rate. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for miles which are not expected to be redeemed. Any change in estimate would affect profit or loss in future years.

As at 31 December 2021, the contract liabilities related to frequent-flyer programme was RMB2,706 million (2020: RMB3,093 million) and details are disclosed in Note 39.

Expected breakage

For those passenger flight tickets the Group expects to be entitled to breakage because the passenger has not required the Group to perform and is unlikely to do so, the Group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. The air traffic liabilities recorded in consolidated statement of financial position is after adjusting the effect of expected breakage.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In cases where the actual future profits generated are less or more than expected, or effective tax rate is changed, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such change takes places.

As at 31 December 2021, deferred tax assets of RMB9,757 million (2020: RMB6,751 million) in relation to deductible temporary differences and tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the deductible tax losses of RMB7,919 million (2020: RMB500 million) and other deductible temporary differences of RMB0.5 million (2020: RMB0.2 million) due to the unpredictability of the future streams and details are disclosed in Note 27.

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6. REVENUE

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	**74,244,919**	69,244,930
Rental income (included in revenue of airline operations segment)	**286,751**	258,819
Total revenue	**74,531,670**	69,503,749

Disaggregation of revenue from contracts with customers

	2021		2020	
Segments	Airline operations RMB'000	Other operations RMB'000	Airline operations RMB'000	Other operations RMB'000
Type of goods or services				
Airline operations				
Passenger	**58,316,695**	–	55,726,862	–
Cargo and mail	**11,113,288**	–	8,553,407	–
Ground service income	**202,812**	–	239,713	–
Others	**1,364,285**	–	1,565,162	–
	70,997,080	–	66,085,144	–
Other operations				
Aircraft engineering income	–	**2,901,247**	–	2,771,588
Others	–	**346,592**	–	388,198
	–	**3,247,839**	–	3,159,786
Total	**70,997,080**	**3,247,839**	66,085,144	3,159,786
Geographical markets				
Mainland China	**57,299,361**	**3,247,839**	48,535,069	3,159,786
Hong Kong, Special Administrative Region ("SAR"), Macau SAR and Taiwan, China	**1,172,112**	–	1,032,767	–
International	**12,525,607**	–	16,517,308	–
Total	**70,997,080**	**3,247,839**	66,085,144	3,159,786

Performance obligations for contracts with customers

Passenger revenue is recognised when transportation services are provided. Besides, the Group recognises the expected breakage amount as passenger revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue) based on historical experience. Ticket sales for transportation not yet provided are recorded in air traffic liabilities.

6. REVENUE (continued)

Performance obligations for contracts with customers (continued)

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The amount allocated to the miles earned by the frequent-flyer programme members is recorded in contract liabilities and deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire. During the year, the Group recognised revenue of RMB1,486 million (2020: RMB1,537 million) which was included in contract liabilities in relation to frequent-flyer programme at the beginning of the year.

Cargo and mail revenue is recognised when transportation services are provided.

Revenue from other airline-related services is recognised when the related performance obligations are satisfied.

Sale of goods is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer.

Transaction price allocated to the remaining performance obligation for contracts with customers

The customer loyalty points in frequent-flyer programme have a three-year term and these points can be redeemed anytime at customers' discretion during the valid period.

7. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. The Group has the following reportable operating segments:

(a) the "airline operations" segment which mainly comprises the provision of air passenger and air cargo services; and

(b) the "other operations" segment which comprises the provision of aircraft engineering and other airline-related services.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Operating segments

The following tables present the Group's consolidated revenue and loss before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2021 and 2020 and the reconciliations of reportable segment revenue and loss before taxation to the Group's consolidated amounts under IFRSs:

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2021

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	**71,283,831**	**3,247,839**	**–**	**74,531,670**
Inter-segment sales	**166,623**	**5,846,246**	**(6,012,869)**	**–**
Revenue for reportable segments under CASs and IFRSs	**71,450,454**	**9,094,085**	**(6,012,869)**	**74,531,670**
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	**(21,687,315)**	**(93,034)**	**(54,690)**	**(21,835,039)**
Effect of differences between IFRSs and CASs				**9,509**
Loss before taxation for the year under IFRSs				**(21,825,530)**

Year ended 31 December 2020

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	66,343,963	3,159,786	–	69,503,749
Inter-segment sales	171,659	6,406,908	(6,578,567)	–
Revenue for reportable segments under CASs and IFRSs	66,515,622	9,566,694	(6,578,567)	69,503,749
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	(18,129,295)	(62,012)	(283,213)	(18,474,520)
Effect of differences between IFRSs and CASs				8,114
Loss before taxation for the year under IFRSs				(18,466,406)

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2021 and 2020 and the reconciliations of reportable segment assets, liabilities and other information to the Group's consolidated amounts under IFRSs:

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment assets				
Total assets for reportable segments as at 31 December 2021 under CASs	283,966,030	30,399,066	(15,949,944)	298,415,152
Effect of differences between IFRSs and CASs				(33,962)
Total assets under IFRSs				298,381,190
Total assets for reportable segments as at 31 December 2020 under CASs	276,189,234	21,125,795	(13,244,319)	284,070,710
Effect of differences between IFRSs and CASs				(41,094)
Total assets under IFRSs				284,029,616

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Segment liabilities				
Total liabilities for reportable segments as at 31 December 2021 under CASs and IFRSs	224,449,461	23,710,137	(15,609,519)	232,550,079
Total liabilities for reportable segments as at 31 December 2020 under CASs and IFRSs	198,629,828	14,553,683	(12,926,931)	200,256,580

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For the Year Ended 31 December 2021

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2021

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of (losses)/profit of associates and joint ventures	**(1,106,530)**	**290,736**	**–**	**(815,794)**	**–**	**(815,794)**
Impairment losses reversed/ (recognized) on financial assets	**169,463**	**(15,185)**	**8,870**	**163,148**	**–**	**163,148**
Impairment losses recognised on non-financial assets	**302,661**	**34,773**	**–**	**337,434**	**–**	**337,434**
Depreciation and amortisation	**20,668,858**	**408,365**	**(131,171)**	**20,946,052**	**(11,550)**	**20,934,502**
Income tax (credit)/expense	**(2,983,013)**	**(16,140)**	**(6,516)**	**(3,005,669)**	**2,377**	**(3,003,292)**
Interests in associates and joint ventures	**10,078,844**	**2,067,736**	**(65,489)**	**12,081,091**	**139,919**	**12,221,010**
Additions to non-current assets	**24,007,672**	**531,694**	**(14,077)**	**24,525,289**	**–**	**24,525,289**

Year ended 31 December 2020

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000	Effect of differences between IFRSs and CASs RMB'000	Amounts under IFRSs RMB'000
Other segment information						
Share of (losses)/profit of associates and joint ventures	(6,146,027)	152,876	–	(5,993,151)	–	(5,993,151)
Impairment losses reversed on financial assets	9,351	73,780	9,467	92,598	–	92,598
Impairment losses recognised on non-financial assets	443,373	32,241	–	475,614	–	475,614
Depreciation and amortisation	20,123,001	427,606	(127,810)	20,422,797	(14,480)	20,408,317
Income tax (credit)/expense	(2,639,082)	7,353	(20,574)	(2,652,303)	2,028	(2,650,275)
Interests in associates and joint ventures	10,636,087	1,803,195	(59,668)	12,379,614	139,919	12,519,533
Additions to non-current assets	18,799,950	261,633	(92,187)	18,969,396	–	18,969,396

7. SEGMENT INFORMATION (continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2021 and 2020, respectively:

Year ended 31 December 2021

	Mainland China RMB'000	Hong Kong SAR, Macau SAR and Taiwan, China RMB'000	International RMB'000	Total RMB'000
Sales to external customers and total revenue	**60,833,951**	**1,172,112**	**12,525,607**	**74,531,670**

Year ended 31 December 2020

	Mainland China RMB'000	Hong Kong SAR, Macau SAR and Taiwan, China RMB'000	International RMB'000	Total RMB'000
Sales to external customers and total revenue	51,953,674	1,032,767	16,517,308	69,503,749

In determining the Group's geographical information, revenue is attributed to the segments based on the origin or destination of each flight. Assets, which consist principally of aircraft and ground equipment, supporting the Group's worldwide transportation network, are mainly registered/located in Mainland China. According to the business demand, the Group needs to flexibly allocate different aircraft to match the need of the route network. An analysis of the assets of the Group by geographical distribution has therefore not been included.

Revenue from transactions with CNAHC and its subsidiaries (other than the Group) amounted to 16% of the Group's revenue during the year ended 31 December 2021, which is the only single customer with revenue from transactions amounted to 10% or more of the Group's revenue.

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For the Year Ended 31 December 2021

8. OTHER INCOME AND GAINS

	2021 RMB'000	2020 RMB'000
Co-operation routes income and subsidy income	**3,840,535**	4,076,199
Dividend income	**4,904**	8,034
Gain/(loss) on disposal of		
– Property, plant and equipment	**37,593**	38,943
– Right-of-use assets	**–**	348
– Equity instruments at fair value through other comprehensive income	**408**	–
Loss arising on financial assets at fair value through profit or loss	**(404)**	–
Others	**187,726**	233,422
	4,070,762	4,356,946

9. EMPLOYEE COMPENSATION COSTS

An analysis of the Group's employee compensation costs, including the emoluments of Directors and supervisors, is as follows:

	2021 RMB'000	2020 RMB'000
Wages, salaries and other benefits	**21,396,711**	20,338,486
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**2,833,298**	1,674,117
– Early retirement benefits	**62**	231
	24,230,071	22,012,834

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specific percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits.

In addition to the above benefits scheme, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of the Group's salaries and recognised in profit or loss as expense in profit or loss when incurred.

There were no forfeited contributions in respect of the Group's defined contribution plan as mentioned above.

10. NET IMPAIRMENT LOSS REVERSED UNDER EXPECTED CREDIT LOSS MODEL

	2021 RMB'000	2020 RMB'000
Impairment losses recognised/(reversed) on financial assets:		
– Accounts receivable	**5,915**	(73,882)
– Deposits and other receivables	**(170,783)**	2,508
– Debt instruments at FVTOCI	**(10,647)**	7,637
– Financial assets included in other current assets	**6,812**	(25,687)
– Financial assets included in other non-current assets	**–**	(4,155)
– Others	**5,555**	981
	(163,148)	(92,598)

Details of impairment assessment are set out in Note 45.

11. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	2021 RMB'000	2020 RMB'000
Depreciation of property, plant and equipment	**9,259,782**	9,168,355
Depreciation of right-of-use assets	**11,649,695**	11,214,630
Depreciation of investment properties	**24,961**	25,302
Amortisation of intangible assets	**64**	30
Total depreciation and amortisation	**20,934,502**	20,408,317
Impairment losses recognised on property, plant and equipment (Note 17)	**292,562**	439,656
Impairment losses recognised on intangible assets (Note 20)	**750**	–
Impairment losses recognised on inventories	**44,122**	35,958
Auditors' remuneration:		
– Audit related services	**18,017**	18,660
– Other services	**1,581**	435

12. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on interest-bearing borrowings	**2,464,834**	1,848,869
Interest on lease liabilities	**3,302,207**	3,694,546
Imputed interest expenses on defined benefit obligations	**7,749**	8,163
	5,774,790	5,551,578
Less: Interest capitalised	**(279,738)**	(451,793)
	5,495,052	5,099,785

The interest capitalisation rates during the year ranged from 1.75% to 4.41% (2020: 1.9% to 4.41%) per annum relating to the costs of related borrowings during the year.

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, was as follows:

	2021 RMB'000	2020 RMB'000
Directors' fee	**410**	465
Salaries and other allowances	**2,113**	1,041
Discretionary bonus	**806**	663
Retirement benefit scheme contributions	**203**	113
	3,532	2,282

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

2021

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Song Zhiyong (Note (a))	–	–	–	–	–
Ma Chongxian (Note (a)) (Appointed on 31 May 2021)	–	–	–	–	–
Non-executive directors					
Patrick Healy (Note (b))	–	–	–	–	–
Xue Yasong	–	418	366	44	828
Feng Gang (Note (a))	–	–	–	–	–
	–	418	366	44	828
Independent non-executive directors					
Wang Xiaokang (Resigned on 9 February 2021)	10	–	–	–	10
Stanley Hui Hon-chung	200	–	–	–	200
Li Dajin	200	–	–	–	200
Duan Hongyi	–	–	–	–	–
	410	–	–	–	410
Supervisors					
Zhao Xiaohang (Note (a))	–	–	–	–	–
He Chaofan (Note (a))	–	–	–	–	–
Lyu Yanfang	–	481	117	53	651
Wang Jie	–	624	180	53	857
Qin Hao	–	590	143	53	786
	–	1,695	440	159	2,294
	410	2,113	806	203	3,532

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13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

2020

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive director					
Song Zhiyong (Note (a))	–	–	–	–	–
Non-executive directors					
Patrick Healy (Note (b))	–	–	–	–	–
Xue Yasong	–	476	527	54	1,057
Feng Gang (Note (a)) (Appointed on 26 May 2020)	–	–	–	–	–
Cai Jianjiang (Note (a)) (Resigned on 29 December 2020)	–	–	–	–	–
	–	476	527	54	1,057
Independent non-executive directors					
Wang Xiaokang	60	–	–	–	60
Stanley Hui Hon-chung	200	–	–	–	200
Li Dajin	200	–	–	–	200
Duan Hongyi (Appointed on 26 May 2020)	–	–	–	–	–
Liu Deheng (Resigned on 21 January 2020)	5	–	–	–	5
	465	–	–	–	465
Supervisors					
Zhao Xiaohang (Note (a))	–	–	–	–	–
He Chaofan (Note (a))	–	–	–	–	–
Lyu Yanfang (Note(a)) (Appointed on 30 October 2020)	–	–	–	–	–
Wang Jie (Appointed on 25 September 2020)	–	166	44	13	223
Qin Hao (Appointed on 25 September 2020)	–	147	33	13	193
Li Guixia (Resigned on 25 September 2020)	–	252	59	33	344
Xiao Yanjun (Note (a)) (Resigned on 25 September 2020)	–	–	–	–	–
	–	565	136	59	760
	465	1,041	663	113	2,282

13. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (continued)

Notes:

(a) These directors or supervisors did not receive any remuneration for their services in the capacity of the directors or supervisors of the Company. They also held management positions in CNAHC and salaries were borne by CNAHC.

(b) These directors did not receive any remuneration for their services in the capacity of the directors. They also held management positions in Cathay Pacific Airways Limited ("Cathay Pacific"), the associate of the Group, and salaries were borne by Cathay Pacific.

(c) None of the directors, supervisors and chief executive (Mr. Song Zhiyong) has waived any emoluments during the years ended 31 December 2021 and 2020.

(d) For the year ended 31 December 2021, the Group received cash consideration from Cathay Pacific of Hong Kong Dollar ("HKD") 2,418,000 for making available directors' services to Cathay Pacific (2020: HKD2,672,000).

Five highest paid individuals

For both 2021 and 2020, the five highest paid employees were not directors, supervisors nor chief executive of the Group.

Details of the remuneration of the five highest paid individuals during the year were as follows:

	2021 **RMB'000**	2020 RMB'000
Salaries and other allowances	**10,054**	9,950
Discretionary bonuses	**133**	187
Retirement benefit scheme contributions	**182**	130
	10,369	10,267

Discretionary bonuses are calculated based on the Group's or respective member's performance for such financial year.

The number of the five highest paid individuals whose remuneration fell within the following bands is as follows:

	2021	2020
HKD2,000,001 to HKD2,500,000	**2**	5
HKD2,500,001 to HKD3,000,000	**3**	–
	5	5

During the year, no emoluments were paid by the Group to any of the directors, supervisors, chief executive, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2020: Nil).

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14. INCOME TAX CREDIT

	2021 RMB'000	2020 RMB'000
Current income tax:		
– Mainland China	**28,344**	23,894
– Hong Kong SAR and Macau SAR, China	**1,644**	326
(Over)/under-provision in respect of prior years	**(35,341)**	7,718
Deferred tax (Note 27)	**(2,997,939)**	(2,682,213)
	(3,003,292)	(2,650,275)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong SAR profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for two branches and three subsidiaries of the Company, and some branches of a subsidiary of the Company which are taxed at a preferential rate of 15% (2020: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2020: 25%) during the year. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 16.5% (2020: 8.25% and 16.5%) and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (2020: 12%).

In respect of majority of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for overseas airlines activities in the current and prior years.

14. INCOME TAX CREDIT (continued)

The taxation for the year can be reconciled to the loss before taxation per consolidated statement of profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Loss before taxation	**(21,825,530)**	(18,466,406)
Tax at the applicable tax rate of 25%	**(5,456,383)**	(4,616,602)
Preferential tax rates on income of group entities	**383,349**	304,015
Tax effect of share of results of associates and joint ventures	**247,210**	1,498,288
Tax effect of non-deductible expenses	**97,000**	48,931
Tax effect of non-taxable income	**(4,812)**	(8,133)
Tax effect of deductible temporary differences and tax losses not recognised	**1,808,606**	118,485
Tax effect of utilisation of tax losses and deductible temporary differences not recognised in prior years	**(42,921)**	(2,977)
(Over)/under-provision in respect of prior years	**(35,341)**	7,718
Income tax credit for the year	**(3,003,292)**	(2,650,275)

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to equity shareholders of the Company is based on the following data:

	2021 RMB'000	2020 RMB'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(16,635,178)**	(14,403,343)

	2021 '000	2020 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	**13,734,961**	13,734,961

The number of ordinary shares for the purpose of basic and diluted loss per share is calculated based on the number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding (Note 42(c)).

The Group had no potential dilutive ordinary shares in issue during both years.

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16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2021, nor has any dividend been proposed since the end of the reporting period.

Dividends for the shareholders of ordinary shares of the Company for the year ended 31 December 2019 of RMB645,192,000 were approved during 2020.

17. PROPERTY, PLANT AND EQUIPMENT

	Aircraft, engines and flight equipment RMB'000	**Buildings** RMB'000	**Other equipment** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
Cost					
At 1 January 2020	150,269,161	12,426,880	11,502,986	12,862,151	187,061,178
Additions	876,309	9,090	211,886	11,392,091	12,489,376
Transfer from construction in progress	5,670,677	230,541	387,829	(6,289,047)	–
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	2,180,463	–	–	–	2,180,463
Transfer to right-of-use assets	–	–	–	(4,728,612)	(4,728,612)
Transfer to investment properties	–	–	–	(5,579)	(5,579)
Disposals	(2,443,673)	(16,480)	(172,859)	–	(2,633,012)
Exchange realignment	(109,360)	–	(9,833)	–	(119,193)
At 31 December 2020	156,443,577	12,650,031	11,920,009	13,231,004	194,244,621
Additions	1,187,483	4,058	420,054	17,134,135	18,745,730
Transfer from construction in progress	2,924,342	1,828,768	608,004	(5,361,114)	–
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	1,010,679	–	–	–	1,010,679
Transfer from investment properties	–	4,699	–	–	4,699
Transfer to right-of-use assets	–	–	–	(11,651,605)	(11,651,605)
Transfer to assets held for sale	(3,477,249)	–	–	–	(3,477,249)
Disposals	(2,667,061)	(38,679)	(181,882)	–	(2,887,622)
Exchange realignment	(48,711)	–	(4,692)	–	(53,403)
At 31 December 2021	155,373,060	14,448,877	12,761,493	13,352,420	195,935,850

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Aircraft, engines and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation					
At 1 January 2020	(71,728,019)	(5,149,799)	(7,440,463)	–	(84,318,281)
Depreciation charge for the year	(8,040,603)	(418,740)	(709,012)	–	(9,168,355)
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	(910,760)	–	–	–	(910,760)
Eliminated on disposals	2,271,177	3,508	157,479	–	2,432,164
Exchange realignment	53,831	–	8,168	–	61,999
At 31 December 2020	(78,354,374)	(5,565,031)	(7,983,828)	–	(91,903,233)
Depreciation charge for the year	(8,106,372)	(448,018)	(705,392)	–	(9,259,782)
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	(545,076)	–	–	–	(545,076)
Transfer from investment properties	–	(1,170)	–	–	(1,170)
Transfer to assets held for sale	2,593,812	–	–	–	2,593,812
Eliminated on disposals	2,406,583	10,917	121,158	–	2,538,658
Exchange realignment	17,089	–	3,891	–	20,980
At 31 December 2021	(81,988,338)	(6,003,302)	(8,564,171)	–	(96,555,811)
Impairment					
At 1 January 2020	(584,465)	–	–	–	(584,465)
Recognised for the year (Note)	(439,656)	–	–	–	(439,656)
Eliminated on disposals	29,223	–	–	–	29,223
At 31 December 2020	(994,898)	–	–	–	(994,898)
Recognised for the year (Note)	(292,467)	–	(95)	–	(292,562)
Transfer to assets held for sale	549,553	–	–	–	549,553
Eliminated on disposals	162,480	–	95	–	162,575
At 31 December 2021	(575,332)	–	–	–	(575,332)
Net book value					
At 31 December 2021	72,809,390	8,445,575	4,197,322	13,352,420	98,804,707
At 31 December 2020	77,094,305	7,085,000	3,936,181	13,231,004	101,346,490

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: During the year, the Group recognised impairment loss amounting to approximately RMB292.5 million for certain aircraft that will unlikely return to service before they retire from service (2020: approximately RMB439.7 million for certain aircraft that were planned to be retired in 2021).

The above impairment provision refers to the difference between the recoverable amount of the asset and its book value. The recoverable amount is based on the fair value of the assets less disposal expenses. Among them, the fair value refers to agreed price of the contractual agreement or the evaluation value of the aircraft and related equipment by a third-party evaluation institution.

Depreciation of overhaul components of engines is calculated using the units of production method based on the estimated flying hours. The items of other property, plant and equipment, less their estimated residual value, if any, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum.

	Estimated useful life/flying hours	**Residual value**	**Depreciation rate per annum/per thousand hours**
Aircraft, engines and flight equipment:			
Core parts of airframe and engines	15 to 30 years	5%	3.17% – 6.33%
Overhaul of airframe and cabin refurbishment	5 to 12 years	Nil	8.33% – 20.00%
Overhaul components of engines	9 to 43 thousand hours	Nil	2.33% – 11.11%
Rotable	3 to 15 years	Nil	6.67% – 33.33%
Buildings	5 to 50 years	3%-5%	1.90% – 19.40%
Other equipment	3 to 20 years	Nil-5%	4.75% – 33.33%

As at 31 December 2021, the Group's aircraft and flight equipment, buildings and other equipment with an aggregate net book value of approximately RMB2,230 million (2020: RMB1,593 million) were pledged to secure certain bank loans of the Group (Note 37).

As at 31 December 2021, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB4,617 million (2020: RMB3,478 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Group's consolidated financial position as at 31 December 2021.

18. RIGHT-OF-USE ASSETS

	Aircraft and engines RMB'000	Land RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
Cost					
At 1 January 2020	166,436,927	3,219,946	1,693,976	172,797	171,523,646
Additions	2,864,993	3,504	253,746	9,246	3,131,489
Transfer from property, plant and equipment	4,725,726	–	–	2,886	4,728,612
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(2,180,463)	–	–	–	(2,180,463)
Reduction upon completion/ early termination of leases	(1,241,205)	(25,775)	(96,291)	(1,730)	(1,365,001)
Exchange adjustments	(277,991)	–	(10,598)	–	(288,589)
At 31 December 2020	170,327,987	3,197,675	1,840,833	183,199	175,549,694
Additions	6,522,528	–	913,925	207,804	7,644,257
Transfer from property, plant and equipment	11,651,605	–	–	–	11,651,605
Transfer from investment properties	–	62	–	–	62
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(1,010,679)	–	–	–	(1,010,679)
Lease modification	(987,558)	–	(364,984)	(19,299)	(1,371,841)
Exchange adjustments	(118,007)	–	(4,095)	–	(122,102)
At 31 December 2021	186,385,876	3,197,737	2,385,679	371,704	192,340,996
Accumulated depreciation					
At 1 January 2020	(50,918,510)	(670,663)	(537,978)	(19,995)	(52,147,146)
Depreciation charged for the year	(10,456,209)	(67,746)	(669,212)	(21,463)	(11,214,630)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	910,760	–	–	–	910,760
Reduction upon completion/ early termination of leases	1,226,946	6,266	77,334	401	1,310,947
Exchange adjustments	123,972	–	6,083	–	130,055

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18. RIGHT-OF-USE ASSETS (continued)

	Aircraft and engines RMB'000	Land RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
At 31 December 2020	(59,113,041)	(732,143)	(1,123,773)	(41,057)	(61,010,014)
Depreciation charged for the year	(11,066,632)	(68,854)	(480,147)	(34,062)	(11,649,695)
Transfer from investment properties	–	(21)	–	–	(21)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	545,076	–	–	–	545,076
Lease modification	952,224	–	360,018	19,299	1,331,541
Exchange adjustments	50,595	–	1,776	–	52,371
At 31 December 2021	(68,631,778)	(801,018)	(1,242,126)	(55,820)	(70,730,742)
Net book value					
At 31 December 2021	117,754,098	2,396,719	1,143,553	315,884	121,610,254
At 31 December 2020	111,214,946	2,465,532	717,060	142,142	114,539,680

During the year, expense relating to short-term leases amounted to approximately RMB909 million (2020: RMB686 million), expense relating to leases of low-value assets, excluding short-term leases of low value assets, amounted to approximately RMB1 million (2020: RMB1 million).

Leases committed

As at 31 December 2021, the Group had future undiscounted lease payments under non-cancellable period of RMB330 million (2020: RMB1,386 million), which was not recognised as lease liabilities since leases have yet to be commenced.

During the year, total cash outflow for leases was RMB15,992 million (2020: RMB15,018 million).

Details of the lease maturity analysis of lease liabilities are set out in Notes 36 and 45.

As at 31 December 2021, the Group's land use rights, which are recorded as part of right-of-use assets and all located in Mainland China, with an aggregate carrying amount of approximately RMB26 million (2020: RMB27 million) were pledged to secure certain bank loans and other borrowings of the Group (Note 37).

As at 31 December 2021 and 2020, the Group had title certificates for all the land use rights acquired.

19. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Cost		
As at 1 January	**764,453**	779,134
Transfer from property, plant and equipment	**–**	5,579
Transfer to property, plant and equipment	**(4,699)**	–
Transfer to right-of-use assets	**(62)**	–
Decrease	**–**	(20,260)
As at 31 December	**759,692**	764,453
Accumulated depreciation		
As at 1 January	**(164,124)**	(141,148)
Depreciation for the year	**(24,961)**	(25,302)
Transfer to property, plant and equipment	**1,170**	–
Transfer to right-of-use assets	**21**	–
Decrease	**–**	2,326
As at 31 December	**(187,894)**	(164,124)
Net carrying amount		
As at 31 December	**571,798**	600,329

20. INTANGIBLE ASSETS

	2021 RMB'000	2020 RMB'000
As at 1 January	**36,580**	36,610
Disposal	**(39)**	–
Amortisation for the year	**(64)**	(30)
Impairment	**(750)**	–
Cash refund upon admission of new Star Alliance members	**(297)**	–
As at 31 December	**35,430**	36,580

The Group's intangible assets mainly include the admission rights of the Company and Shenzhen Airlines Company Limited ("Shenzhen Airlines") to Star Alliance (the "Admission Rights"), which are stated at cost less impairment losses amounting to approximately RMB35 million as at 31 December 2021 (2020: approximately RMB35 million). The Admission Rights have an indefinite useful life due to their lasting legal and economic significance.

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21. GOODWILL

	2021 RMB'000	2020 RMB'000
Carrying amount		
As at 1 January and 31 December	**1,099,975**	1,099,975

Impairment testing of goodwill

For the purposes of impairment testing, goodwill acquired through business combinations has been allocated to Shenzhen Airlines cash-generating unit.

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rate of 12% (2020: 12.5%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Shenzhen Airlines' cash flows beyond the five-year period were extrapolated using a 2% (2020: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The recoverable amount is significantly above the carrying amount of Shenzhen Airlines cash-generating unit. The Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

22. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2021 and 31 December 2020 were as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong SAR, China	Limited liability company	HK$331,268,000	69	31	Investment holding
Air China Import and Export Co., Ltd.# (國航進出口有限公司)(Note(a))	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Aviation Service Co., Ltd.# (浙江航空服務有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai International Aviation Air Service Co., Ltd.# (上海國航航空服務有限公司) (Notes(a), (c))	PRC/Mainland China	Limited liability company	RMB2,000,000	–	–	Provision of ground service

22. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong SAR, China	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd.# (北京金鳳凰人力資源服務有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau SAR, China	Limited liability company	MOP2,242,042,000	–	66.9	Airline operator
Chengdu Falcon Aircraft Engineering Service Co., Ltd. # (成都富凱飛機工程服務有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	30	30	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB5,360,000,000	51	–	Airline operator
Kunming Airlines Co., Ltd.# (昆明航空有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines Co., Ltd. # (北京航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines Co., Ltd. # (大連航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB3,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd.# (中國國際航空內蒙古有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Aircraft Maintenance and Engineering Corporation ("AMECO") (北京飛機維修工程有限公司) (Note(b))	PRC/Mainland China	Limited liability company	US$300,052,800	75	–	Provision of aircraft overhaul and maintenance services
China National Aviation Finance Co., Ltd. ("CNAF") (中國航空集團財務有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	–	Provision of financial services

The English names of these companies are direct translations of their Chinese names.

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22. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(a) These companies are wholly-domestic owned enterprises.

(b) These companies are sino-foreign equity joint ventures.

(c) Shanghai International Aviation Air Service Co., Ltd completed its deregistration on 3 September 2021.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Information of debt securities, representing corporate bonds and short-term commercial papers, issued by a subsidiary of the Group:

As at 31 December 2021, the Company had a subsidiary which had outstanding issued debt securities as follows:

Name	**Face value of debt securities RMB'000**	**Carrying value of debt securities RMB'000**	**Maturity date**
Shenzhen Airlines	**500,000**	**513,912**	**05/02/2022**
	1,000,000	**1,029,464**	**18/03/2022**
	1,000,000	**1,027,397**	**26/04/2022**
	1,000,000	**1,023,027**	**23/05/2022**
	2,000,000	**2,035,841**	**04/06/2022**
	1,000,000	**1,024,401**	**05/03/2023**
	2,000,000	**2,022,970**	**23/08/2024**
		8,677,012	

As at 31 December 2020, the Company had a subsidiary which had outstanding issued debt securities as follows:

Name	Face value of debt securities RMB'000	Carrying value of debt securities RMB'000	Maturity date
Shenzhen Airlines	500,000	521,080	14/03/2021
	500,000	510,810	19/03/2021
	800,000	824,974	24/04/2021
	600,000	608,265	07/09/2021
	1,000,000	1,028,929	18/03/2022
	1,000,000	1,027,222	26/04/2022
	1,000,000	1,022,500	23/05/2022
	1,000,000	1,024,063	05/03/2023
		6,567,843	

22. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activity	Place of incorporation/ registration and operations	Number of principal subsidiaries 2021	2020
Airline operator	PRC/Macau SAR	**6**	6
Investment holding	Hong Kong SAR/BVI	**2**	2
Import and export trading	PRC	**1**	1
Provision of cabin service and airline catering	PRC	**1**	1
Provision of ground service	PRC	**–**	1
Provision of air ticketing service	Hong Kong SAR	**1**	1
Provision of human resources services	PRC	**1**	1
Provision of aircraft overhaul and maintenance services	PRC	**2**	2
Provision of financial services	PRC	**1**	1
		15	16

Details of non-wholly owned subsidiary that have material non-controlling interests

The table below shows the details of a non-wholly owned subsidiary of the Company that has material non-controlling interests:

Name of subsidiary	Place of registration and operations	Proportion of equity interests and voting rights held by non-controlling interests at 31 December		Loss allocated to non-controlling interests year ended 31 December		Accumulated non-controlling interests at 31 December	
		2021	2020	**2021 RMB'000**	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Shenzhen Airlines	PRC	**49%**	49%	**(1,785,914)**	(1,081,740)	**1,180,902**	2,991,480
Individually immaterial subsidiaries with non-controlling interests				**(401,146)**	(331,048)	**3,281,652**	3,240,229
Total				**(2,187,060)**	(1,412,788)	**4,462,554**	6,231,709

22. INTERESTS IN SUBSIDIARIES (continued)

Details of non-wholly owned subsidiary that have material non-controlling interests (continued)

Summarised financial information in respect of the Company's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group elimination. The summarised financial information below represents amounts shown in the subsidiary's financial statements prepared in accordance with IFRSs.

	Shenzhen Airlines	
	2021	2020
	RMB'000	RMB'000
Current assets	**4,783,241**	2,266,583
Non-current assets	**62,260,532**	61,551,957
Current liabilities	**(26,981,907)**	(24,638,535)
Non-current liabilities	**(37,457,985)**	(33,037,450)
Net assets	**2,603,881**	6,142,555
– Equity contributed to equity shareholders of Shenzhen Airlines	**2,790,155**	6,178,578
– Equity contributed to the non-controlling interests ("NCI") of Shenzhen Airlines' subsidiaries	**(186,274)**	(36,023)
Carrying amount of NCI	**1,180,902**	2,991,480
Revenue	**18,500,326**	17,394,252
Loss for the year	**(3,490,838)**	(2,133,420)
Total comprehensive expense	**(3,536,273)**	(2,147,294)
– attributable to equity shareholders of Shenzhen Airlines	**(3,388,423)**	(2,075,991)
– attributable to NCI of Shenzhen Airlines' subsidiaries	**(147,850)**	(71,303)
Dividend paid to NCI	**(2,400)**	(98,000)
Cash generated from operating activities	**2,156,595**	1,364,932
Cash used in investing activities	**(1,483,742)**	(1,004,598)
Cash from/(used in) financing activities	**1,739,780**	(1,026,268)

23. INTERESTS IN ASSOCIATES

	2021	2020
	RMB'000	RMB'000
Share of net assets		
– Listed shares in the PRC	**–**	–
– Listed shares in Hong Kong SAR, China	**7,128,872**	7,372,164
– Unlisted investments	**796,274**	976,857
Goodwill	**2,465,794**	2,589,407
As at 31 December	**10,390,940**	10,938,428
Market value of listed shares	**10,459,833**	12,207,958

23. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates of the Group as at 31 December 2021 and 31 December 2020 were as follows:

Company name	Place of incorporation/ registration and operations	Paid up issued/registered capital	Percentage of equity interests attributable to the Group %	Principal activities
Cathay Pacific * (國泰航空有限公司)	Hong Kong SAR, China	HK$28,822,000,000	29.99	Airline operator
Shandong Aviation Group Co., Ltd. (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd. (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau SAR, China	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance & Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Civil aircraft line maintenance
Chongqing Civil Aviation Cares Information Technology Co., Ltd. # (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB14,800,000	24.5	Provision of airline-related information system services
Chengdu Civil Aviation Southwest Cares Co., Ltd. # (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
Tibet Airlines Co., Ltd.# (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator
ZhengZhou Aircraft Maintenance and Engineering Co.,Ltd.# (郑州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	Provision of overhaul and maintenance services
Chongqing Air Catering Co., Ltd.# (重慶中航食品有限責任公司)	PRC/Mainland China	RMB80,000,000	6.25	Provision of airline catering service

* The equity interests of these associates are held indirectly through certain subsidiaries of the Company.

\# The English names of these companies are direct translations of their Chinese names.

23. INTERESTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Summarised financial information in respect of Cathay Pacific, the only individually material associate of the Group, and a reconciliation to the carrying amount in the consolidated financial statements, are set out below. The summarised financial information below represents amounts shown in the associate's financial statements.

Cathay Pacific

	2021 RMB'000	2020 RMB'000
Gross amounts of the associate's		
Current assets	**23,626,187**	23,201,490
Non-current assets	**137,136,048**	148,976,171
Current liabilities	**(35,267,176)**	(39,324,787)
Non-current liabilities	**(66,424,277)**	(71,193,486)
Equity	**59,070,782**	61,659,388
– Equity contributed to equity shareholders of the associate	**42,019,734**	45,244,041
– Equity contributed to preferred shareholders of the associate	**16,616,902**	16,411,980
– Equity contributed to NCI of the associate	**4,088**	3,367
– Equity contributed to convertible bond holders of the associate	**430,058**	–
Revenue	**37,819,887**	40,772,035
Loss for the year	**(4,584,480)**	(18,804,965)
Other comprehensive income	**3,308,525**	862,629
Total comprehensive expenses	**(1,275,955)**	(17,942,336)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**42,019,734**	45,244,041
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**12,601,718**	13,568,688
Elimination of reciprocal shareholding	**(5,472,846)**	(6,196,524)
Goodwill	**2,320,324**	2,388,549
Carrying amount in the consolidated financial statements	**9,449,196**	9,760,713

23. INTERESTS IN ASSOCIATES (continued)

Cathay Pacific (continued)

Aggregate information of associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**941,744**	1,177,715
Aggregate amounts of the Group's share of those associates'		
– Loss for the year	**(224,094)**	(1,039,558)
– Other comprehensive expense for the year	**(5,046)**	(81,202)
– Total comprehensive expense for the year	**(229,140)**	(1,120,760)

24. INTERESTS IN JOINT VENTURES

	2021 RMB'000	2020 RMB'000
Share of net assets	**1,823,575**	1,574,610
Goodwill	**6,495**	6,495
	1,830,070	1,581,105

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24. INTERESTS IN JOINT VENTURES (continued)

Particulars of the joint ventures of the Group at 31 December 2021 and 31 December 2020 were as follows:

Company name	Place of registration and operations	Paid up issued/ registered capital	Percentage of Ownership interest %	Profit sharing %	Principal activities
Shanghai Pudong International Airport Cargo Terminal Co., Ltd.# (上海浦東國際機場西區公共貨運站有限公司)	PRC/Mainland China	RMB680,000,000	39	39	Provision of cargo carriage services
Sichuan Services Aero-Engine Maintenance Co., Ltd.# (四川國際航空發動機維修有限公司)	PRC/Mainland China	US$88,000,000	60	60	Provision of engine overhaul and maintenance services
GA Innovation China Co., Ltd. # (北京集安航空資產管理有限公司)	PRC/Mainland China	US$10,000,000	50	50	Wholesale and import of aircraft and components
Shanghai International Airport Ground Service Co., Ltd. # (上海國際機場地面服務有限公司)	PRC/Mainland China	RMB360,000,000	24	24	Provision of airport ground handling services
Wuxi Xiangyi Development Co., Ltd.# (無錫市祥翼發展有限公司)	PRC/Mainland China	RMB20,000,000	46.3	46.3	Property development

The English names of these companies are the direct translations of their Chinese names.

The decisions about the relevant activities of the above investees require unanimous consent of the Group and other investors pursuant to the articles of association of these investees.

24. INTERESTS IN JOINT VENTURES (continued)

The Directors are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material are listed as follows:

	2021 RMB'000	2020 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	**1,830,070**	1,581,105
Aggregate amounts of the Group's share of those joint ventures' – Profit for the year	**272,965**	155,541
– Total comprehensive income for the year	**272,965**	155,541

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Unlisted investments: – Equity securities	**176,323**	233,180

The above unlisted equity investments represent the Group's equity interests in a number of private entities established in the PRC and certain interest in unlisted securities of a listed company. The Directors have elected to designate these investments in equity instruments at FVTOCI as they believe that these equity instruments are not held for trading and not expected to be sold in the foreseeable future.

26. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Investments in listed bonds	**1,373,634**	1,344,829

The above investments are held by the Group within a business model whose objective is both to collect their contractual cash flows which are solely payments of principal and interest on the principal amount outstanding and to sell these financial assets. Hence, these investments are classified as at debt instruments at FVTOCI.

Details of impairment assessment are set out in Note 45.

27. DEFERRED TAXATION

The movements in deferred tax assets and liabilities during the year were as follows:

	2021 RMB'000	2020 RMB'000
Deferred tax assets:		
As at 1 January	**8,179,742**	5,604,557
Credited to profit or loss (Note 14)	**2,909,931**	2,576,398
Exchange realignment	**(1,036)**	(1,213)
Gross deferred tax assets as at 31 December	**11,088,637**	8,179,742
Deferred tax liabilities:		
As at 1 January	**1,763,579**	1,873,545
Credited to profit or loss (Note 14)	**(88,008)**	(105,815)
Credited to other comprehensive income	**(15,968)**	(4,151)
Gross deferred tax liabilities as at 31 December	**1,659,603**	1,763,579
Net deferred tax assets as at 31 December	**9,429,034**	6,416,163

27. DEFERRED TAXATION (continued)

The principal components of the Group's deferred tax assets and liabilities were as follows:

	2021 RMB'000	2020 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**56,543**	58,920
Provisions and accruals	**3,326,843**	3,169,837
Unrealised profit of intra-group transactions	**198,248**	195,515
Impairment	**440,958**	414,705
Deductible tax losses	**6,076,172**	3,098,764
Impairment of investments in debt instruments at FVTOCI	**2,978**	5,640
Right-of-use assets and lease liabilities	**986,794**	1,236,361
Unrealised loss on derivative financial instruments	**101**	–
Gross deferred tax assets	**11,088,637**	8,179,742
Deferred tax liabilities:		
Changes in fair value of equity instruments at FVTOCI	**(34,899)**	(49,013)
Changes in fair value of debt instruments at FVTOCI	**(4,054)**	(3,246)
Depreciation allowances in excess of the related depreciation	**(1,341,399)**	(1,429,407)
Impairment of investments in debt instruments at FVTOCI	**(2,978)**	(5,640)
Others	**(276,273)**	(276,273)
Gross deferred tax liabilities	**(1,659,603)**	(1,763,579)
Net deferred tax assets	**9,429,034**	6,416,163

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets	**9,757,097**	6,750,883
Net deferred tax liabilities	**(328,063)**	(334,720)
	9,429,034	6,416,163

27. DEFERRED TAXATION (continued)

Details of tax losses and other deductible temporary differences not recognised are set out below:

	2021 RMB'000	2020 RMB'000
Deductible tax losses	**7,919,175**	500,376
Other unrecognised deductible temporary differences	**484**	232
	7,919,659	500,608

The Group's tax losses in the PRC are available for carrying forward to set off future assessable income for a maximum period of five or eight years. In accordance with the Notice of the Ministry of Finance on the Taxation Policy for supporting the prevention of pandemic of Covid-19 (No. 8, 2020) issued by the Ministry of Finance and the State Administration of Taxation in February 2020, the Company and certain subsidiaries of the Group fall within enterprises of difficult industries suffering from the epidemic in 2020, and the carry over period of their tax losses incurred in 2020 will be extended from five years to eight years. At the end of the reporting period, the Group has unused tax losses of approximately RMB32,224 million (2020: RMB12,895 million) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately RMB24,305 million (2020: RMB12,395 million) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately RMB7,919 million (2020: RMB500 million) which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised. Included in unrecognised tax losses are losses of approximately RMB7,897 million (2020: RMB488 million) with expiry dates as disclosed in the following table. Other tax losses may be carried forward indefinitely.

	2021 RMB'000	2020 RMB'000
2021	–	11,582
2022	**8,219**	8,219
2023	**445,810**	445,810
2024	**302,295**	2,451
2025	**18,689**	19,980
2026	**5,243,540**	–
2028	**1,878,358**	–
	7,896,911	488,042

28. INVENTORIES

An analysis of inventories as at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
Spare parts of flight equipment	**1,072,143**	1,089,743
Catering supplies	**82,534**	92,538
Equipment	**9,072**	8,836
Others	**886,533**	662,873
	2,050,282	1,853,990

29. ACCOUNTS RECEIVABLE

	2021 RMB'000	2020 RMB'000
Accounts receivable	**3,150,020**	3,102,328
Less: Allowance for expected credit losses	**(158,983)**	(159,529)
	2,991,037	2,942,799

The ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date, net of allowance for expected credit losses, was as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	**1,841,788**	1,270,198
31 to 60 days	**912,729**	488,965
61 to 90 days	**68,098**	259,396
Over 90 days	**168,422**	924,240
	2,991,037	2,942,799

Details of impairment assessment of accounts receivable are set out in Note 45.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period, net of impairment loss, was as follows:

	2021 RMB'000	2020 RMB'000
Manufacturers' credits	**639,348**	1,036,936
Prepayments of jet fuel	**66,756**	61,520
Other prepayments	**373,518**	359,717
Others	**–**	15,604
	1,079,622	1,473,777
Deposits and other receivables	**2,551,899**	2,438,694
	3,631,521	3,912,471

As at 31 December 2021, the impairment loss mainly consisted of the full provision for the amount due from Shenzhen Airlines Property Development Co., Ltd. of RMB298,438,000 (2020: RMB468,796,000). The decrease of impairment was due to the collection of RMB170,358,000 from Shenzhen Airlines Property Development Co., Ltd this year.

Details of impairment assessment of deposits and other receivables are set out in Note 45.

31. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Time deposits with banks	**223,818**	93,765
Bank and cash	**16,485,846**	6,481,478
Less: Restricted bank deposits (Note)	**(774,951)**	(737,245)
Cash and cash equivalents	**15,934,713**	5,837,998

Note: As at December 31 2021, the Group has restricted bank deposits amounting to RMB774,951,000 (2020: RMB737,245,000), which mainly contains deposits with the People's Bank of China by CNAF, restricted bank deposits against aircraft leases and others and bank deposits with a maturity for more than three months.

32. ASSETS HELD FOR SALE

	2021 RMB'000	2020 RMB'000
Assets held for sale	**333,884**	–

Assets held for sale consisted of aircraft of the Group that management entered into a contract to sell and expected to be sold within twelve months.

33. OTHER CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
The value added tax credit	**4,050,877**	2,682,245
Debt instruments at amortised cost	**500,000**	–
Debt instruments at FVTOCI	–	1,686,930
Loans to related parties	**80,000**	20,000
Others	**49,137**	56,241
	4,680,014	4,445,416
Impairment	**(7,422)**	(610)
	4,672,592	4,444,806

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at a rate of 3.5% (2020: 3.3%) per annum and the loans are repayable within one year.

Details of impairment assessment of other current assets are set out in Note 45.

34. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable as at the end of the reporting period was as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	**4,440,586**	4,674,784
31 to 60 days	**1,070,102**	1,394,258
61 to 90 days	**1,053,190**	1,385,660
Over 90 days	**6,026,897**	5,055,880
	12,590,775	12,510,582

The accounts payable are non-interest-bearing and have normal credit terms up to 90 days.

35. OTHER PAYABLES AND ACCRUALS

An analysis of other payables and accruals as at the end of the reporting period was as follows:

	2021 RMB'000	2020 RMB'000
Accrued salaries, wages and benefits	**3,610,772**	2,717,751
Payables for construction in progress	**1,496,416**	172,655
Other tax payables	**161,513**	160,933
Deposits received from sales agents	**367,250**	564,275
Current portion of long-term payables	**15,624**	28,449
Deposits received by CNAF from related parties	**11,336,605**	4,460,614
Others	**2,605,760**	3,073,251
	19,593,940	11,177,928

36. LEASE LIABILITIES

The Group has obligations under lease agreements expiring during the years from 2022 to 2033 (2020: from 2021 to 2033). An analysis of the lease payments as at the end of the reporting period, together with the present values of the lease payments which are principally denominated in foreign currencies, is as follows:

	At 31 December 2021		At 31 December 2020	
	Lease payments RMB'000	Present values of lease payments RMB'000	Lease payments RMB'000	Present values of lease payments RMB'000
Amounts repayable				
– Within 1 year	**17,511,588**	**14,534,309**	16,632,893	13,560,862
– After 1 year but within 2 years	**16,940,172**	**14,468,929**	15,824,712	13,160,310
– After 2 years but within 5 years	**41,151,717**	**36,603,375**	41,987,455	36,749,314
– After 5 years	**26,984,463**	**25,274,747**	27,801,689	26,189,054
Total	**102,587,940**	**90,881,360**	102,246,749	89,659,540
Less: Amounts representing future finance costs	**(11,706,580)**		(12,587,209)	
Present values of lease payments	**90,881,360**		89,659,540	
Less: Portion classified as current liabilities	**(14,534,309)**		(13,560,862)	
Non-current portion	**76,347,051**		76,098,678	

The weighted average incremental borrowing rates applied to lease liabilities ranged from 0.37% to 4.90% per annum at 31 December 2021 (2020: from 0.27% to 5.22%).

Under the terms of certain lease agreements, the Group has the option to purchase these aircraft at the end of or during the lease term, at the price as stipulated in the lease agreements.

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37. INTEREST-BEARING BORROWINGS

	2021 RMB'000	2020 RMB'000
Bank loans and other borrowings:		
– Secured	**1,560,835**	2,023,792
– Unsecured	**66,528,013**	50,359,853
	68,088,848	52,383,645
Corporate bonds and short-term commercial papers:		
– Secured	**6,773,180**	6,773,214
– Unsecured	**18,459,894**	12,112,603
	25,233,074	18,885,817
	93,321,922	71,269,462

	2021 RMB'000	2020 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year or payable on demand	**24,468,380**	31,242,946
– After 1 year but within 2 years	**20,840,886**	733,833
– After 2 years but within 5 years	**22,626,486**	20,175,216
– After 5 years	**153,096**	231,650
	68,088,848	52,383,645
Corporate bonds and short-term commercial papers repayable:		
– Within 1 year	**15,733,495**	8,387,419
– After 1 year but within 2 years	**7,476,609**	2,999,157
– After 2 years but within 5 years	**2,022,970**	7,499,241
	25,233,074	18,885,817
Total interest-bearing borrowings	**93,321,922**	71,269,462
Less: Portion classified as current liabilities	**(40,201,875)**	(39,630,365)
Non-current portion	**53,120,047**	31,639,097

37. INTEREST-BEARING BORROWINGS (continued)

Bank and other borrowings denominated in currencies other than the functional currencies of respective entities are set out below:

	2021 RMB'000	2020 RMB'000
United State Dollar ("USD")	**1,464,616**	532,013
European Dollar ("EURO")	**111,716**	648,209
HKD	**368,619**	42,178
Macau Pataca ("MOP")	–	164,539
	1,944,951	1,386,939

The carrying amount of the bank and other borrowings and the range of interest rates are as below:

	2021		2020	
	RMB'000	%	RMB'000	%
Fixed rate bank and other borrowings	**49,849,416**	**1.30-4.38**	38,204,596	1.50-4.38
Fixed rate corporate bonds and short-term commercial papers	**25,233,074**	**2.34-5.30**	18,885,817	1.95-5.30
Floating rate bank and other borrowings	**18,239,432**	**2.66-4.65**	14,179,049	2.57-4.75
	93,321,922		71,269,462	

The floating rate bank and other borrowings are arranged at the interest rate based on benchmark interest rates of The People's Bank of China.

The nominal amount of the Group's bank loans and corporate bonds of approximately RMB8,334 million as at 31 December 2021 (2020: RMB8,797 million) were secured or guaranteed by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB2,230 million as at 31 December 2021 (2020: RMB1,593 million) (Note 17); and land use rights with an aggregate carrying amount of approximately RMB26 million as at 31 December 2021 (2020: RMB27 million) (Note 18);

(b) As at 31 December 2021, there is no pledge of its rights to collect cash flows in relation to Billing and Settlement Plan ("BSP") to secure bank loans (2020: RMB150 million);

(c) As at 31 December 2021, corporate bonds issued by the Group with a face value of RMB6,500 million (2020: RMB6,500 million) were guaranteed by CNAHC.

As at 31 December 2021, corporate bonds and short-term commercial papers with carrying amount of RMB8,677 million (2020: RMB6,568 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

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38. PROVISION FOR RETURN CONDITION CHECKS

Details of the movements in provision for return condition checks in respect of aircraft under leases at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
As at 1 January	**8,810,074**	8,407,746
Provision for the year	**1,196,797**	1,052,793
Utilisation during the year	**(622,025)**	(650,465)
As at 31 December	**9,384,846**	8,810,074
Less: Portion classified as current liabilities	**(801,235)**	(229,514)
Non-current portion	**8,583,611**	8,580,560

As at 31 December 2021, provision for major overhauls was RMB6,373 million (2020: RMB6,011 million). Provision for major overhauls is calculated based on a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

39. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Frequent-flyer programme (Note)	**2,706,173**	3,092,542
Others	**545,753**	452,403
	3,251,926	3,544,945
Analysed as:		
Current portion	**1,479,717**	1,280,102
Non-current portion	**1,772,209**	2,264,843
	3,251,926	3,544,945

39. CONTRACT LIABILITIES (continued)

Note:

The movements of the Group's frequent-flyer programme during the year were as follows:

	2021 RMB'000	2020 RMB'000
As at 1 January	**3,092,542**	3,453,557
Additions during the year	**1,099,211**	1,176,071
Recognised as revenue during the year	**(1,485,580)**	(1,537,086)
As at 31 December	**2,706,173**	3,092,542
Less: Portion classified as current liabilities	**(933,964)**	(827,699)
Non-current portion	**1,772,209**	2,264,843

40. DEFINED BENEFIT OBLIGATIONS

The liabilities recognised in the consolidated statement of financial position represent:

	2021 RMB'000	2020 RMB'000
Post-retirement benefit obligations	**242,920**	254,932
Less: current portion	**(24,584)**	(25,600)
Long-term portion	**218,336**	229,332

AMECO, a subsidiary of the Company, provides monthly retirement benefits for those staff who were retired before AMECO adopted its own enterprise annuity plan (the "Plan"). These retirement benefits are recognised as defined benefit obligations.

40. DEFINED BENEFIT OBLIGATIONS (continued)

Movements of the defined benefit obligations were set out as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	**254,932**	276,582
Remeasurement loss/(gain)	**5,787**	(3,265)
Interest cost	**7,749**	8,163
Payments	**(25,548)**	(26,548)
At 31 December	**242,920**	254,932
Less: current portion	**(24,584)**	(25,600)
Long-term portion	**218,336**	229,332

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2021 RMB'000	2020 RMB'000
Finance costs		
– Interest cost	**7,749**	8,163
Other comprehensive expense/(income)		
– Remeasurement loss/(gain)	**5,787**	(3,265)
Total defined benefit costs	**13,536**	4,898

The Plan exposes the Group to actuarial risks such as interest rate risk and longevity risk.

Interest rate risk — The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.

Longevity risk — The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2021 were carried out by an independent firm of actuaries, Ernst & Young (China) Advisory Limited. The present value of the defined benefit obligations, and the related past cost were measured using the projected unit credit method.

40. DEFINED BENEFIT OBLIGATIONS (continued)

Significant actuarial assumptions (expressed as weighted averages) are as follows:

	2021	2020
Discount rate	**2.85%**	3.20%
Average expected remaining life of eligible participants	**12.3 years**	12.8 years

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation decreases by 0.5%, the defined benefit obligations would increase by RMB9.2 million (2020: increase by RMB9.8 million).
- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB5.1 million (2020: increase by RMB5.2 million).

41. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants	**439,757**	379,747
Others	**104,626**	109,044
	544,383	488,791

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42. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2020		14,524,815	27,614,992	10,989,499	28,499,084	81,628,390
Total comprehensive expense for the year		–	(78,095)	–	(7,167,938)	(7,246,033)
Appropriation of statutory reserve funds	(ii)	–	–	–	–	–
Appropriation of discretionary reserve fund	(iii)	–	–	537,682	(537,682)	–
Dividends declared in respect of the previous year		–	–	–	(645,192)	(645,192)
As at 31 December 2020		14,524,815	27,536,897	11,527,181	20,148,272	73,737,165
Total comprehensive expense for the year		–	(3,858)	–	(13,252,578)	(13,256,436)
Appropriation of statutory reserve funds	(ii)	–	–	–	–	–
Others		–	3,637	–	(3,637)	–
As at 31 December 2021		14,524,815	27,536,676	11,527,181	6,892,057	60,480,729

Under the PRC Company Law and the Company's articles of association, profit after taxation as reported in the PRC statutory financial statements can only be distributed as dividends after allowances have been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory reserve fund of at least 10% of the after-tax profit, until the fund reaches 50% of the Company's registered capital (for the purpose of calculating transfers to reserves, profit after taxation would be the amount determined under CASs). The transfers to reserves should be made before any distribution of dividends to shareholders. The statutory reserve fund can be used to offset previous years' losses, if any, and part of the statutory reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company; and

42. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

(iii) allocations to the discretionary reserve fund approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. As at 31 December 2021, in accordance with the PRC Company Law, amount of approximately RMB11,527 million (2020: RMB11,527 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of future capitalisation issue. In addition, the Company had retained earnings of approximately RMB5,649million available for distribution as at 31 December 2021 (2020: RMB18,913 million), as determined in accordance with CASs.

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2021 and 31 December 2020 are as follows:

	Number of shares 2021	Nominal value 2021 RMB'000	Number of shares 2020	Nominal value 2020 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
– Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
– Tradable	**9,962,131,821**	**9,962,132**	9,962,131,821	9,962,132
	14,524,815,185	**14,524,815**	14,524,815,185	14,524,815

A shares rank pari passu, in all material respects, with H shares of the Company.

(c) Treasury shares

As at 31 December 2021, the Group owned 29.99% equity interest in Cathay Pacific (2020: 29.99%), which in turn owned 18.13% equity interest in the Company (2020: 18.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

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42. CAPITAL AND RESERVES (continued)

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratio as at the end of the reporting periods was as follows:

	2021 RMB'000	2020 RMB'000
Total liabilities	**232,550,079**	200,256,580
Total assets	**298,381,190**	284,029,616
Gearing ratio	**77.94%**	70.51%

43. CONTINGENT LIABILITIES

As at 31 December 2021, the Group had the following contingent liabilities:

Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

44. COMMITMENTS

(a) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**28,695,911**	38,456,252
– Buildings and others	**1,825,802**	2,564,193
Total capital commitments	**30,521,713**	41,020,445

(b) Investment commitments

The Group had the following amount of investment commitments as at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
– investment commitment to a joint venture	**22,315**	22,837

45. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Amortised cost:		
Accounts receivable	**2,991,037**	2,942,799
Deposits and other receivables	**2,551,899**	2,438,694
Deposits for aircraft under leases	**566,684**	615,537
Bills receivable	**3,591**	6,593
Loans to related parties	**73,795**	19,390
Debt instruments at amortised cost	**498,783**	–
Other non-current assets	**7,962**	8,227
Restricted bank deposits	**774,951**	737,245
Cash and cash equivalents	**15,934,713**	5,837,998
	23,403,415	12,606,483
Financial assets at FVTPL	**4,157**	–
Equity instruments at FVTOCI	**176,323**	233,180
Debt instruments at FVTOCI (including debt instruments at FVTOCI included in other current assets)	**1,373,634**	3,031,759
Financial liabilities		
Amortised cost:		
Accounts payable	**12,590,775**	12,510,582
Bills payable	**199,276**	62,570
Other payables	**15,402,329**	7,776,154
Interest-bearing borrowings	**93,321,922**	71,269,462
Dividends payable	**98,000**	98,000
	121,612,302	91,716,768
Lease liabilities	**90,881,360**	89,659,540

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies

The above table lists the Group's major financial instruments. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk, liquidity risk and risks arising from the interest rate benchmark reform. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) **Interest rate risk**

The Group is exposed to fair value interest rate risk which arises from lease liabilities and fixed rate bank and other borrowings (see Notes 36 and 37 for details).

In addition, the Group is exposed to cash flow interest rate risk which arises from floating rate bank and other borrowings, lease liabilities, restricted bank deposits and bank balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances, restricted bank deposits, floating rate bank and other borrowings and lease liabilities at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate are used which represent management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 50 basis points (2020: 50 basis points) higher/lower with all other variables held constant, the Group's post-tax loss for the year ended 31 December 2021 would increase/decrease by approximately RMB222,196,000 (2020: RMB207,744,000) taking into account the capitalisation of borrowing costs.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

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45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk

The Group's exposure to currency risk is attributable to cash and cash equivalents, accounts receivable, other receivables, accounts payable, other payables, lease liabilities and interest-bearing borrowings which are denominated in the currencies other than the functional currency of the relevant group entities. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**2,749,520**	3,157,561	**44,986,142**	50,759,652
EURO	**201,872**	75,765	**405,609**	1,317,565
HKD	**205,125**	156,701	**476,904**	60,511
JPY	**31,088**	24,573	**675,798**	903,179

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2020: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2020: 1%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% (2020: 1%) change in foreign currency rates. A positive number below indicates a decrease in the Group's post-tax loss, where functional currency of respective group entities had strengthened 1% (2020:1%) against the relevant foreign currency. For a 1% (2020: 1%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the post-tax loss for the year.

	Decrease in the Group's post-tax loss 2021 RMB'000	Decrease/(increase) in the Group's post-tax loss 2020 RMB'000
– if RMB strengthens against USD	**316,775**	357,016
– if RMB strengthens against EURO	**1,528**	9,314
– if RMB strengthens against HKD	**2,038**	(721)
– if RMB strengthens against JPY	**4,835**	6,590

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of financial guarantees provided by the Group disclosed in Note 43.

Account receivables of the Group mainly include receivables of sales of cargo space from Air China Cargo Co., Ltd., receivables from CNAHC and receivables from BSP agents (a clearing system between airlines and sales agents organised by the International Air Transportation Association). The balance due from above customers respectively amounted to approximately RMB1,588 million or 50% of accounts receivable, RMB384 million or 12% of accounts receivable, and RMB312 million or 10% of accounts receivable as at 31 December 2021 (2020: RMB1,456 million or 47% of accounts receivables, RMB403 million or 13% of accounts receivable, and RMB221 million or 7% of accounts receivable). The credit risk exposure to above customers and the remaining accounts receivable balance are monitored by the Group on an ongoing basis. In addition, the Group performs impairment assessment under ECL model on accounts receivable individually or based on provision matrix. The Group continues to pay attention to the credit risk and the balance of the above amounts.

In the opinion of management, the Group has no significant credit risk with BSP as the Group maintains long-term and stable business relationships with BSP with healthy repayment history.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

Other than the above mentioned concentration of credit risk, the Group does not have any other significant concentration of credit risk associated with financial assets and financial guarantees contracts.

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45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	12m or lifetime ECL	2021 Gross carrying amount RMB'000	2021 Subtotal RMB'000	2020 Gross carrying amount RMB'000	2020 Subtotal RMB'000
Financial assets at FVTOCI							
Investments in listed bonds	26	AAA	12m ECL	**1,373,634**		1,344,829	
Other current assets – debt instruments	33	AAA	12m ECL	**–**	**1,373,634**	1,686,930	3,031,759
Financial assets at amortised costs							
Accounts receivable	29	N/A	Lifetime ECL (provision matrix)	**3,009,598**		2,964,346	
			Credit-impaired	**140,422**	**3,150,020**	137,982	3,102,328
Deposits and other receivables	30	N/A	12m ECL	**2,521,917**		2,420,409	
			Lifetime ECL (not credit-impaired)	**49,173**		49,169	
			Credit-impaired	**638,538**	**3,209,628**	808,891	3,278,469
Deposits for aircraft under leases		N/A	12m ECL	**566,684**	**566,684**	615,537	615,537
Other non-current assets – other deposits		N/A	12m ECL	**7,962**	**7,962**	8,227	8,227
Bills receivable		N/A	12m ECL	**3,591**	**3,591**	6,593	6,593
Loans to related parties	33	N/A	12m ECL	**80,000**	**80,000**	20,000	20,000
Debt instruments	33	N/A	12m ECL	**500,000**	**500,000**	–	–
Restricted bank deposits	31	N/A	12m ECL	**774,951**	**774,951**	737,245	737,245
Cash and cash equivalents	31	N/A	12m ECL	**15,933,417**	**15,933,417**	5,833,538	5,833,538

Note:

For accounts receivable, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the ECL on these items by using a provision matrix. The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2021. Debtors with credit-impaired with gross carrying amounts of RMB140 million as at 31 December 2021 (2020: RMB138 million) were assessed individually.

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For deposits and other receivables, financial assets included in other current assets and other non-current assets, the Group measures the loss allowance equal to 12m ECL, unless when these has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

Gross carrying amount of accounts receivable using a provision matrix

	2021		2020	
Customer group	Loss rate	Accounts receivable RMB'000	Loss rate	Accounts receivable RMB'000
Ground service receivable	1%	20,777	1%	66,405
BSP international	1%	4,174	1%	1,282
Others	0.05%-4%	2,984,647	0.05%-4%	2,896,659
		3,009,598		2,964,346

The estimated loss rates are estimated based on historical loss rates of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The following table shows the movements in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2020	36,231	208,320	244,551
Transfer to credit-impaired	(968)	968	–
Impairment losses recognised	–	19,667	19,667
Impairment losses reversed	(13,528)	(80,021)	(93,549)
Write-offs	–	(10,952)	(10,952)
Exchange adjustments	(188)	–	(188)
As at 31 December 2020	21,547	137,982	159,529
Transfer to credit-impaired	(884)	884	–
Impairment losses recognised	1,980	10,104	12,084
Impairment losses reversed	(4,016)	(2,153)	(6,169)
Write-offs	–	(6,395)	(6,395)
Exchange adjustments	(66)	–	(66)
As at 31 December 2021	18,561	140,422	158,983

Notes to the Consolidated Financial Statements

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45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Gross carrying amount of accounts receivable using a provision matrix (continued)

The following table shows reconciliation of loss allowances that has been recognised for deposits and other receivables.

	12m ECL RMB'000	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL (credit–impaired) RMB'000	Total RMB'000
As at 1 January 2020	24,639	5,069	808,891	838,599
Transfer to credit-impaired	(1,303)	(16)	1,319	–
Net impairment losses recognised	2,488	20	–	2,508
Write-offs	–	–	(1,319)	(1,319)
Exchange adjustments	(13)	–	–	(13)
As at 31 December 2020	25,811	5,073	808,891	839,775
Transfer to credit-impaired	(11,255)	–	11,255	–
Net impairment losses reversed	(431)	–	(170,352)	(170,783)
Write-offs	–	–	(11,256)	(11,256)
Exchange adjustments	(7)	–	–	(7)
As at 31 December 2021	14,118	5,073	638,538	657,729

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings to ensure compliance with loan covenants.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its financial obligations as and when they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB175,405 million as at 31 December 2021 (2020: RMB174,669 million), of which an amount of approximately RMB61,928 million was utilised (2020: RMB52,427 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2021. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

45. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2021								
Accounts payable	12,590,775	–	–	–	–	–	12,590,775	12,590,775
Bills payable	199,276	–	–	–	–	–	199,276	199,276
Other payables	15,402,329	–	–	–	–	–	15,402,329	15,402,329
Lease liabilities	17,511,588	16,940,172	15,889,614	13,778,550	11,483,553	26,984,463	102,587,940	90,881,360
Interest-bearing borrowings	42,265,384	30,062,186	24,642,416	268,847	331,302	253,305	97,823,440	93,321,922
Dividends payables	98,000	–	–	–	–	–	98,000	98,000
	88,067,352	47,002,358	40,532,030	14,047,397	11,814,855	27,237,768	228,701,760	212,493,662

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020								
Accounts payable	12,510,582	–	–	–	–	–	12,510,582	12,510,582
Bills payable	62,570	–	–	–	–	–	62,570	62,570
Other payables	7,776,154	–	–	–	–	–	7,776,154	7,776,154
Lease liabilities	16,632,893	15,824,712	14,776,804	14,401,389	12,809,262	27,801,689	102,246,749	89,659,540
Interest-bearing borrowings	40,964,343	4,853,865	28,247,879	200,638	133,016	240,666	74,640,407	71,269,462
Dividends payables	98,000	–	–	–	–	–	98,000	98,000
	78,044,542	20,678,577	43,024,683	14,602,027	12,942,278	28,042,355	197,334,462	181,376,308

45. FINANCIAL INSTRUMENTS (continued)

c. Interest rate benchmark reform

As listed in Note 36, several of the Group's lease liabilities denominated based on LIBOR will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

Progress towards implementation of alternative benchmark interest rates

The Group is planning to transition the majority of its LIBOR-linked contracts through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from LIBOR to alternative reference rate at an agreed point in time.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2021. The amounts of financial assets and liabilities are shown at their carrying amounts.

Financial instruments prior to transition	**Maturing in**	**Carrying amounts/ notional amounts** RMB'000	**Hedging accounting**	**Transition progress for financial instruments**
Lease liabilities linked to 3 month USD LIBOR	2022-2024	1,776,510	N/A	Expected to transition in 2023
Lease liabilities linked to 6 month USD LIBOR	2023-2025	6,645,022	N/A	Expected to transition in 2023
Lease liabilities linked to 3 month JPY LIBOR	2026-2027	610,336	N/A	Completed transition to Tokyo Term Risk Free Rate In January 2022

45. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments

Fair value measurements for financial instruments measured at fair value on a recurring basis

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique.

	Fair value at 31 December 2021 RMB'000	**Fair value measurements as at 31 December 2021 categorised into**		
		Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Financial assets at fair value through profit or loss	**4,157**	**4,157**	**–**	**–**
Equity instruments at FVTOCI	**176,323**	**–**	**–**	**176,323**
Debt instruments at FVTOCI	**1,373,634**	**–**	**1,373,634**	**–**
Total financial assets at fair value	**1,554,114**	**4,157**	**1,373,634**	**176,323**

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Equity instruments at FVTOCI	233,180	–	–	233,180
Debt instruments at FVTOCI	1,344,829	–	1,344,829	–
Debt instruments at FVTOCI included in other current assets	1,686,930	–	1,686,930	–
Total financial assets at fair value	3,264,939	–	3,031,759	233,180

During the year ended 31 December 2021 and 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

All financial instruments classified within Level 2 of the fair value hierarchy are debt investments, the fair value of which were determined based upon the valuation conducted by the China Central Depository & Clearing Co., Ltd..

45. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of equity instruments at FVTOCI was mainly estimated by reference to the quoted prices in an active market with an adjustment of discount for lack of marketability.

Fair values of financial assets and liabilities carried at other than fair value

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in these consolidated financial statements approximate their fair values.

	Carrying amounts		Fair values	
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Financial liabilities – corporate bonds (fixed rate)	**12,900,439**	18,375,007	**12,701,744**	18,123,860

Fair value hierarchy as at 31 December 2021

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities – corporate bonds (fixed rate)	**–**	**12,701,744**	**–**	**12,701,744**

Fair value hierarchy as at 31 December 2020

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities – corporate bonds (fixed rate)	–	18,123,860	–	18,123,860

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details major changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	**Corporate bonds and short-term commercial papers**	**Lease liabilities**	
	Note 37	**Note 37**	**Note 36**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	16,117,002	23,211,954	100,447,856	139,776,812
Financing cash flows	36,259,348	(4,300,000)	(14,332,052)	17,627,296
Foreign exchange translation	(8,693)	–	(3,522,162)	(3,530,855)
New leases entered/lease modified	–	–	7,142,041	7,142,041
Reduction upon early termination of lease	–	–	(34,864)	(34,864)
(Decrease)/increase in accrued interest	15,988	(26,137)	(41,279)	(51,428)
At 31 December 2020	52,383,645	18,885,817	89,659,540	160,929,002
Financing cash flows	15,737,121	6,350,000	(15,082,110)	7,005,011
Foreign exchange translation	(42,398)	–	(1,174,665)	(1,217,063)
New leases entered/lease modified	–	–	17,518,895	17,518,895
Lease modification	–	–	(40,300)	(40,300)
(Decrease)/increase in accrued interest	10,480	(2,743)	–	7,737
At 31 December 2021	68,088,848	25,233,074	90,881,360	184,203,282

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of aircraft and engines, land, buildings and others and recognised right-of-use assets of RMB19,296 million (2020: RMB7,857 million) and lease liabilities of RMB17,519 million (2020: RMB7,142 million).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

48. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates:

(i) Transactions with related parties

	2021 RMB'000	2020 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**626**	9,287
Sale of cargo space	**10,497,274**	7,688,836
Government charter flights	**365,433**	424,921
Ground services income	**96,671**	100,055
Air catering income	**30,103**	39,601
Income from advertising media business	**13,105**	13,105
Aircraft maintenance income	**240,477**	234,402
Land and buildings rental income	**133,371**	135,576
Aviation communication expenses	**53,268**	22,589
Others	**281,286**	131,966
	11,711,614	8,800,338
Service provided by the CNAHC Group		
Sales commission expenses	**609,478**	351,242
Air catering charges	**747,368**	660,396
Airport ground services, take-off, landing and depot expenses	**1,146,468**	1,085,708
Repair and maintenance costs	**15,430**	9,282
Management fees	**253,146**	170,809
Expense relating to short-term leases and leases of low-value assets	**93,200**	120,390
Other procurement and maintenance	**201,752**	213,675
Aviation communication expenses	**419,691**	408,374
Interest expenses	**54,693**	29,041
Media advertisement expenses	**174,578**	137,696
Construction management expenses	**33,533**	44,102
Others	**62,763**	23,252
	3,812,100	3,253,967

48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(i) Transactions with related parties (continued)

	2021 RMB'000	2020 RMB'000
Loans to the CNAHC Group by CNAF:		
Advances/(repayments) of loans	**60,000**	(510,000)
Interest income	**1,457**	3,263
Deposits from the CNAHC Group received by CNAF:		
Increase in deposits received	**6,876,696**	1,090,264
Interest expenses	**56,786**	43,278
As a lessee with CNAHC Group:		
Addition in right-of-use assets on new leases	**3,703,170**	2,000,363
Addition in lease liabilities on new leases	**3,703,170**	2,000,363
Lease payments paid	**1,881,577**	1,526,060
Interest on lease liabilities	**391,434**	346,230
Service provided to joint ventures and associates		
Sales commission income	**523**	1,176
Ground services income	**92,971**	101,481
Aircraft maintenance income	**107,800**	103,315
Air catering income	**3,726**	2,947
Frequent-flyer programme income	**43,293**	31,294
Land and buildings rental income	**4,336**	6,596
Others	**1,307**	1,543
	253,956	248,352

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48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(i) Transactions with related parties (continued)

	2021 RMB'000	2020 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	**685**	655
Air catering charges	**13**	1,971
Airport ground services, take-off, landing and depot expenses	**219,987**	217,864
Repair and maintenance costs	**925,000**	1,506,834
Expense relating to short-term leases and leases of low value assets	**19,389**	1,160
Other procurement and maintenance	**17,084**	17,850
Aviation communication expenses	**5,743**	5,407
Frequent-flyer programme expenses	**448**	588
Airline joint operation expenses	**–**	10,482
	1,188,349	1,762,811
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	**–**	192,400
Interest income	**–**	5,187
Deposits from joint ventures and associates received by CNAF:		
Decrease in deposits received	**2,708**	71,997
Interest expenses	**2,670**	3,809

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

Part of the related transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of Listing Rules.

48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(ii) Balances with related parties

	2021 RMB'000	2020 RMB'000
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**384,102**	591,909
Amounts due from associates	**139,177**	209,549
Amounts due from joint ventures	**2,745**	486
Amounts due from other related companies	**1,878,142**	1,895,852
Amount due to the ultimate holding company	**45,707**	43,703
Amounts due to associates	**80,836**	87,811
Amounts due to joint ventures	**320,974**	432,560
Amounts due to other related companies	**14,713,417**	12,985,411

* Outstanding balances with related parties exclude borrowing balances with related parties and outstanding balances between CNAF and related parties.

The above outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

	2021 RMB'000	2020 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing borrowings:		
– Due to the ultimate holding company	**1,101,150**	–
– Due to other related companies	**330,280**	1,361,244

48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(ii) Balances with related parties (continued)

	2021 RMB'000	2020 RMB'000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**80,000**	20,000
Deposits received	**11,236,165**	4,359,469
Interest payable to related parties	**13,622**	11,488
Interest receivable from related parties	**85**	20
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Deposits received	**86,789**	89,499
Interest payable to related parties	**29**	158

The outstanding balances between CNAF and related parties represent loans to related parties or deposits received by CNAF from related parties. The applicable interest rates are determined in accordance with the prevailing borrowing rates/deposit saving rates published by The People's Bank of China.

(b) An analysis of the compensation of key management personnel of the Group is as follows:

	2021 RMB'000	2020 RMB'000
Short term employee benefits	**14,068**	15,134
Retirement benefits	**660**	682
Total emoluments for key management personnel	**14,728**	15,816

48. RELATED PARTY TRANSACTIONS (continued)

(b) An analysis of the compensation of key management personnel of the Group is as follows: (continued)

The breakdown of emoluments for key management personal are as follows:

	2021 RMB'000	2020 RMB'000
Directors and supervisors	**3,532**	2,282
Senior management	**11,196**	13,534
	14,728	15,816

Further details of the remuneration of the directors and supervisors are included in Note 13 to the consolidated financial statements.

(c) Guarantee with related parties

Amount of guaranty at 31 December 2021:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2021 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	**Air China Limited**	**5,000,000**	**18/01/2013**	**18/07/2023**
CNAHC	**Air China Limited**	**1,500,000**	**16/08/2013**	**16/02/2024**

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48. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties (continued)

Amount of guaranty at 31 December 2020:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2020 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

(d) Transactions with other government-related entities in the PRC

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

Apart from above transactions with CNAHC Group, the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

The transactions between the Group and other government-related entities are conducted in the ordinary course of the Group's business within normal business operations. The Group has established its approval process for providing of services, purchase of products, properties and services, purchase of lease service and its financing policy for borrowing. Such approval processes and financing policy do not depend on whether the counterparties are government-related entities or not.

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period included:

	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current assets		
Property, plant and equipment	**72,239,615**	74,974,274
Right-of-use assets	**85,304,541**	78,626,049
Intangible assets	**11,015**	11,312
Interests in subsidiaries (Note 22)	**20,153,167**	20,155,167
Interests in associates	**885,731**	1,130,610
Interests in joint ventures	**1,616,067**	1,481,943
Advance payments for aircraft and flight equipment	**13,425,634**	16,212,663
Deposits for aircraft under leases	**440,475**	481,531
Equity instruments at fair value through other comprehensive income	**22,110**	22,110
Deferred tax assets	**7,505,632**	5,679,491
Other non-current assets	**535,016**	671,414
	202,139,003	199,446,564
Current assets		
Inventories	**81,634**	88,664
Accounts receivable	**2,492,262**	2,259,952
Prepayments, deposits and other receivables	**2,665,597**	3,260,947
Financial assets at fair value through profit or loss	**3,066**	–
Restricted bank deposits	**30,635**	42,226
Cash and cash equivalents	**5,794,662**	4,609,130
Assets held for sale	**333,884**	–
Other current assets	**3,364,547**	2,327,892
	14,766,287	12,588,811
Total assets	**216,905,290**	212,035,375

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2021 RMB'000	31 December 2020 RMB'000
Current liabilities		
Air traffic liabilities	**(1,885,651)**	(1,652,124)
Accounts payable	**(9,830,667)**	(10,370,375)
Other payables and accruals	**(7,225,128)**	(5,873,289)
Current taxation	**–**	(32,658)
Lease liabilities	**(10,044,657)**	(9,300,338)
Interest-bearing borrowings	**(27,495,473)**	(27,764,649)
Provision for return condition checks	**(170,111)**	(5,990)
Contract liabilities	**(1,189,785)**	(1,006,813)
	(57,841,472)	(56,006,236)
Net current liabilities	**(43,075,185)**	(43,417,425)
Total assets less current liabilities	**159,063,818**	156,029,139
Non-current liabilities		
Lease liabilities	**(52,938,427)**	(51,955,400)
Interest-bearing borrowings	**(38,320,863)**	(22,967,910)
Provision for return condition checks	**(5,441,494)**	(5,022,067)
Provision for early retirement benefit obligations	**(1,006)**	(1,351)
Long-term payables	**–**	(8,650)
Contract liabilities	**(1,528,569)**	(1,981,139)
Deferred income	**(352,730)**	(355,457)
	(98,583,089)	(82,291,974)
NET ASSETS	**60,480,729**	73,737,165
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	14,524,815
Reserves	**45,955,914**	59,212,350
TOTAL EQUITY	**60,480,729**	73,737,165

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

The effects of differences between the consolidated financial statements of the Group prepared under IFRSs and CASs are as follows:

	Notes	2021 RMB'000	2020 RMB'000
Net loss attributable to shareholders of the Company under CASs		**(16,642,310)**	(14,409,429)
Deferred taxation	(i)	**(2,377)**	(2,028)
Differences in value of fixed assets and other non-current assets	(ii)	**9,509**	8,114
Net loss attributable to shareholders of the Company under IFRSs		**(16,635,178)**	(14,403,343)

	Notes	31 December 2021 RMB'000	31 December 2020 RMB'000
Equity attributable to shareholders of the Company under CASs		**61,402,519**	77,582,421
Deferred taxation	(i)	**56,543**	58,920
Differences in value of fixed assets and other non-current assets	(ii)	**(230,424)**	(239,933)
Unrealised profit of the disposal of Hong Kong Dragon Airlines Limited	(iii)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**61,368,557**	77,541,327

Notes:

(i) The differences in deferred taxation were mainly caused by the differences under IFRSs and CASs as explained below.

(ii) The differences in the value of fixed assets and other non-current assets mainly consist of the following three types: (1) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (2) the differences were caused by the adoption of component accounting in different years under IFRSs and CASs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) The difference was caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
"available seat kilometres" or "ASK(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown

TRAFFIC MEASUREMENTS

"passenger traffic"	measured in RPK, unless otherwise specified
"revenue passenger kilometres" or "RPK(s)"	the number of revenue passengers carried multiplied by the kilometres flown
"cargo and mail traffic"	measured in RFTK, unless otherwise specified
"revenue freight tonne kilometres" or "RFTK(s)"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
"revenue tonne kilometres" or "RTK(s)"	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

EFFICIENCY MEASUREMENTS

"overall load factor"	RTK expressed as a percentage of ATK
"passenger load factor"	RPK expressed as a percentage of ASK
"cargo and mail load factor"	RFTK expressed as a percentage of AFTK
"Block hours"	whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

YIELD MEASUREMENTS

"passenger yield"/"yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield"/"yield per RFTK"	revenues from cargo operations divided by RFTKs

Definitions

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Airbus"	Airbus S.A.S.
"Air China Cargo"	Air China Cargo Co., Ltd., a non-wholly owned subsidiary of CNAHC
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd., a non-wholly owned subsidiary of the Company
"Air Macau"	Air Macau Company Limited, a non-wholly owned subsidiary of the Company
"Ameco"	Aircraft Maintenance and Engineering Corporation, a non-wholly owned subsidiary of the Company
"Articles of Association"	the articles of association of the Company, as amended from time to time
"A Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
"Beijing Airlines"	Beijing Airlines Company Limited, a non-wholly owned subsidiary of the Company
"Board"	the board of directors of the Company
"Boeing"	The Boeing Company
"CASs"	China Accounting Standards for Business Enterprises
"Capital Holding"	China National Aviation Capital Holding Co., Ltd., a wholly-owned subsidiary of CNAHC
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"CNACD"	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC
"CNACG"	China National Aviation Corporation (Group) Limited, a wholly-owned subsidiary of CNAHC
"CNACG Group"	CNACG and its subsidiaries
"CNAF"	China National Aviation Finance Co., Ltd, a non-wholly owned subsidiary of the Company
"CNAHC"	China National Aviation Holding Corporation Limited
"CNAHC Group"	CNAHC and its subsidiaries
"COMAC"	Commercial Aircraft Corporation of China, Ltd.
"CNAMC"	China National Aviation Media Co., Ltd, a wholly-owned subsidiary of CNAHC
"Company, "We", or "Air China"	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited, a non-wholly owned subsidiary of the Company

Definitions

"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange as primary listing venue and have been admitted into the Official List of the UK Listing Authority as secondary listing venue
"IATA"	International Air Transport Association
"International Financial Reporting Standards" or "IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Reporting Period"	from 1 January 2021 to 31 December 2021
"Date of this Annual Report"	30 March 2022
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd., a non-wholly owned subsidiary of Shandong Aviation Group Corporation
"Shandong Aviation Group Corporation"	Shandong Aviation Group Company Limited, an associate of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a non-wholly owned subsidiary of the Company
"Supervisor(s)"	The supervisor(s) of the Company
"Supervisory Committee"	The supervisory committee of the Company
"US dollars"	United States dollars, the lawful currency of the United States

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