

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board has approved, among others, the unaudited interim results of the Group for the six months ended 30 June 2021 at a meeting of the Board held on 27 August 2021.

 **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The Board presents the unaudited interim results of the Group for the six months ended 30 June 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
	<i>NOTES</i>	2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	3A	37,663,803	29,645,766
Other income and gains	4	2,289,141	1,867,685
		<u>39,952,944</u>	<u>31,513,451</u>
Operating expenses			
Jet fuel costs		(9,914,804)	(6,811,760)
Employee compensation costs		(11,301,581)	(10,091,701)
Depreciation and amortisation		(10,331,621)	(9,964,824)
Take-off, landing and depot charges		(5,020,224)	(3,893,701)
Aircraft maintenance, repair and overhaul costs		(3,586,761)	(2,874,176)
Air catering charges		(912,392)	(625,766)
Aircraft and engine lease expenses		(214,147)	(121,882)
Other lease expenses		(341,102)	(245,660)
Other flight operation expenses		(2,753,906)	(2,055,640)
Selling and marketing expenses		(1,140,228)	(1,082,586)
General and administrative expenses		(469,485)	(511,959)
Net impairment loss (recognised)/reversed under expected credit loss model		<u>(9,305)</u>	<u>84,155</u>
		<u>(45,995,556)</u>	<u>(38,195,500)</u>
Loss from operations	5	(6,042,612)	(6,682,049)
Finance income		41,215	56,102
Finance costs	6	(2,658,298)	(2,548,296)
Share of results of associates		(1,418,976)	(3,010,754)
Share of results of joint ventures		110,282	106,840
Exchange gain/(loss), net		<u>563,440</u>	<u>(1,018,769)</u>
Loss before taxation		(9,404,949)	(13,096,926)
Income tax credit	7	<u>1,734,284</u>	<u>2,236,520</u>
Loss for the period		<u><u>(7,670,665)</u></u>	<u><u>(10,860,406)</u></u>
Attributable to:			
– Equity shareholders of the Company		(6,781,429)	(9,439,799)
– Non-controlling interests		<u>(889,236)</u>	<u>(1,420,607)</u>
		<u><u>(7,670,665)</u></u>	<u><u>(10,860,406)</u></u>
Loss per share			
– Basic and diluted	9	<u>RMB(49.37) cents</u>	<u>RMB(68.73) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(7,670,665)</u>	<u>(10,860,406)</u>
Other comprehensive income/(expense) for the period		
Items that will not be reclassified to profit or loss:		
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	(18,915)	(69,638)
– Income tax relating to items that will not be reclassified to profit or loss	4,729	17,409
– Remeasurement of net defined benefit liability	(2,125)	(4,432)
– Share of other comprehensive expense of associates and joint ventures	<u>(3,858)</u>	<u>(103,423)</u>
Items that may be reclassified subsequently to profit or loss:		
– Fair value loss on investments in debt instruments measured at fair value through other comprehensive income	(5,169)	(5,918)
– Impairment loss (reversed)/recognised on investments in debt instruments measured at fair value through other comprehensive income	(15,277)	11,083
– Income tax relating to items that may be reclassified subsequently to profit or loss	5,111	(1,291)
– Share of other comprehensive income/(expense) of associates and joint ventures	878,718	(902,862)
– Exchange differences on translation of foreign operations	<u>(194,718)</u>	<u>436,992</u>
Other comprehensive income/(expense) for the period (net of tax)	<u>648,496</u>	<u>(622,080)</u>
Total comprehensive expense for the period	<u>(7,022,169)</u>	<u>(11,482,486)</u>
Attributable to:		
– Equity shareholders of the Company	(6,106,812)	(10,046,662)
– Non-controlling interests	<u>(915,357)</u>	<u>(1,435,824)</u>
	<u>(7,022,169)</u>	<u>(11,482,486)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

	At 30 June <i>NOTE</i> 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Non-current assets		
Property, plant and equipment	99,841,057	101,346,490
Right-of-use assets	118,652,505	114,539,680
Investment properties	584,378	600,329
Intangible assets	36,559	36,580
Goodwill	1,099,975	1,099,975
Interests in associates	10,233,582	10,938,428
Interests in joint ventures	1,667,387	1,581,105
Advance payments for aircraft and flight equipment	21,497,690	24,907,862
Deposits for aircraft under leases	571,075	615,537
Equity instruments at fair value through other comprehensive income	214,265	233,180
Debt instruments at fair value through other comprehensive income	1,313,267	1,344,829
Deferred tax assets	8,505,139	6,750,883
Other non-current assets	276,453	298,836
	<u>264,493,332</u>	<u>264,293,714</u>
Current assets		
Inventories	2,325,036	1,853,990
Accounts receivable	<i>10</i> 3,738,511	2,942,799
Bills receivable	8,922	6,593
Prepayments, deposits and other receivables	3,949,155	3,912,471
Restricted bank deposits	642,782	737,245
Cash and cash equivalents	8,451,613	5,837,998
Other current assets	4,382,393	4,444,806
	<u>23,498,412</u>	<u>19,735,902</u>
Total assets	<u><u>287,991,744</u></u>	<u><u>284,029,616</u></u>

	<i>NOTE</i>	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Current liabilities			
Air traffic liabilities		(2,433,265)	(2,002,649)
Accounts payable	11	(14,757,240)	(12,510,582)
Bills payable		(73,659)	(62,570)
Dividends payable		(98,000)	(98,000)
Other payables and accruals		(12,951,404)	(11,177,928)
Current taxation		(41,382)	(45,614)
Lease liabilities		(14,039,145)	(13,560,862)
Interest-bearing borrowings		(39,141,554)	(39,630,365)
Provision for return condition checks		(1,073,858)	(229,514)
Contract liabilities		<u>(1,250,375)</u>	<u>(1,280,102)</u>
		<u>(85,859,882)</u>	<u>(80,598,186)</u>
Net current liabilities		<u>(62,361,470)</u>	<u>(60,862,284)</u>
Total assets less current liabilities		<u>202,131,862</u>	<u>203,431,430</u>
Non-current liabilities			
Lease liabilities		(76,997,169)	(76,098,678)
Interest-bearing borrowings		(36,593,137)	(31,639,097)
Provision for return condition checks		(8,219,318)	(8,580,560)
Provision for early retirement benefit obligations		(1,161)	(1,351)
Long-term payables		(11,086)	(21,022)
Contract liabilities		(2,051,050)	(2,264,843)
Defined benefit obligations		(222,944)	(229,332)
Deferred income		(478,610)	(488,791)
Deferred tax liabilities		<u>(330,724)</u>	<u>(334,720)</u>
		<u>(124,905,199)</u>	<u>(119,658,394)</u>
NET ASSETS		<u>77,226,663</u>	<u>83,773,036</u>
CAPITAL AND RESERVES			
Issued capital		14,524,815	14,524,815
Treasury shares		(3,047,564)	(3,047,564)
Reserves		<u>59,957,264</u>	<u>66,064,076</u>
Total equity attributable to equity shareholders of the Company		<u>71,434,515</u>	<u>77,541,327</u>
Non-controlling interests		<u>5,792,148</u>	<u>6,231,709</u>
TOTAL EQUITY		<u>77,226,663</u>	<u>83,773,036</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” (“IAS 34”) issued by the International Accounting Standards Board (the “IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules. The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020.

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by approximately RMB62,361 million. The liquidity of the Group is primarily dependent on its ability to maintain 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 RMB124,132 million as at 30 June 2021, the Directors believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements when preparing these condensed consolidated financial statements for the six months ended 30 June 2021. Accordingly, these condensed consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements.

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

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

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

2.1 *Impacts on early application of Amendment to IFRS 16 “COVID-19-Related Rent Concessions beyond 30 June 2021”*

The Group has early applied the amendment in the current interim period. The application of this amendment has had no material impact on the Group’s financial positions and performance for the current and prior periods.

2.2 *Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”*

As at 1 January 2021, the Group has certain lease liabilities denominated in United States Dollar (“USD”) based on London Interbank Offered Rate (“LIBOR”). The accounting policies and the potential impact from the amendment that are relevant to the Group are described below.

2.2.1 *Accounting policies*

Leases

The Group as a lessee

Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Group uses the revised discount rate that reflects change in the interest rate and makes a corresponding adjustment to the related right-of-use assets.

A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

2.2.2 *Transition and summary of effects*

The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period.

3A. REVENUE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	37,568,479	29,487,931
Rental income (included in revenue of airline operations segment)	95,324	157,835
Total revenue	<u>37,663,803</u>	<u>29,645,766</u>

Disaggregation of revenue from contracts with customers

Segments	Six months ended 30 June 2021		Six months ended 30 June 2020	
	Airline operations	Other operations	Airline operations	Other operations
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Type of goods or services				
Airline operations				
Passenger	30,895,166	–	22,948,314	–
Cargo and mail	4,575,303	–	4,190,518	–
Ground service income	107,195	–	162,179	–
Others	580,640	–	755,956	–
	<u>36,158,304</u>	<u>–</u>	<u>28,056,967</u>	<u>–</u>
Other operations				
Aircraft engineering income	–	1,271,234	–	1,270,971
Others	–	138,941	–	159,993
	<u>–</u>	<u>1,410,175</u>	<u>–</u>	<u>1,430,964</u>
Total	<u>36,158,304</u>	<u>1,410,175</u>	<u>28,056,967</u>	<u>1,430,964</u>
Geographical markets				
Mainland China	30,426,309	1,410,175	17,597,210	1,430,964
Hong Kong SAR, Macau SAR and Taiwan, China	624,049	–	734,391	–
International	5,107,946	–	9,725,366	–
Total	<u>36,158,304</u>	<u>1,410,175</u>	<u>28,056,967</u>	<u>1,430,964</u>

3B. 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 six months ended 30 June 2021 and 2020 and the reconciliations of reportable segment revenue and loss before taxation to the Group's consolidated amounts under IFRSs:

For the six months ended 30 June 2021

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	36,253,628	1,410,175	–	37,663,803
Intersegment sales	<u>74,687</u>	<u>2,682,677</u>	<u>(2,757,364)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u><u>36,328,315</u></u>	<u><u>4,092,852</u></u>	<u><u>(2,757,364)</u></u>	<u><u>37,663,803</u></u>
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	<u><u>(9,366,578)</u></u>	<u><u>(33,554)</u></u>	<u><u>(10,666)</u></u>	<u><u>(9,410,798)</u></u>
Effect of differences between IFRSs and CASs				<u><u>5,849</u></u>
Loss before taxation for the period under IFRSs				<u><u><u>(9,404,949)</u></u></u>

For the six months ended 30 June 2020

	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue				
Sales to external customers	28,214,802	1,430,964	–	29,645,766
Intersegment sales	<u>52,006</u>	<u>2,686,484</u>	<u>(2,738,490)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u>28,266,808</u>	<u>4,117,448</u>	<u>(2,738,490)</u>	<u>29,645,766</u>
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	<u>(12,898,404)</u>	<u>(158,866)</u>	<u>(41,428)</u>	(13,098,698)
Effect of differences between IFRSs and CASs				<u>1,772</u>
Loss before taxation for the period under IFRSs				<u>(13,096,926)</u>

The following table presents the segment assets of the Group's operating segments under CASs as at 30 June 2021 and 31 December 2020 and the reconciliations of reportable segment assets to the Group's consolidated amounts under IFRSs:

	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets				
Total assets for reportable segments as at 30 June 2021 under CASs (unaudited)	<u>278,033,335</u>	<u>22,059,855</u>	<u>(12,064,739)</u>	288,028,451
Effect of differences between IFRSs and CASs				<u>(36,707)</u>
Total assets as at 30 June 2021 under IFRSs (unaudited)				<u>287,991,744</u>
Total assets for reportable segments as at 31 December 2020 under CASs (audited)	<u>276,189,234</u>	<u>21,125,795</u>	<u>(13,244,319)</u>	284,070,710
Effect of differences between IFRSs and CASs				<u>(41,094)</u>
Total assets as at 31 December 2020 under IFRSs (audited)				<u>284,029,616</u>

Geographical information

The following tables present the Group's consolidated revenue under IFRSs by geographical location for the six months ended 30 June 2021 and 2020, respectively:

For the six months ended 30 June 2021

	Mainland China <i>RMB'000</i>	Hong Kong SAR, Macau SAR and Taiwan, China <i>RMB'000</i>	International <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers and total revenue	<u>31,931,808</u>	<u>624,049</u>	<u>5,107,946</u>	<u>37,663,803</u>

For the six months ended 30 June 2020

	Mainland China <i>RMB'000</i>	Hong Kong SAR, Macau SAR and Taiwan, China <i>RMB'000</i>	International <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers and total revenue	<u>19,186,009</u>	<u>734,391</u>	<u>9,725,366</u>	<u>29,645,766</u>

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.

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Co-operation routes income and subsidy income	2,192,115	1,726,210
Dividend income	2,631	5,410
Gain on disposal of property, plant and equipment	5,598	22,749
Others	<u>88,797</u>	<u>113,316</u>
	<u>2,289,141</u>	<u>1,867,685</u>

5. LOSS FROM OPERATIONS

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	4,596,415	4,431,039
Depreciation of right-of-use assets	5,722,680	5,521,043
Depreciation of investment properties	12,505	12,742
Amortisation of intangible assets	21	–
Impairment losses recognised on inventories	–	137
Research and development costs recognised as an expense	60,826	164,604
	<u>60,826</u>	<u>164,604</u>

6. FINANCE COSTS

An analysis of the Group's finance costs during the period is as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on interest-bearing borrowings	1,205,093	902,463
Interest on lease liabilities	1,596,943	1,900,472
Imputed interest expenses on defined benefit obligations	3,976	4,183
	<u>2,806,012</u>	<u>2,807,118</u>
Less: Interest capitalised	(147,714)	(258,822)
	<u>2,658,298</u>	<u>2,548,296</u>

The interest capitalisation rates during the period ranged from 1.75% to 4.41% per annum (six months ended 30 June 2020: 1.90% to 4.75% per annum).

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax:		
– Mainland China	15,048	68,822
– Hong Kong SAR and Macau SAR, China	827	2,655
Over - provision in respect of prior years	(1,575)	(37,316)
Deferred tax	(1,748,584)	(2,270,681)
	<u>(1,734,284)</u>	<u>(2,236,520)</u>

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% (six months ended 30 June 2020: 15%) during the current period, all group companies located in Mainland China are subject to a corporate income tax rate of 25% (six months ended 30 June 2020: 25%) during the current period. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 16.5% (six months ended 30 June 2020: 8.25% and 16.5%), and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (six months ended 30 June 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 periods.

8. DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period

In accordance with the Company's articles of association, the profit after tax of the Company for the purpose of dividend distribution is based on the lesser of (i) the profit determined in accordance with CASS; and (ii) the profit determined in accordance with IFRSs.

No interim dividend has been declared by the Directors for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved during the current interim period

No dividend has been declared by the Directors for the financial year 2020 during the current interim period (six months ended 30 June 2020: RMB0.4442 per ten shares (including tax) for the financial year 2019, amounting to RMB645,192,000).

9. LOSS PER SHARE

The calculation of basic loss per share was based on the loss attributable to ordinary equity shareholders of the Company of RMB6,781 million (six months ended 30 June 2020 (unaudited): loss of RMB9,440 million) and the number of 13,734,960,921 ordinary shares (six months ended 30 June 2020: 13,734,960,921 shares) in issue during the period, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding.

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

10. ACCOUNTS RECEIVABLE

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:

	At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Within 30 days	1,492,624	1,270,198
31 to 60 days	831,147	488,965
61 to 90 days	662,551	259,396
Over 90 days	752,189	924,240
	<u>3,738,511</u>	<u>2,942,799</u>

11. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable, based on the transaction date, as at the end of the reporting period was as follows:

	At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Within 30 days	5,042,845	4,674,784
31 to 60 days	1,716,307	1,394,258
61 to 90 days	1,786,927	1,385,660
Over 90 days	6,211,161	5,055,880
	<u>14,757,240</u>	<u>12,510,582</u>

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.

	January to June 2021	January to June 2020	Increase/ (decrease)
Capacity			
ASK (million)	82,499.92	65,565.98	25.83%
International	2,115.00	15,533.42	(86.38%)
Mainland China	79,091.22	48,858.88	61.88%
Hong Kong SAR, Macau SAR and Taiwan, China	1,293.70	1,173.68	10.23%
AFTK (million)	5,494.08	4,035.20	36.15%
International	3,251.70	2,895.20	12.31%
Mainland China	2,183.95	1,088.57	100.63%
Hong Kong SAR, Macau SAR and Taiwan, China	58.43	51.43	13.61%
ATK (million)	12,928.38	9,943.04	30.02%
Traffic			
RPK (million)	58,252.60	44,222.02	31.73%
International	894.83	10,299.97	(91.31%)
Mainland China	56,630.89	33,247.90	70.33%
Hong Kong SAR, Macau SAR and Taiwan, China	726.89	674.16	7.82%
RFTK (million)	2,067.48	1,459.02	41.70%
International	1,402.29	957.24	46.49%
Mainland China	646.52	489.26	32.14%
Hong Kong SAR, Macau SAR and Taiwan, China	18.67	12.52	49.10%
Passengers carried (thousand)	38,610.67	24,905.77	55.03%
International	145.81	2,003.89	(92.72%)
Mainland China	38,023.37	22,468.64	69.23%
Hong Kong SAR, Macau SAR and Taiwan, China	441.49	433.25	1.90%
Cargo and mail carried (tonnes)	600,504.45	450,950.73	33.16%
Kilometres flown (million)	532.23	394.60	34.88%
Block hours (thousand)	860.26	617.01	39.43%
Number of flights	310,257	212,595	45.94%
International	9,490	18,691	(49.23%)
Mainland China	295,927	189,047	56.54%
Hong Kong SAR, Macau SAR and Taiwan, China	4,840	4,857	(0.35%)
RTK (million)	7,264.73	5,354.92	35.66%

	January to June 2021	January to June 2020	Increase/ (decrease)
Load factor			
Passenger load factor (RPK/ASK)	70.61%	67.45%	3.16ppt
International	42.31%	66.31%	(24.00ppt)
Mainland China	71.60%	68.05%	3.55ppt
Hong Kong SAR, Macau SAR and Taiwan, China	56.19%	57.44%	(1.25ppt)
Cargo and mail load factor (RFTK/AFTK)	37.63%	36.16%	1.47ppt
International	43.12%	33.06%	10.06ppt
Mainland China	29.60%	44.95%	(15.35ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	31.95%	24.35%	7.60ppt
Overall load factor (RTK/ATK)	56.19%	53.86%	2.33ppt
Daily utilisation of aircraft			
(block hours per day per aircraft)	7.05	5.08	1.97 hours
Yield			
Yield per RPK (RMB)	0.5304	0.5189	2.22%
International	1.6561	0.6136	169.90%
Mainland China	0.5108	0.4828	5.80%
Hong Kong SAR, Macau SAR and Taiwan, China	0.6652	0.8524	(21.96%)
Yield per RFTK (RMB)	2.2130	2.8721	(22.95%)
International	2.5858	3.5569	(27.30%)
Mainland China	1.2510	1.2795	(2.23%)
Hong Kong SAR, Macau SAR and Taiwan, China	7.5265	12.7560	(41.00%)
Unit cost			
Operating cost per ASK (RMB)	0.5575	0.5826	(4.31%)
Operating cost per ATK (RMB)	3.5577	3.8414	(7.39%)

DEVELOPMENT OF FLEET

During the Reporting Period, the Group introduced 23 aircraft including three A350 aircraft, 14 A320NEO aircraft, four A321NEO aircraft and two ARJ21-700 aircraft, and phased out one A321 aircraft. As at the end of the Reporting Period, the Group operated a fleet of 729 aircraft with an average age of 7.97 years, of which the Company operated a total of 453 aircraft with an average age of 8.18 years. During the first half of the year, the Company introduced 22 aircraft, including five aircraft under the wet lease agreement with Air Macau.

Details of the fleet of the Group are set out in the table below:

	30 June 2021				
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Airbus	393	148	130	115	7.81
A319	41	32	6	3	13.68
A320/A321	272	88	101	83	6.94
A330	65	28	8	29	9.15
A350	15	0	15	0	1.81
Boeing	326	143	95	88	8.25
B737	274	119	75	80	8.42
B747	10	8	2	0	11.97
B777	28	4	18	6	7.21
B787	14	12	0	2	4.36
COMAC	5	1	4	0	0.55
ARJ21	5	1	4	0	0.55
Business jets	5	1	0	4	8.90
Total	729	293	229	207	7.97

	Introduction Plan			Phase-out Plan		
	2021	2022	2023	2021	2022	2023
Airbus	49	26	5	5	12	10
A319	–	–	–	–	6	4
A320/A321	44	18	–	2	–	3
A330	–	–	–	3	6	3
A350	5	8	5	–	–	–
Boeing	–	–	–	3	10	7
B737	–	–	–	3	10	7
COMAC	6	8	9	–	–	–
ARJ21	6	8	9	–	–	–
Total	<u>55</u>	<u>34</u>	<u>14</u>	<u>8</u>	<u>22</u>	<u>17</u>

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

BUSINESS OVERVIEW

Containing the Pandemic

The Group insisted to give pandemic control top priority, stayed committed to “preventing the coronavirus from entering the country, stemming its domestic resurgence and implementing joint pandemic containment measures for individuals and goods” and actively responded to coronavirus resurgence in certain areas in China and the overseas imported cases. The Group timely adjusted and optimized the mechanism for leading pandemic prevention and control practices, timely deploying phased prevention and control work, updating the prevention and control operating procedures, following up and implementing prevention and control measures to ensure coordinated operation of such mechanism. With the thorough application of the pandemic data sharing platform, the Group improved the production planning and management efficiency of the flight attendant team. In response to the sudden outbreak in Beijing at the beginning of the year, the Group quickly organized full staff examination and implemented nucleic acid tests for all employees to ensure the responsibilities of joint pandemic prevention and control were in place. Specific inspection was conducted to remove loopholes, optimize management and undertake the responsibility in relation to pandemic prevention and control. The Group upheld that “all people eligible for vaccination have access to it”, and the vaccination rate for key frontline staff reached 100%. The Group swiftly responded to the sudden outbreaks in various areas, coordinated the pandemic prevention and control, production planning and passenger service and prevented the domestic resurgence in an effective and orderly manner. The Group enhanced the identification and control of passengers on transit flights from third countries and implemented remote prevention and information control mechanism of “zero reporting”. The Group also strictly implemented pandemic prevention measures for international flights and ensured effective disinfection management of flights, sites and

incoming goods. Besides, the Group set high management standards for international flight attendants by selecting and assigning fully vaccinated personnel and carrying out medical examination as well as quarantine inspections for inbound flights stringently. Meanwhile, the Group expressed in-depth care for its employees by allocating pandemic prevention materials, improving security conditions and offering counseling service, thereby timely solved the employees' difficulties and maintained a stable workforce.

Safe Operation

The Group is well aware that safety responsibility is a kind of political responsibility and the guarantee for safe flight underlies the foundation of the Group's original aspiration and mission. The Group has firmly established the concept of safety development, under which the Group recognized and grasped the extreme importance of safety from an overall perspective, continued to implement 30 measures for safety development, completed operational organization for ongoing pandemic management and firmly promoted the construction of four operational safety systems including safety management, flight training, aircraft maintenance and operation management. The Group carried out in-depth safety hazard investigation work and carried out supervision and inspection on 10 key aspects including the specific three-year safety rectification action, safety hazard investigation and centralized rectification, style development and air crew rectification, safety and security and pandemic prevention and control. To ensure smooth and safe operation, the Group actively conducted specific risk assessment and effectively implemented various risk control measures for special operation conditions, such as seasonal changes, flying in extreme weather and the "one city, two airports" pattern in Beijing and Chengdu. The Group constantly pushed forward the style development work and the reform of the flight attendant team by enhancing cautionary education and the building of a better style for the professional team. During the Reporting Period, the Group recorded 0.86 million safe flight hours while transporting 38.61 million passengers safely. The Group maintained stable and safe operation in general and successfully safeguarded the provision of important transportation services for various events, such as the 100th anniversary of the founding of the Communist Party of China.

Maximising Operating Performance

During the Reporting Period, the Company adhered to the general principle of pursuing progress while ensuring stability, for which the Company improved production and operation and strived to reduce costs, improve efficiency, cut losses and control risks. Based on the new development pattern of domestic economic circle playing a leading role, the Company has been optimizing the structure of transport capacity allocation in accordance with the principle of maximizing profit margins and closely monitoring the market trends to adjust the allocation swiftly. The Company took advantage of opportunities arising from market recovery, and maintained the capacity input of wide-body aircraft through operating in popular routes and converting passenger aircraft for cargo operations. As a result, the domestic transport capacity of wide-body aircraft increased by 69% year-on-year. In terms of the international market, the Company continued to promote the conversion of passenger aircraft for cargo operations. During the Reporting Period, the Company operated 7,935 cargo flights by passenger aircraft, which enabled the sharing of fixed costs of passenger aircraft while maintaining its industry-leading position in terms of business scale. The Company strengthened marketing control and continued dynamic monitoring

and control, seized the opportunity of domestic market recovery in the second quarter, made full use of the network, built a high-quality and prosperous system and took various measures to maintain the stability and improve yield level of the main base and major routes. Taking the commencement of operation of Chengdu Tianfu International Airport as an opportunity, the Company strived to help develop Chengdu into an international aviation hub, where the Company would develop a core route network covering domestic and major markets such as Southeast Asia, Europe and North America, and established the aviation business presence of Air China at Tianfu base. The Company aimed to build the “Air China Express” brand and focused its strengths and resources to establish 10 boutique routes and express flights with excellent service quality providing “fast ground door-to-door services, frequent flights, outstanding onboard services, punctual flights and smooth ticket change” in order to achieve growth in both the number of flights and passenger load factor. The Company also actively tapped the growth points in the market and supported the integrated innovation and development of civil aviation and red tourism. During the Reporting Period, the Company provided red tourism routes to more than 73,710 travelers. By promoting mileage products, business charter cooperation products, elderly Rights Cards and interline products with targeted positioning, the Company boosted revenue growth and garnered a good reputation among customers. Furthermore, the Company exercised strict cost control and closely monitored major expenses, enhanced the cost management on comprehensive security, and defined the responsibilities for all segments of the aircraft cost management chain for facilitating effective cost control. Apart from that, the Company strengthened capital management and control as well as the internal and external financing mechanism, and rationalized the debt structure so as to offer protection for capital safety.

Enhancing Services

The Company was dedicated to the provision of “people-oriented” services as its core philosophy, focusing on all areas in the whole service process, continuing to enhance service quality, improving service and product quality, and giving play to the leading role of digitalization and intelligence development on an ongoing basis. During the Reporting Period, the overall traveler satisfaction of the Company increased steadily, as the service quality and traveler experience further improved. Pursuing the “user-oriented” design approach, the Company renovated and built nine self-operated lounges to create “oriental culture and arts” rest area of Air China. In order to create an exclusive cabin environment, the Company developed new aircraft seat products and launched the new interior design products under the “Dancing Phoenix” (鳳舞雲端) series. The Group has installed in-cabin WiFi system on a total of 359 aircraft, and such system commenced full operation. The Company also improved the overall quality of services, hardware and products, which highlighted the core competitiveness of its services and brand. For the purpose of further strengthening the soft power of services and products, the Company stood on the passengers’ shoes and updated the service standards, passenger rules, ticketing rules and luggage transportation rules. The Company optimized the regular pandemic prevention and control mechanism by formulating and implementing 26 special ticketing measures. Based on the analysis of passenger travel behavior and operating data, the Company formulated a development plan to improve inflight entertainment and adjust the allocation of media resources. In order to provide more inflight meal options, the Company introduced new menus of “Henishuo” (盒你說) food box for different seasons and festivals, thereby offering diversified, targeted and customized services for passengers who

wanted to choose and tailor-made their own meals in advance. In addition, the Company empowered “intelligent civil aviation” service and drove digitalization with innovation. The Company developed paperless and contactless service applications and optimized the functions and service experience of self-service channels. During the Reporting Period, the self-service check-in rate of passengers reached 79.27% and the online check-in rate of passengers reached 65.27%. The Company fully adopted RFID luggage tags with China-developed chips and promoted the luggage tracking service for the whole process. Nine routes had provided the whole-journey baggage tracking and passenger baggage status query service. Besides, the Company developed and upgraded several system platforms including the service quality management system and the passenger services payment system, which as a result, improved the service digitalization and innovation capability.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis are based on the Group’s interim condensed consolidated financial statements and notes thereto which were prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” as well as the applicable disclosure requirements under Appendix 16 to the Listing Rules and are designed to assist the readers in further understanding the information provided in this announcement so as to better understand the financial conditions and results of operations of the Group as a whole.

OPERATION ANALYSIS

During the first half of 2021, the Group’s available seat kilometres for air passenger amounted to 82,500 million, representing a year-on-year increase of 25.83%; the total air passenger traffic amounted to 58,253 million RPK, representing a year-on-year increase of 31.73%; passenger load factor was 70.61%, representing a year-on-year increase of 3.16 percentage points. The available freight tonne kilometres for freight amounted to 5,494 million, representing a year-on-year increase of 36.15%; the total cargo and mail traffic amounted to 2,067 million tonne kilometres, representing a year-on-year increase of 41.70%; cargo and mail load factor was 37.63%, representing a year-on-year increase of 1.47 percentage points. During the Reporting Period, the Group recorded a loss attributable to equity shareholders of the Company of RMB6,781 million, representing a year-on-year decrease in loss of RMB2,658 million.

Revenue

During the Reporting Period, the Group’s revenue was RMB37,664 million, representing a year-on-year increase of RMB8,018 million or 27.05%. Among the revenues, air traffic revenue was RMB35,470 million, representing a year-on-year increase of RMB8,331 million or 30.70%. Other operating revenue was RMB2,194 million, representing a year-on-year decrease of RMB313 million or 12.49%.

Revenue Contributed by Geographical Segments

<i>(in RMB'000)</i>	For the six months ended 30 June				
	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
International	5,107,946	13.56%	9,725,366	32.81%	(47.48%)
Mainland China	31,931,808	84.78%	19,186,009	64.72%	66.43%
Hong Kong SAR, Macau SAR and Taiwan, China	<u>624,049</u>	<u>1.66%</u>	<u>734,391</u>	<u>2.47%</u>	<u>(15.02%)</u>
Total	<u>37,663,803</u>	<u>100.00%</u>	<u>29,645,766</u>	<u>100.00%</u>	<u>27.05%</u>

Air Passenger Revenue

During the Reporting Period, the Group recorded an air passenger revenue of RMB30,895 million, representing an increase of RMB7,947 million or 34.63% from that of the same period in 2020. Among the air passenger revenue, the increase of capacity resulted in an increase in revenue of RMB5,927 million, the increase of passenger load factor resulted in an increase in revenue of RMB1,353 million, while the increase of passenger yield resulted in an increase in revenue of RMB667 million. The capacity, passenger load factor and yield per RPK of air passenger business during the Reporting Period are as follows:

	For the six months ended 30 June		
	2021	2020	Change
Available seat kilometres (<i>million</i>)	82,499.92	65,565.98	25.83%
Passenger load factor (%)	70.61	67.45	3.16ppt
Yield per RPK (<i>RMB</i>)	0.5304	0.5189	2.22%

Air Passenger Revenue Contributed by Geographical Segments

<i>(in RMB'000)</i>	For the six months ended 30 June				
	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
International	1,481,942	4.80%	6,320,556	27.54%	(76.55%)
Mainland China	28,929,694	93.64%	16,053,091	69.95%	80.21%
Hong Kong SAR, Macau SAR and Taiwan, China	<u>483,530</u>	<u>1.56%</u>	<u>574,667</u>	<u>2.51%</u>	<u>(15.86%)</u>
Total	<u>30,895,166</u>	<u>100.00%</u>	<u>22,948,314</u>	<u>100.00%</u>	<u>34.63%</u>

Air Cargo and Mail Revenue

During the Reporting Period, the Group's air cargo and mail revenue was RMB4,575 million, representing an increase of RMB384 million as compared with that of the same period in 2020. Among the air cargo and mail revenue, the increase of capacity resulted in an increase in revenue of RMB1,515 million, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB232 million, and the decrease of yield of cargo and mail contributed to a decrease in revenue of RMB1,363 million. The capacity, cargo and mail load factor and yield per RFTK of air cargo and mail business during the Reporting Period are as follows:

	For the six months ended 30 June		
	2021	2020	Change
Available freight tonne kilometres (<i>million</i>)	5,494.08	4,035.20	36.15%
Cargo and mail load factor (%)	37.63	36.16	1.47ppt
Yield per RFTK (<i>RMB</i>)	2.2130	2.8721	(22.95%)

Air Cargo and Mail Revenue Contributed by Geographical Segments

<i>(in RMB'000)</i>	For the six months ended 30 June				
	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
International	3,626,004	79.25%	3,404,810	81.25%	6.50%
Mainland China	808,780	17.68%	625,984	14.94%	29.20%
Hong Kong SAR, Macau SAR and Taiwan, China	140,519	3.07%	159,724	3.81%	(12.02%)
Total	<u>4,575,303</u>	<u>100.00%</u>	<u>4,190,518</u>	<u>100.00%</u>	<u>9.18%</u>

Operating Expenses

During the Reporting Period, the Group's operating expenses were RMB45,996 million, representing an increase of 20.42% from RMB38,196 million for the same period of the previous year. The breakdown of the operating expenses is set out below:

<i>(in RMB'000)</i>	For the six months ended 30 June		2020		Change
	2021		Amount	Percentage	
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	9,914,804	21.56%	6,811,760	17.83%	45.55%
Take-off, landing and depot charges	5,020,224	10.91%	3,893,701	10.19%	28.93%
Depreciation and amortisation	10,331,621	22.46%	9,964,824	26.09%	3.68%
Aircraft maintenance, repair and overhaul costs	3,586,761	7.80%	2,874,176	7.52%	24.79%
Employee compensation costs	11,301,581	24.57%	10,091,701	26.42%	11.99%
Air catering charges	912,392	1.98%	625,766	1.64%	45.80%
Selling and marketing expenses	1,140,228	2.48%	1,082,586	2.83%	5.32%
General and administrative expenses	469,485	1.02%	511,959	1.34%	(8.30%)
Others	3,318,460	7.22%	2,339,027	6.14%	41.87%
Total	<u>45,995,556</u>	<u>100.00%</u>	<u>38,195,500</u>	<u>100.00%</u>	<u>20.42%</u>

- Jet fuel costs increased by RMB3,103 million on a year-on-year basis, mainly due to the combined effect of the increase in the consumption and prices of jet fuel.
- Take-off, landing and depot charges increased by RMB1,127 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 RMB367 million on a year-on-year basis, mainly due to the increase in the fleet size.
- Aircraft maintenance, repair and overhaul costs increased by RMB713 million on a year-on-year basis, mainly due to the increase in the fleet size and the increase in the investment in production and operation.
- Employee compensation costs increased by RMB1,210 million on a year-on-year basis, mainly due to the increase in investment in production and operation and the effect of 50% reduction in social insurance contribution in the same period of the previous year.

- Air catering charges increased by RMB287 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 41.87% 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.

Net Exchange Gain (Loss) and Finance Costs

During the Reporting Period, the Group recorded a net exchange gain of RMB563 million, as compared to a net exchange loss of RMB1,019 million for the same period of the previous year. The Group incurred finance costs of RMB2,658 million (excluding those capitalised) during the Reporting Period, representing a year-on-year increase of RMB110 million.

Share of Results of Associates and Joint Ventures

During the Reporting Period, the Group's share of losses of its associates was RMB1,419 million, representing a year-on-year decrease of RMB1,592 million. The Group recorded a loss on investment of Cathay Pacific of RMB1,364 million during the Reporting Period, representing a year-on-year decrease of RMB1,009 million; and recorded a loss on investment of Shandong Aviation Group Corporation and Shandong Airlines of RMB91 million, representing a year-on-year decrease of RMB410 million.

During the Reporting Period, the Group's share of profits of its joint ventures was RMB110 million, representing a year-on-year increase of RMB3 million.

Assets Structure Analysis

As at the end of the Reporting Period, the total assets of the Group were RMB287,992 million, representing an increase of 1.39% from that as at 31 December 2020. Among them, the current assets accounted for RMB23,498 million or 8.16% of the total assets, while the non-current assets accounted for RMB264,494 million or 91.84% of the total assets.

Among the current assets, cash and cash equivalents were RMB8,452 million, representing an increase of 44.78% from that as at 31 December 2020, which was mainly due to the flexible adjustment of available liquidity in line with the capital arrangement of the Group.

Among the non-current assets, the aggregate carrying amount of property, plant and equipment and right-of-use assets as at the end of the Reporting Period was RMB218,494 million, representing an increase of 1.21% 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 flight equipment, buildings and machinery with an aggregated net book value of approximately RMB85,687 million (31 December 2020: RMB79,981 million) and land use rights with net book value of approximately RMB26 million (31 December 2020: RMB27 million). In addition, the Group had restricted bank deposits of approximately RMB643 million (31 December 2020: approximately RMB737 million), which were mainly reserves deposited in the People's Bank of China.

Capital Expenditure

During the Reporting Period, the Group's capital expenditure amounted to a total of RMB6,501 million, of which the total investment in aircraft and engines was RMB4,620 million. Other capital expenditure investment amounted to RMB1,881 million, mainly including investment in rotables, flight simulators, 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 RMB10,234 million, representing a decrease of 6.44% from that as at 31 December 2020, among which, the balance of the equity investment of the Group in Cathay Pacific and Shandong Aviation Group Corporation amounted to RMB9,115 million and RMB634 million, respectively.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,667 million, representing an increase of 5.44% from that as at 31 December 2020.

Debt Structure Analysis

As at the end of the Reporting Period, the total liabilities of the Group amounted to RMB210,765 million, representing an increase of 5.25% from those as at 31 December 2020, among which current liabilities were RMB85,860 million and non-current liabilities were RMB124,905 million, accounting for 40.74% and 59.26% of the total liabilities, respectively.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and short-term commercial papers, bills payable and lease liabilities) amounted to RMB53,254 million, remaining relatively stable as compared with that as at 31 December 2020.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings, corporate bonds and lease liabilities) amounted to RMB113,590 million, representing an increase of 5.43% from that as at 31 December 2020.

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

<i>(in RMB'000)</i>	30 June 2021		31 December 2020		Change
	Amount	Percentage	Amount	Percentage	
RMB	117,043,872	70.15%	109,420,080	67.97%	6.97%
US dollars	48,839,674	29.27%	49,669,410	30.85%	(1.67%)
Others	961,119	0.58%	1,902,082	1.18%	(49.47%)
Total	<u>166,844,665</u>	<u>100.00%</u>	<u>160,991,572</u>	<u>100.00%</u>	<u>3.64%</u>

Commitments

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, increased by 6.59% from RMB41,020 million as at 31 December 2020 to RMB43,722 million as at the end of the Reporting Period. The Group's investment commitments, which was mainly used for the investment agreements entered into, amounted to RMB23 million as at the end of the Reporting Period, remaining stable as compared with that as at 31 December 2020, which was mainly attributable to the investment in GA Innovation China Co., Ltd.

Gearing Ratio

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 73.18%, representing an increase of 2.67 percentage points from that as at 31 December 2020. High gearing ratio is common among aviation enterprises, and the current gearing ratio of the Group is at a reasonable level. 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 RMB62,361 million, representing an increase of RMB1,499 million from that as at 31 December 2020. The Group's current ratio (current assets divided by current liabilities) was 0.27, representing an increase of 0.03 as compared to that 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 RMB4,432 million, as compared to the net cash outflow of RMB10,256 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 inflow from investing activities was RMB846 million, as compared with the net cash outflow of RMB7,397 million for the corresponding period in 2020, mainly due to the year-on-year decrease in the cash payment for the acquisition of fixed assets and other long-term assets during the Reporting Period. Net cash outflow from financing activities amounted to RMB2,638 million, as compared with the net cash inflow from financing activities of RMB22,148 million for the same period of 2020, mainly due to the increase 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 up to RMB179,347 million granted by several banks in the PRC, among which approximately RMB55,215 million has been utilised. The remaining amount is sufficient to meet our demands on working capital and future capital commitments.

POTENTIAL RISKS

1. Risks of External Environment

Market Fluctuation

With ongoing pandemic prevention and control measures, China stayed committed to the general working principle of pursuing progress while ensuring stability in the first half of 2021. Adopting the new development concept, China promoted high-quality development and devoted strenuous efforts to the “Six Stabilities”. This led to steady economic recovery, overall positive market expectation, as well as orderly planning and commencement of various tasks for the “14th Five-Year Plan”. However, the recovery and growth of the international aviation market is still subject to great uncertainties due to the ongoing spread and resurgence of pandemic worldwide and certain outbreak of the pandemic in China.

Oil Price Fluctuation

During the Reporting Period, the global oil price was on the rise. Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group's performance is substantially subject to the fluctuation of 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 RMB496 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 of the Group 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 an increase or decrease in the Group's net profit and shareholders' equity as at 30 June 2021 by RMB354 million.

2. *Risks of Competition*

Industry competition

As the COVID-19 pandemic weakened the global market demand, domestic aviation companies increased their investments in the domestic market, which might escalate the competition in the domestic market. In addition, global airlines grounded a large number of planes and faced a cash flow crisis, while many aviation companies around the world entered bankruptcy or restructuring. Such integration is expected to alleviate excess capacity and facilitate the integration of civil aviation resources and subsequent development.

Alternative competition

China has built the world's largest high-speed railway network. It is extending its reach towards central and western China and accelerating 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 international hubs. Regarding the domestic routes, as the Company's medium- and short-haul routes account for a relatively low proportion in the industry, the Company may suffer from the competition of high-speed railway transportation to a limited extent overall.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

INTERIM DIVIDEND

No interim dividend will be paid by the Company for the six months ended 30 June 2021.

SUBSEQUENT EVENTS

On 20 July 2021, Mr. Ma Chongxian was elected as an executive Director. The appointment of Mr. Ma as vice chairman of the Company took effect on 20 July 2021. For details, please refer to the announcements of the Company dated 31 May 2021 and 20 July 2021 and the notice of extraordinary general meeting of the Company dated 3 June 2021.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Reporting Period, except for code provision A.4.2 and code provision A.5.1.

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, the re-election and appointment of members of the Board and the Supervisory Committee was postponed. The terms of the special committees of the fifth session of the Board are also extended accordingly. The Company will endeavour to complete the re-election and appointment of members of the Board and the Supervisory Committee as soon as possible and fulfill respective information disclosure obligations in a timely manner. All members of the fifth session of the Board and the Supervisory Committee of the Company will continue 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 is completed. The postponed re-election of the members of the Board and the Supervisory Committee will not affect the normal operation of the Company.

Code provision A.5.1 requires that the nomination committee shall comprise a majority of independent non-executive Directors. Effective from 9 February 2021, Mr. Wang Xiaokang resigned from his position as an independent non-executive Director of the Company due to his age. Following the resignation of Mr. Wang Xiaokang, the Company failed to meet the composition requirements of code provision A.5.1 which require that the nomination committee shall comprise a majority of independent non-executive Directors. On 30 March 2021, Mr. Duan Hongyi, an independent non-executive Director, was elected as a member of the nomination and remuneration committee of the Board. Since then, the Company has complied with all requirements of code provision A.5.1.

Compliance with the Model Code

The Company has adopted and formulated a code of conduct on terms no less stringent than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. After making specific enquiries, the Company confirmed that each Director and each Supervisor have complied with the required standards of the Model Code and the Company's code of conduct throughout the Reporting Period.

DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

In order to comply with the requirements under paragraph 46 of Appendix 16 to the Listing Rules, the Company confirmed that save as disclosed in this announcement, there are no material changes in the current information of the Company in relation to matters as set out in paragraph 46(3) of Appendix 16 to the Listing Rules as compared with relevant disclosures in 2020 annual report of the Company.

REVIEW BY THE AUDIT AND RISK CONTROL COMMITTEE

The audit and risk control committee of the Company has reviewed the Company's interim results for the six months ended 30 June 2021, the Company's unaudited interim condensed consolidated financial statements and the accounting policies and practices adopted by the Group.

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

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

“cargo and mail load factor” RFTK expressed as a percentage of AFTK

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

“block hour” 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 announcement, the following expressions shall have the following meanings unless the context requires:

“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
“A Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which is/are subscribed for and traded in Renminbi and listed on the 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
“Cathay Pacific”	Cathay Pacific Airways Limited, an associate of the Company
“CNAHC”	China National Aviation Holding Corporation Limited
“Company” 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
“Dalian Airlines”	Dalian Airlines Company Limited, a non-wholly owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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 is/are listed on the Hong Kong Stock Exchange (as primary listing venue) and has/have been admitted into the Official List of the UK Listing Authority (as secondary listing venue)

“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
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“Reporting Period”	the period from 1 January 2021 to 30 June 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SAR”	Special Administrative Region of the People’s Republic of China
“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
“Shareholder(s)”	the shareholder(s) of the Company
“Shenzhen Airlines”	Shenzhen Airlines Company Limited, a non-wholly owned subsidiary of the Company
“US dollars”	United States dollars, the lawful currency of the United States

By Order of the Board
Air China Limited
Zhou Feng
Company Secretary

Beijing, the PRC, 27 August 2021

As at the date of this announcement, the directors of the Company are Mr. Song Zhiyong, Mr. Ma Chongxian, Mr. Feng Gang, Mr. Patrick Healy, Mr. Xue Yasong, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*