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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)

2021 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

- During the Reporting Period, the Group recorded a revenue of RMB74,532 million with loss before taxation of RMB21,826 million. The net loss attributable to equity shareholders of the Company was RMB16,635 million.
- As considered and approved by the second meeting of the sixth session of the Board of the Company, the Company proposed not to make profit distribution for the year of 2021.

 **2021 ANNUAL RESULTS**

The Board hereby announces the audited consolidated financial results of the Group for the year ended 31 December 2021 together with the corresponding comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	3	74,531,670	69,503,749
Other income and gains	5	4,070,762	4,356,946
		<u>78,602,432</u>	<u>73,860,695</u>
Operating expenses			
Jet fuel costs		(20,703,780)	(14,817,474)
Employee compensation costs		(24,230,071)	(22,012,834)
Depreciation and amortisation		(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		(292,562)	(439,656)
Impairment loss recognised on intangible assets		(750)	–
Net impairment loss reversed under expected credit loss model		163,148	92,598
		<u>(95,464,608)</u>	<u>(85,029,515)</u>
Loss from operations	6	(16,862,176)	(11,168,820)
Finance income		112,062	191,598
Finance costs	7	(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
		<u>(21,825,530)</u>	<u>(18,466,406)</u>
Loss before taxation		(21,825,530)	(18,466,406)
Income tax credit	8	3,003,292	2,650,275
		<u>(18,822,238)</u>	<u>(15,816,131)</u>
Loss for the year		<u>(18,822,238)</u>	<u>(15,816,131)</u>
Attributable to:			
– Equity shareholders of the Company		(16,635,178)	(14,403,343)
– Non-controlling interests		(2,187,060)	(1,412,788)
		<u>(18,822,238)</u>	<u>(15,816,131)</u>
Loss per share			
– Basic and diluted	9	<u>RMB (121.12) cents</u>	<u>RMB(104.87) cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss for the year	<u>(18,822,238)</u>	<u>(15,816,131)</u>
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	<u>14,114</u>	<u>4,983</u>
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	<u>1,854</u>	<u>(832)</u>
Other comprehensive income/(expense) for the year (net of tax)	<u>417,102</u>	<u>(886,865)</u>
Total comprehensive expense for the year	<u><u>(18,405,136)</u></u>	<u><u>(16,702,996)</u></u>
Attributable to:		
– Equity shareholders of the Company	(16,172,537)	(15,260,368)
– Non-controlling interests	<u>(2,232,599)</u>	<u>(1,442,628)</u>
	<u><u>(18,405,136)</u></u>	<u><u>(16,702,996)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTE	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment		98,804,707	101,346,490
Right-of-use assets		121,610,254	114,539,680
Investment properties		571,798	600,329
Intangible assets		35,430	36,580
Goodwill		1,099,975	1,099,975
Interests in associates		10,390,940	10,938,428
Interests in joint ventures		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		176,323	233,180
Debt instruments at fair value through other comprehensive income		1,373,634	1,344,829
Deferred tax assets		9,757,097	6,750,883
Other non-current assets		257,320	298,836
		<u>267,984,462</u>	<u>264,293,714</u>
Current assets			
Inventories		2,050,282	1,853,990
Accounts receivable	11	2,991,037	2,942,799
Bills receivable		3,591	6,593
Prepayments, deposits and other receivables		3,631,521	3,912,471
Financial assets at fair value through profit or loss		4,157	–
Restricted bank deposits		774,951	737,245
Cash and cash equivalents		15,934,713	5,837,998
Assets held for sale		333,884	–
Other current assets		4,672,592	4,444,806
		<u>30,396,728</u>	<u>19,735,902</u>
Total assets		<u><u>298,381,190</u></u>	<u><u>284,029,616</u></u>

		31 December 2021	31 December 2020
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Air traffic liabilities		(2,116,028)	(2,002,649)
Accounts payable	12	(12,590,775)	(12,510,582)
Bills payable		(199,276)	(62,570)
Dividends payable		(98,000)	(98,000)
Other payables and accruals		(19,593,940)	(11,177,928)
Current taxation		(4,572)	(45,614)
Lease liabilities		(14,534,309)	(13,560,862)
Interest-bearing borrowings		(40,201,875)	(39,630,365)
Provision for return condition checks		(801,235)	(229,514)
Contract liabilities		(1,479,717)	(1,280,102)
		<u>(91,619,727)</u>	<u>(80,598,186)</u>
Net current liabilities		<u>(61,222,999)</u>	<u>(60,862,284)</u>
Total assets less current liabilities		<u>206,761,463</u>	<u>203,431,430</u>
Non-current liabilities			
Lease liabilities		(76,347,051)	(76,098,678)
Interest-bearing borrowings		(53,120,047)	(31,639,097)
Provision for return condition checks		(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		(1,772,209)	(2,264,843)
Defined benefit obligations		(218,336)	(229,332)
Deferred income		(544,383)	(488,791)
Deferred tax liabilities		(328,063)	(334,720)
		<u>(140,930,352)</u>	<u>(119,658,394)</u>
NET ASSETS		<u><u>65,831,111</u></u>	<u><u>83,773,036</u></u>
CAPITAL AND RESERVES			
Issued capital		14,524,815	14,524,815
Treasury shares		(3,047,564)	(3,047,564)
Reserves		49,891,306	66,064,076
Total equity attributable to equity shareholders of the Company		<u>61,368,557</u>	77,541,327
Non-controlling interests		<u>4,462,554</u>	<u>6,231,709</u>
TOTAL EQUITY		<u><u>65,831,111</u></u>	<u><u>83,773,036</u></u>

NOTES

FOR THE YEAR ENDED 31 DECEMBER 2021

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board. 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 and by the Hong Kong 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. 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.

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.

2. 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, Interest Rate Benchmark Reform – Phase 2
IFRS 7, IFRS 4 and IFRS 16

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

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.

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	<i>Insurance Contracts and the related Amendments²</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to IAS 37	<i>Onerous Contracts-Cost of Fulfilling a Contract¹</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2018-2020¹</i>

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.

3. REVENUE

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

Disaggregation of revenue from contracts with customers

Segments	2021		2020	
	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>	Airline operations <i>RMB'000</i>	Other operations <i>RMB'000</i>
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	<u>1,364,285</u>	–	<u>1,565,162</u>	–
	<u>70,997,080</u>	–	<u>66,085,144</u>	–
Other operations				
Aircraft engineering income	–	2,901,247	–	2,771,588
Others	–	<u>346,592</u>	–	<u>388,198</u>
	–	<u>3,247,839</u>	–	<u>3,159,786</u>
Total	<u>70,997,080</u>	<u>3,247,839</u>	<u>66,085,144</u>	<u>3,159,786</u>
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	<u>12,525,607</u>	–	<u>16,517,308</u>	–
Total	<u>70,997,080</u>	<u>3,247,839</u>	<u>66,085,144</u>	<u>3,159,786</u>

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.

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.

4. 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:

Year ended 31 December 2021

	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	71,283,831	3,247,839	–	74,531,670
Inter-segment sales	<u>166,623</u>	<u>5,846,246</u>	<u>(6,012,869)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u><u>71,450,454</u></u>	<u><u>9,094,085</u></u>	<u><u>(6,012,869)</u></u>	<u><u>74,531,670</u></u>
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	<u><u>(21,687,315)</u></u>	<u><u>(93,034)</u></u>	<u><u>(54,690)</u></u>	<u><u>(21,835,039)</u></u>
Effect of differences between IFRSs and CASs				<u>9,509</u>
Loss before taxation for the year under IFRSs				<u><u>(21,825,530)</u></u>

Year ended 31 December 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	66,343,963	3,159,786	–	69,503,749
Inter-segment sales	<u>171,659</u>	<u>6,406,908</u>	<u>(6,578,567)</u>	<u>–</u>
Revenue for reportable segments under CASs and IFRSs	<u><u>66,515,622</u></u>	<u><u>9,566,694</u></u>	<u><u>(6,578,567)</u></u>	<u><u>69,503,749</u></u>
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	<u><u>(18,129,295)</u></u>	<u><u>(62,012)</u></u>	<u><u>(283,213)</u></u>	<u><u>(18,474,520)</u></u>
Effect of differences between IFRSs and CASs				<u>8,114</u>
Loss before taxation for the year under IFRSs				<u><u>(18,466,406)</u></u>

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	<u>283,966,030</u>	<u>30,399,066</u>	<u>(15,949,944)</u>	<u>298,415,152</u>
Effect of differences between IFRSs and CASs				<u>(33,962)</u>
Total assets under IFRSs				<u><u>298,381,190</u></u>
Total assets for reportable segments as at 31 December 2020 under CASs	<u>276,189,234</u>	<u>21,125,795</u>	<u>(13,244,319)</u>	<u>284,070,710</u>
Effect of differences between IFRSs and CASs				<u>(41,094)</u>
Total assets under IFRSs				<u><u>284,029,616</u></u>
	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	<u>224,449,461</u>	<u>23,710,137</u>	<u>(15,609,519)</u>	<u>232,550,079</u>
Total liabilities for reportable segments as at 31 December 2020 under CASs and IFRSs	<u>198,629,828</u>	<u>14,553,683</u>	<u>(12,926,931)</u>	<u>200,256,580</u>

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/ (recognised) 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	<u>24,007,672</u>	<u>531,694</u>	<u>(14,077)</u>	<u>24,525,289</u>	<u>–</u>	<u>24,525,289</u>

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	<u>18,799,950</u>	<u>261,633</u>	<u>(92,187)</u>	<u>18,969,396</u>	<u>–</u>	<u>18,969,396</u>

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 <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>60,833,951</u>	<u>1,172,112</u>	<u>12,525,607</u>	<u>74,531,670</u>

Year ended 31 December 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>51,953,674</u>	<u>1,032,767</u>	<u>16,517,308</u>	<u>69,503,749</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.

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.

5. OTHER INCOME AND GAINS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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
	<u>4,070,762</u>	<u>4,356,946</u>

6. LOSS FROM OPERATIONS

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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
	<u>20,934,502</u>	<u>20,408,317</u>
Impairment losses recognised on property, plant and equipment	292,562	439,656
Impairment losses recognised on intangible assets	750	–
Impairment losses recognised on inventories	44,122	35,958
Auditors' remuneration:		
– Audit related services	18,017	18,660
– Other services	1,581	435
	<u>1,581</u>	<u>435</u>

7. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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	<u>7,749</u>	<u>8,163</u>
	5,774,790	5,551,578
Less: Interest capitalised	<u>(279,738)</u>	<u>(451,793)</u>
	<u><u>5,495,052</u></u>	<u><u>5,099,785</u></u>

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.

8. INCOME TAX CREDIT

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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	<u>(2,997,939)</u>	<u>(2,682,213)</u>
	<u><u>(3,003,292)</u></u>	<u><u>(2,650,275)</u></u>

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.

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

	2021	2020
	RMB'000	RMB'000
Loss before taxation	<u>(21,825,530)</u>	<u>(18,466,406)</u>
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	<u>(35,341)</u>	<u>7,718</u>
Income tax credit for the year	<u>(3,003,292)</u>	<u>(2,650,275)</u>

9. 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 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss		
Loss for the purpose of basic and diluted loss per share	<u>(16,635,178)</u>	<u>(14,403,343)</u>
	2021 <i>'000</i>	2020 <i>'000</i>
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	<u>13,734,961</u>	<u>13,734,961</u>

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.

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

10. 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.

11. ACCOUNTS RECEIVABLE

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

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 <i>RMB'000</i>	2020 <i>RMB'000</i>
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	<u>168,422</u>	<u>924,240</u>
	<u>2,991,037</u>	<u>2,942,799</u>

12. ACCOUNTS PAYABLE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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	<u>6,026,897</u>	<u>5,055,880</u>
	<u>12,590,775</u>	<u>12,510,582</u>

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

CONSOLIDATED BALANCE SHEET

At 31 December 2021

(Prepared under the CASs)

ASSETS	31 December 2021 RMB'000	31 December 2020 RMB'000
Current assets		
Cash and bank	16,709,664	6,575,243
Financial assets at fair value through profit or loss	4,157	–
Bills receivable	3,591	6,593
Accounts receivable	2,991,037	2,942,799
Prepayments	440,274	421,237
Other receivables	3,191,247	3,491,233
Inventories	2,050,282	1,853,990
Assets held for sale	333,884	–
Other current assets	4,672,592	4,444,806
Total current assets	30,396,728	19,735,901
Non-current assets		
Debt instruments at fair value through other comprehensive income	1,373,634	1,344,829
Long-term receivables	574,646	621,398
Long-term equity investments	12,081,091	12,379,614
Equity instruments at fair value through other comprehensive income	178,366	235,223
Investment properties	128,782	138,688
Fixed assets	85,009,447	87,717,717
Right-of-use assets	119,213,535	112,074,148
Construction in progress	34,862,651	38,138,866
Intangible assets	3,544,175	3,597,206
Goodwill	1,102,185	1,102,185
Long-term deferred expenses	249,358	292,972
Deferred tax assets	9,700,554	6,691,963
Total non-current assets	268,018,424	264,334,809
Total assets	298,415,152	284,070,710

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2021 RMB'000	31 December 2020 RMB'000
Current liabilities		
Short-term loans	22,001,916	29,327,087
Short-term bonds payable	12,332,635	510,810
Bills payable	199,276	62,570
Accounts payable	13,307,360	12,740,096
Air traffic liabilities	2,116,028	2,002,649
Contract liabilities	1,479,717	1,280,102
Employee compensations payable	3,502,384	2,608,944
Taxes payable	166,085	206,547
Other payables	17,239,846	9,600,645
Non-current liabilities repayable within one year	<u>19,070,477</u>	<u>22,054,735</u>
Total current liabilities	<u>91,415,724</u>	<u>80,394,185</u>
Non-current liabilities		
Long-term loans	43,620,468	21,140,699
Corporate bonds	9,499,579	10,498,398
Long-term payables	5,656,909	5,783,825
Lease liabilities	76,347,051	76,098,678
Defined benefit obligations	218,336	229,332
Accrued liabilities	3,147,357	3,023,109
Deferred income	544,383	488,791
Deferred tax liabilities	328,063	334,720
Other non-current liabilities	<u>1,772,209</u>	<u>2,264,843</u>
Total non-current liabilities	<u>141,134,355</u>	<u>119,862,395</u>
Total liabilities	<u>232,550,079</u>	<u>200,256,580</u>
Shareholders' equity		
Issued capital	14,524,815	14,524,815
Capital reserve	26,270,841	26,270,841
Other comprehensive income	(405,309)	(871,587)
Reserve funds	11,564,287	11,564,287
Retained earnings	9,315,969	25,983,437
General reserve	<u>131,916</u>	<u>110,628</u>
Equity attributable to shareholders of the Company	<u>61,402,519</u>	77,582,421
Non-controlling interests	<u>4,462,554</u>	<u>6,231,709</u>
Total shareholders' equity	<u>65,865,073</u>	<u>83,814,130</u>
Total liabilities and shareholders' equity	<u>298,415,152</u>	<u>284,070,710</u>

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Net loss attributable to shareholders of the Company under CASS	(16,642,310)	(14,409,429)
Deferred taxation	(2,377)	(2,028)
Differences in value of fixed assets and other non-current assets	9,509	8,114
Net loss attributable to shareholders of the Company under IFRSs	<u>(16,635,178)</u>	<u>(14,403,343)</u>
	31 December 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Equity attributable to shareholders of the Company under CASS	61,402,519	77,582,421
Deferred taxation	56,543	58,920
Differences in value of fixed assets and other non-current assets	(230,424)	(239,933)
Unrealised profit of the disposal of Hong Kong Dragon Airlines Limited	139,919	139,919
Equity attributable to shareholders of the Company under IFRSs	<u>61,368,557</u>	<u>77,541,327</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.

	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%

	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)
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	<u>46</u>	<u>15</u>	<u>9</u>	<u>22</u>	<u>15</u>	<u>11</u>

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

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.

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” (盒你說) 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 prevention and control in relation to the transportation services of the Winter Olympics with an aim to reinforcing the requirements on “preventing infections from people, contaminated objects and environment” with high standards. Furthermore, by staying committed to the “athlete-oriented” approach, the Company provided quality services, improved the whole process of service safeguarding plan and continued 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.

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 announcement 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

<i>(in RMB'000)</i>	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
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	<u>74,531,670</u>	<u>100.00%</u>	<u>69,503,749</u>	<u>100.00%</u>	<u>7.23%</u>

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 (<i>million</i>)	152,444.53	156,060.66	(2.32%)
Passenger load factor (%)	68.63	70.38	(1.75 ppt)
Yield per RPK (<i>RMB</i>)	0.5574	0.5074	9.85%

Air Passenger Revenue Contributed by Geographical Segments

<i>(in RMB'000)</i>	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
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	<u>58,316,695</u>	<u>100.00%</u>	<u>55,726,862</u>	<u>100.00%</u>	<u>4.65%</u>

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 (<i>million</i>)	10,760.61	9,634.66	11.69%
Cargo and mail load factor (%)	39.99	36.93	3.06 ppt
Yield per RFTK (<i>RMB</i>)	2.5828	2.4040	7.44%

Air Cargo and Mail Revenue Contributed by Geographical Segments

<i>(in RMB'000)</i>	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
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	<u>11,113,288</u>	<u>100.00%</u>	<u>8,553,407</u>	<u>100.00%</u>	<u>29.93%</u>

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:

<i>(in RMB'000)</i>	2021		2020		Change
	Amount	Percentage	Amount	Percentage	
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 Aircraft maintenance, repair and overhaul costs	20,934,502	21.93%	20,408,317	24.00%	2.58%
	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	<u>95,464,608</u>	<u>100.00%</u>	<u>85,029,515</u>	<u>100.00%</u>	<u>12.27%</u>

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:

<i>(in RMB'000)</i>	31 December 2021		31 December 2020		Change
	Amount	Percentage	Amount	Percentage	
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	<u>1,294,474</u>	<u>0.70%</u>	<u>1,902,083</u>	<u>1.19%</u>	<u>(31.94%)</u>
Total	<u>184,402,558</u>	<u>100.00%</u>	<u>160,991,573</u>	<u>100.00%</u>	<u>14.54%</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, 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.

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.

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.

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	<u>4,562,683,364</u>	<u>31.41%</u>
Total	<u><u>14,524,815,185</u></u>	<u><u>100.00%</u></u>

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries 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).

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has always 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.

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 fully completed during the Reporting Period, the re-election and appointment of members of the Board and the Supervisory Committee of the Company have been postponed. The terms of the special committees of the fifth session of the Board of the Company have also been 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 of the Company 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 was completed. The postponed re-election of the members of the Board and the Supervisory Committee of the Company did not affect the normal operation of the Company.

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. 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.

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.

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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company proposed to convene the AGM 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 shares will be effected. In order to qualify for attendance and voting at the AGM, 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 AGM.

ANNUAL REPORT

The annual report for the year ended 31 December 2021 containing all information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.airchina.com.cn) in due course.

FORWARD-LOOKING STATEMENT

The Company would like to remind the readers of this announcement that the airline operations are substantially influenced by global political and economic developments. Accidental and unexpected incidents may have material impacts on our operations or the industry as a whole. This 2021 annual results announcement of the Company contains, inter alia, certain forward-looking statements, such as forward-looking statements on the global and Chinese economies and aviation markets. Such forward-looking statements are subject to some uncertainties and risks.

AUDIT AND RISK CONTROL COMMITTEE

The 2021 annual results of the Company have been reviewed by the audit and risk control committee (supervision committee) of the Board.

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

Load Factors

“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 hours”	each 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, unless the context otherwise requires, the following terms shall have the following meanings:

“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
“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
“CASs”	China Accounting Standards for Business Enterprises
“Cathay Pacific”	Cathay Pacific Airways Limited, an associate of the Company
“CNAHC”	China National Aviation Holding Corporation Limited
“COMAC”	Commercial Aircraft Corporation of China, Ltd.

“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 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)
“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 Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Reporting Period”	from 1 January 2021 to 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC
“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
“Shareholders”	the shareholders of the Company
“Shenzhen Airlines”	Shenzhen Airlines Company Limited, a non-wholly owned subsidiary of the Company
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“IATA”	International Air Transport Association
“Boeing”	Boeing Company
“Airbus”	Airbus S.A.S.
“US dollars”	United States dollars, the lawful currency of the United States

By Order of the Board
Air China Limited
Huang Bin Huen Ho Yin
Joint Company Secretaries

Beijing, the PRC, 30 March 2022

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. Li Fushen, Mr. He Yun*, Mr. Xu Junxin* and Ms. Winnie Tam Wan-chi*.*

* *Independent non-executive director of the Company*