AIR CHINA
中国国际航空公司

A STAR ALLIANCE MEMBER

Air China Limited

Stock code: 00753 Hong Kong 601111 Shanghai AIRC London

2020
ANNUAL REPORT

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

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

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

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

With the goal of becoming "the world's leading airline", Air China is actively implementing the strategic objectives of "globally leading competitive advantages, constantly enhanced development capability, excellent and unique customer experience, and steadily improved interests and benefits". Air China is dedicated to serving passengers with credibility, convenience, comfort and choice. "Air China Miles" is the oldest frequent flier programme in China, under which all members of the frequent flier programmes under various brands of its subsidiaries and associates have been consolidated into the brand of "Phoenix Miles". As at the end of the Reporting Period, the total number of "Phoenix Miles" members amounted to 68.1766 million.

As at the end of the Reporting Period, the Group had a total of 707 aircraft of various types, with an average age of 7.74 years. The Group operated a total of 674 passenger routes, including 48 international routes, 6 regional routes and 620 domestic routes. Through cooperation with members of Star Alliance, the Company has further expanded its service coverage to 1,300 destinations in 195 countries and regions.

flying
ahead

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Corporate Information

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

Blue Sky Mansion
28 Tianzhu Road
Airport Industrial Zone
Shunyi District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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Hong Kong International Airport
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WEBSITE:

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DIRECTORS:[1]

Song Zhiyong
Feng Gang
Patrick Healy
Xue Yasong
Duan Hongyi
Stanley Hui Hon-chung
Li Dajin

SUPERVISORS:[2]

Zhao Xiaohang
He Chaofan
Lyu Yanfang
Wang Jie
Qin Hao

LEGAL REPRESENTATIVE OF THE COMPANY:

Song Zhiyong

COMPANY SECRETARY:

Zhou Feng

AUTHORISED REPRESENTATIVES:

Song Zhiyong
Zhou Feng

LEGAL ADVISERS TO THE COMPANY:

DeHeng Law Offices *(as to PRC Law)*

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

INTERNATIONAL AUDITOR:

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

H SHARE REGISTRAR AND TRANSFER OFFICE:

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

LISTING VENUES:

Hong Kong, London and Shanghai

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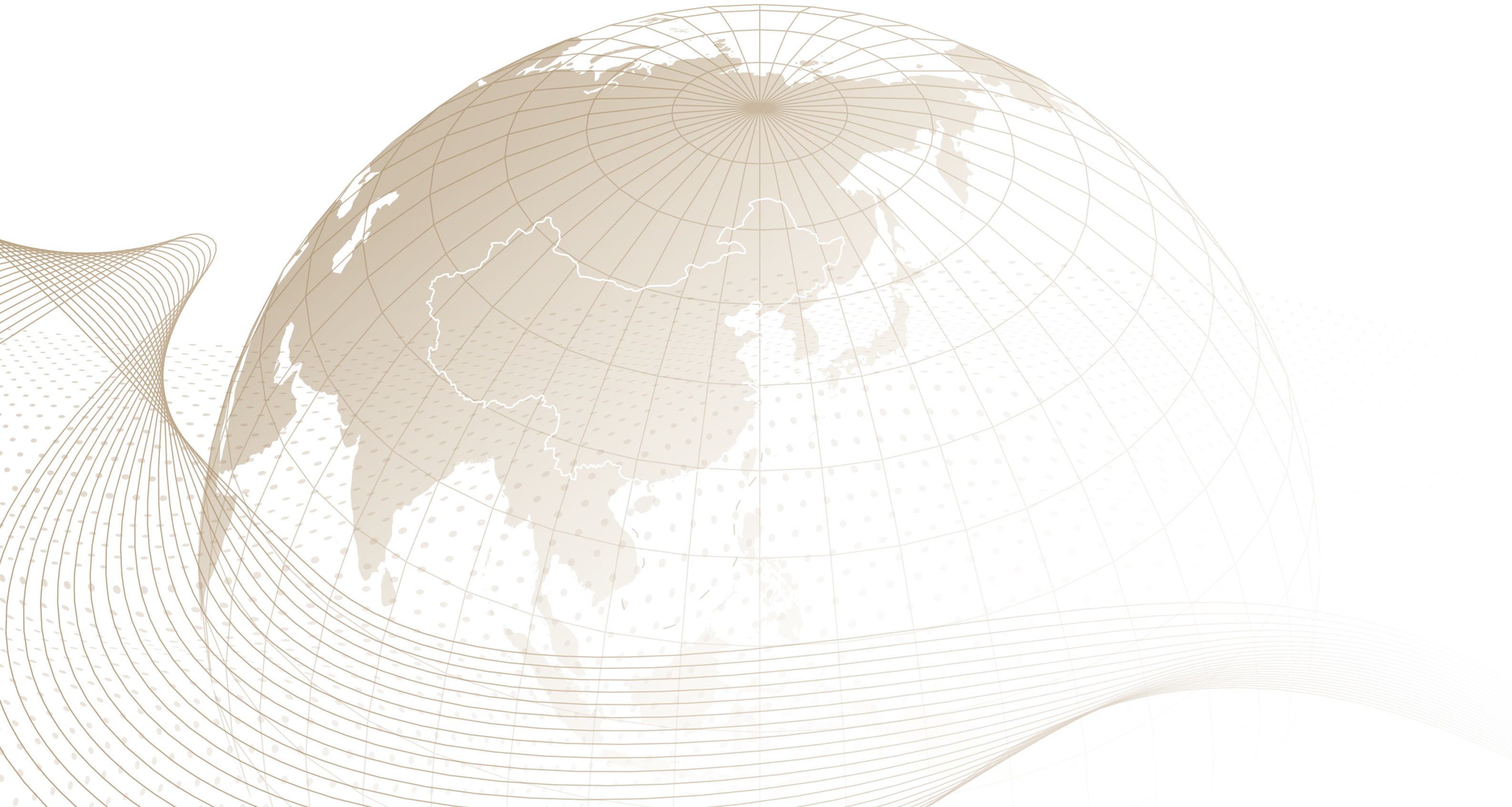
1 For details of changes in Directors of the Company during the Reporting Period and up to the date of this annual report, please refer to page 56 of this annual report.

2 For details of changes in Supervisors of the Company during the Reporting Period and up to the date of this annual report, please refer to page 56 of this annual report.

Chairman's Statement



2020 REVIEW

The year of 2020 is the final year for the 13th Five-year Plan, it is also the critical year for completing the building of a moderately prosperous society in all respects and achieving the first centenary goal. Under the strong leadership of the Central Committee of the Party with General Secretary Xi Jinping at the core, the Group resolutely carried out the decisions and deployment plans of the Central Committee of the Party and the State Council. The Group served the nation's needs for containing the pandemic and resumption of work and production as well as poverty alleviation. The Group has undertaken overall planning for various major tasks including pandemic prevention, safe production, performance maximization, targeted poverty alleviation, environmental protection, risk prevention and control and passenger services, thereby minimizing the impact of the pandemic and laying a solid foundation for the new stage of development of the Group.

Bravely carrying out the risky and challenging mission of fighting the pandemic. Facing the sudden outbreak of the COVID-19 pandemic, the Group immediately activated the emergency mechanism and fulfilled the joint responsibilities of prevention and control. The Group strictly implemented the pandemic prevention and control policies, made every effort to sustain flights for key international routes, made every effort to transport medical teams, personnel and materials and facilitated the resumption of work, production and schools. The Group has set up a three-dimensional ground-to-air prevention and control network which allowed international direct flights being resumed from Beijing. We ensured employees' health and safety by pursuing the joint virus prevention in respect of ground and aviation as well as individuals and properties. Since the outbreak of the pandemic, 216 anti-epidemic transport service charter flights have been operated, transporting 31,000 passengers, and 154 customized flights carrying 18,000 passengers for the resumption of work, production and schools. A number of teams and individuals of the Group have been awarded anti-pandemic honorary titles at the national level, and been publicly honored outstanding anti-epidemic titles by the SASAC or within the transportation industry.

Laying a safety foundation for high quality development. By giving top priority to safety as the lifeline of the Company, the Group strengthened the organizational leadership, specified the safety-oriented responsibilities and strictly implemented the responsibilities in safety supervision. The Group paid close attention to prevent and control safety and risk, strengthened the management and control of safety procedures and ensured normal operation of flights. The Group enhanced the safety infrastructures, organized and launched a specific program of "revamping corporate culture, strengthening three basics, and safeguarding the bottom line of safety", so that its requirements for the development of business practices become a part of the institution to maintain the stable position of the Group. In 2020, amidst the complicated production and operation conditions, the Group achieved a total of 1.553 million safe flight hours ensuring the safety of all kinds of major transportation missions.

Putting every effort in maximizing operating performance. The pandemic has brought unprecedented challenges to the aviation transportation industry. Facing the severe environment, the Group has strengthened market research and production organization, and focused on improving the service quality and cost-effectiveness and had taken various measures to promote operation, strengthen the performance and prevent risks. Through timely application of performance emergency response mechanism, the Group has increased revenue and cost-effectiveness in full swing so as to reverse the downward trend. The Group seized market opportunities and coordinated the allocation of production resources by taking abreast of the market changes precisely. The Group took the lead in implementing the operation model of "passenger aircraft converted for cargo operations" by grasping the trend of cargo freight supply and demand and flexibly making adjustments between passenger flights and cargo flights, resulted in 13,120 aircargo flights operated by using the passenger aircraft. In addition, the Group implemented stringent cost control to ensure a safe and steady fund flow.

Comprehensively implementing the requirements of the three critical battles. The Group focused on precision and promoted enhancement, persisted in promoting and optimizing the "8+2" targeted poverty alleviation model and dedicated to assisting the targeted poverty alleviation regions to timely accomplish the task of poverty alleviation with high quality, thereby ensuring feasible and sustainable poverty alleviation. We would continue to implement the Three-Year Action Plan for "battling against air pollution" project, accelerate the establishment of a carbon emission system and an energy conservation and environmental protection management platform and to promote the "fuel to electricity" project. By perfecting risk prevention and control, internal control, compliance and law into the "four-in-one" management mechanism, the Group would advance the development of internal audit system for preventing operational and management risks and effectively promoting the modernization of its corporate governance system and capabilities.

Steadily enhancing the service quality. The Group adhered to customer orientation, grasped the changes in passengers' demands and adjusted the service procedures so as to continuously enhance passengers' sense of security and achievement. We considered the health of our passengers as the top priority that we strictly implemented the epidemic prevention and control requirements in the whole service process and ensured our passengers' safety. We have developed a sound product management and service system and a full-process product management system by product categorization and classification. On one hand, we accelerated the establishment of the global ground support platform to improve our ability in fast response and flexible decision making under irregular operation. On the other hand, we sped up the formulation of hub-based strategic products and the development of new transit centers, promoted the creation of innovative products for convenient travel and actively promoted the domestic facial recognition-based self-boarding travel services in Beijing, thereby expanding the self-service and intelligent application. In addition, we prepared for the provision of services to the Winter Olympic Games and the Winter Paralympic Games in an orderly manner and fulfilled the mission of various safeguarding services successfully, which demonstrated the image of the Company as the partner of both the Summer Olympic Games and the Winter Olympic Games.

The period covered by the 14th Five-Year Plan is the period in which embarks a new journey to build China into a modern socialist country in all respects. Meanwhile, it is also a critical era for the Group to deepen its reform and establish itself as a top-tier global aviation and transportation group at the new stage of national development. The year of 2021 is the inception year of the 14th Five-year Plan, the Group is committed to follow the underlying principle of pursuing progress while ensuring stability. The Group will continue to enhance development quality, consolidate the success in containing the pandemic, strengthen the operational safety and development. Taking a large stride towards the development into a global leading enterprise, the Group will embrace the 100th Anniversary of the Chinese Communist Party with its outstanding performance, making new and greater contributions to China on her new journey of building a modern socialist country in all respects!

Chairman

Beijing, China
30 March 2021

Chronicle of Events

Jan

On 25 January, Air China undertook the charter flight mission of the National Health Commission for the first Sichuan medical team to fly from Chengdu to Wuhan; on 26 January, Air China undertook another charter flight mission of the National Health Commission and operated two charter flights for the first Beijing medical team and one charter flight for the first Tianjin medical team, which flew from Beijing and Tianjin to Wuhan, respectively.

Feb

On 4 February, the "Nature's Touch" cabin concept design of ACJ320neo Business Jet, which was jointly developed by Aircraft Maintenance and Engineering Corporation (AMECO) and Lufthansa Technik, won the 2020 iF Design Award from iF International Forum Design GmbH.

On 7 February, Air China actively responded to the nation's call to maintain a stable supply chain and used its passenger aircraft as freighters. It adopted the innovative model of "passenger aircraft converted for cargo operations" to ensure smooth operation of the worldwide supply chain, which played a positive role in the normal operation of the global manufacturing sector given the Covid-19 impact.

Mar

On 1 March, Air China celebrated the 55th anniversary of safe flight along the Chengdu-Lhasa route, which was once regarded as an "unflyable zone" by the global aviation industry for its widely recognized difficulty. In total, Air China has completed 101,700 safe flights, carried 13.17 million domestic and international passengers and transported 288,000 tonnes of cargoes and mails.

Apr

After 76 days of lockdown, Wuhan officially lifted its travel restrictions. On 8 April, Wuhan Tianhe International Airport recorded 38 inbound and outbound flights of the Group, connecting Wuhan with other places again. As the so-called, "Air China, distant shadow, vanish in the blue sky; on a whirlwind it mounts thousand miles, Air China took off again (國航遠影碧空盡，扶搖萬里重啟航)".

May

On 11 May, Zhaoping County, Hezhou City in Guangxi Zhuang Autonomous Region, which was the paired poverty-stricken county of CNAHC Group, had been officially lifted from the status as a national-level poverty-stricken county. Since then, all aid recipients of CNAHC Group had been lifted from the status as a national-level poverty-stricken county as scheduled. The "8+2" and "aviation+targeted poverty alleviation" plan of the Company was elected as "Top 50 Comprehensive Cases of Targeted Poverty Alleviation by Enterprises (企業精準扶貧綜合案例50佳)" by the former State Council Leading Group Office of Poverty Alleviation and Development.

On 26 May, the Company held the 2019 annual general meeting at which Mr. Feng Gang was elected as a non-executive Director and Mr. Duan Hongyi was elected as an independent non-executive Director. Since then, the new full-time deputy Party secretary and external professional Director have joined the Board.

On 28 May, Air China received the Best Airline with Breakthrough in Remote Check-in Award from the International Air Transport Association (IATA). As of the end of 2020, Air China provided electronic boarding pass service and "paperless" customs clearance at 117 terminals, which greatly enhanced convenience for passengers.

Jun

On 30 June, Beijing Airlines completed the first report in the domestic civil aviation industry in relation to carbon emission monitoring scheme, carbon emission reporting and third-party audit (2019) as the only domestic airline with an established carbon emission data monitoring system for public and business aviation flights.

Chronicle of Events

Jul

On 10 July, the first ARJ21-700 aircraft completed its first voyage on the CA1109 Beijing-Xilinhot route. As an adaptive, comfortable and economical model, ARJ21-700 aircraft will supplement the carrying capacity of the regional aircraft of the Group and facilitate the effective connection between domestic and regional routes of the Group, thereby further optimizing the overall layout of the Group's route network.

On 16 July, Air China ranked 9th and outperformed other Chinese aviation enterprises in the "2020 Top 50 Chinese Global Brands (2020年中國品牌出海50強) " that were jointly selected by WPP and Google.

On 22 July, Shenzhen Airlines won the "2019 Best Airline Award (2019年度最佳航空公司獎)" and the "CAPSE 2019 In-flight Entertainment Service Enhancement Excellent Award (CAPSE2019機上娛樂服務提升卓越獎)" in the 6th CAPSE (a civil aviation passenger service evaluation). The refined and innovative "Carefree Travel (一程無憂)" check-in service that covers the entire process won the "CAPSE 2019 Excellent and Innovative Service Award (CAPSE2019優秀創新服務獎)".

Aug

On 5 August, the World Brand Lab held the 17th "World Brand Conference" in Beijing and released the "Top 500 Most Valuable Chinese Brands 2020 (2020年中國500最具價值品牌)". Air China ranked 21st with a brand value of RMB186.519 billion, which is the highest ranking among civil aviation companies in China.

Sep

On 5 September, the 500-day countdown to the Winter Olympics, the first Winter Olympics-themed painted aircraft "Winter Olympics Ice and Snow" successfully completed its first voyage from Beijing to Chengdu on CA1415. On 22 September, this first Winter Olympics-themed painted aircraft "Winter Olympics Ice and Snow" flew to Wuhan for the first time. Representatives of the Beijing medical team and advanced individuals from Air China who participated in the pandemic fight and relief in Hubei Province were invited as honoured guests to participate in the specially designed events on the plane.

On 8 September, the National Covid-19 Fight Award Ceremony was held at the Great Hall of the People in Beijing. The General Fleet of the Company was named as "National Advanced Unit in Pandemic Prevention" and Ms. Liu Tingting, the chief flight attendant of the Cabin Service Department, was awarded the title of "National Advanced Individual in Pandemic Prevention".

Oct

On 15 October, WPP and Kantar jointly released the "2020 BrandZ™ Top 100 Most Valuable Chinese Brands" and Air China ranked 43rd on the list, which is the highest among aviation companies in China.

On 22 October, the Hubei Branch of the Company was awarded "Advanced Unit of Central Enterprise in Pandemic Prevention" by the Communist Party Committee of the SASAC, so as to recognise its advanced and admirable spirit in fighting the pandemic and to encourage concerted efforts and motivational positive energy.

Nov

On 7 November, the 2nd New Fortune Best Listed Company Award Ceremony was held in Xiamen. Air China was elected as the "New Fortune Best Listed Company (新財富最佳上市公司) ", which proved that its achievements in standardised operation, information disclosure and market capitalisation management were highly recognised in the capital market.

On 16 November, Air China won the title of "Golden Airline (金選航空公司) " at the "15th China Travel Golden List (中國旅遊金榜) " Award Ceremony organised by the Travel (時尚旅遊) magazine.

On 22 November, the "Air China's Blue Sky Class" volunteer teaching program was recommended by the Central Enterprise Working Committee of the Communist Youth League of China to participate in the 5th China Youth Volunteer Service Program Contest 2020 cum Volunteer Service Exchange Seminar, where it received the National Bronze Award.

Dec

On 3 December, Air China won two major awards, namely the "Best Listed Company (最佳上市公司)" and the "Best Board Secretary of Listed Companies (最佳上市公司董事會秘書)" at the 10th Hong Kong International Financial Forum cum China Securities "Golden Bauhinia". On the same day, Air China was honored with the title of the "2020 Golden Bee Two-star Evergreen Enterprise Award for Excellent Corporate Social Responsibility Report (金蜜蜂2020優秀企業社會責任報告·長青企業二星級)".

On 22 December, the World Brand Lab released the "Top 500 Best Global Brands 2020" at the 17th "World Brand Conference". With a brand value of RMB186.519 billion, Air China ranked 282nd among global brands and became the only Chinese civil aviation company on the list among 43 Chinese companies. Meanwhile, Air China received the "China No.1 Brand Award for the Year 2020 (Aviation Services Industry) (2020「中國品牌年度大獎NO.1(航空服務行業)」)" and a special award named "2020 Cultural Brand Award (2020年「文化品牌大獎」)".

On 29 December, the Company held the 24th meeting of the fifth session of the Board at which Mr. Song Zhiyong was elected as the Chairman of the Company. Mr. Song Zhiyong ceased to be the deputy Chairman and President of the Company.

On 31 December, Mr. Song Zhiyong, the Chairman of the Company, welcomed the last flight of the year at Beijing Capital International Airport, wrapping up Air China's achievement of the safe flight year of 2020. The Group achieved a total of 1.553 million safe flight hours, safely travelled 973.01 million kilometers and transported 68.687 million passengers safely throughout the year.

Summary of Financial Information

(RMB'000)

	2020	2019	2018	2017	2016
Revenue	69,503,749	136,180,690	136,774,403	121,362,899	115,144,692
(Loss)/profit from operations	(11,168,820)	14,641,918	14,346,331	11,755,712	17,532,575
(Loss)/profit before taxation	(18,466,406)	9,120,263	9,977,017	11,486,232	10,212,902
(Loss)/profit after taxation (including (loss)/profit attributable to non-controlling interests)	(15,816,131)	7,263,764	8,214,871	8,641,449	7,758,681
(Loss)/profit attributable to non-controlling interests	(1,412,788)	843,470	864,210	1,397,128	949,522
(Loss)/profit attributable to equity shareholders of the Company	(14,403,343)	6,420,294	7,350,661	7,244,321	6,809,159
EBITDA(1)	9,239,497	35,921,002	28,850,007	25,352,031	31,006,295
EBITDAR(2)	9,925,796	37,452,389	37,133,039	33,740,737	38,261,866
(Loss)/earnings per share attributable to equity shareholders of the Company (RMB)	(1.05)	0.47	0.54	0.54	0.55
(Loss)/return on equity attributable to equity shareholders of the Company (%)	(18.58)	6.87	7.89	8.42	9.90

Notes:

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

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

(RMB'000)

	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Total assets	284,029,616	294,206,373	243,657,108	235,644,584	224,050,951
Total liabilities	200,256,580	192,876,910	143,159,074	140,785,986	147,654,552
Non-controlling interests	6,231,709	7,870,786	7,340,693	8,811,036	7,597,144
Equity attributable to equity shareholders of the Company	77,541,327	93,458,677	93,157,341	86,047,562	68,799,255
Equity attributable to equity shareholders of the Company per share (RMB)	5.34	6.43	6.41	5.92	5.26

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)	**156,060.66**	287,787.61	(45.77%)
International	**18,639.58**	109,336.78	(82.95%)
Mainland China	**135,554.18**	167,662.03	(19.15%)
Hong Kong SAR, Macau SAR and Taiwan, China	**1,866.90**	10,788.80	(82.70%)
AFTK (million)	**9,634.66**	10,951.75	(12.03%)
International	**6,163.23**	6,471.54	(4.76%)
Mainland China	**3,375.26**	4,222.84	(20.07%)
Hong Kong SAR, Macau SAR and Taiwan, China	**96.17**	257.38	(62.63%)
ATK (million)	**23,685.73**	36,917.59	(35.84%)
Traffic			
RPK (million)	**109,830.07**	233,176.14	(52.90%)
International	**11,753.53**	86,618.30	(86.43%)
Mainland China	**97,117.80**	138,193.52	(29.72%)
Hong Kong SAR, Macau SAR and Taiwan, China	**958.75**	8,364.31	(88.54%)
RFTK (million)	**3,558.06**	4,778.74	(25.54%)
International	**2,300.49**	3,150.59	(26.98%)
Mainland China	**1,229.44**	1,555.56	(20.97%)
Hong Kong SAR, Macau SAR and Taiwan, China	**28.13**	72.59	(61.24%)
Passengers carried (thousand)	**68,687.07**	115,006.12	(40.28%)
International	**2,241.20**	17,096.11	(86.89%)
Mainland China	**65,834.70**	92,550.97	(28.87%)
Hong Kong SAR, Macau SAR and Taiwan, China	**611.18**	5,359.05	(88.60%)
Cargo and mail carried (tonnes)	**1,113,676.51**	1,434,203.10	(22.35%)
Kilometres flown (million)	**973.01**	1,454.24	(33.09%)
Block hours (thousand)	**1,552.86**	2,285.05	(32.04%)
Number of flights	**551,373**	742,923	(25.78%)
International	**29,703**	97,785	(69.62%)
Mainland China	**513,747**	604,863	(15.06%)
Hong Kong SAR, Macau SAR and Taiwan, China	**7,923**	40,275	(80.33%)
RTK (million)	**13,285.14**	25,363.67	(47.62%)

Summary of Operating Data

	Current period	Previous period	Increase/(decrease)
Load factor			
Passenger load factor (RPK/ASK)	**70.38%**	81.02%	(10.64 ppt)
International	**63.06%**	79.22%	(16.16 ppt)
Mainland China	**71.65%**	82.42%	(10.77 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**51.36%**	77.53%	(26.17 ppt)
Cargo and mail load factor (RFTK/AFTK)	**36.93%**	43.63%	(6.70 ppt)
International	**37.33%**	48.68%	(11.35 ppt)
Mainland China	**36.42%**	36.84%	(0.42 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	**29.25%**	28.20%	1.05 ppt
Overall load factor (RTK/ATK)	**56.09%**	68.70%	(12.61 ppt)
Daily utilisation of aircraft (block hours per day per aircraft)	**6.34**	9.72	(3.38 hours)
Yield			
Yield per RPK (RMB)	**0.5074**	0.5340	(4.98%)
International	**0.8204**	0.4303	90.66%
Mainland China	**0.4665**	0.5902	(20.96%)
Hong Kong SAR, Macau SAR and Taiwan, China	**0.8109**	0.6813	19.02%
Yield per RFTK (RMB)	**2.4040**	1.1995	100.42%
International	**2.9885**	1.2689	135.52%
Mainland China	**1.1574**	0.9778	18.37%
Hong Kong SAR, Macau SAR and Taiwan, China	**9.0770**	2.9382	208.93%
Unit cost			
Operating expense per ASK (RMB)	**0.5448**	0.4364	24.84%
Operating expense per ATK (RMB)	**3.5899**	3.4021	5.52%

Fleet Information

During the year of 2020, the Group introduced a total of 14 aircraft, including two A350, eight A320NEO, one A321NEO and three ARJ21-700 aircraft, among which one was bought with our own funds, 11 were introduced under finance leases and two were introduced under operating leases. On the other hand, the Group phased out six aircraft, including two B737-800, one B737-300, one A320 and two A319 aircraft.

As at the end of 2020, the Group had a total of 707 passenger aircraft including business jets, with an average age of 7.74 years. Among the aircraft set out above, the Company operated a fleet of 431 aircraft in total, with an average age of 7.99 years. The Company introduced 10 aircraft and phased out five aircraft, among which one was sold to Air China Inner Mongolia.

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

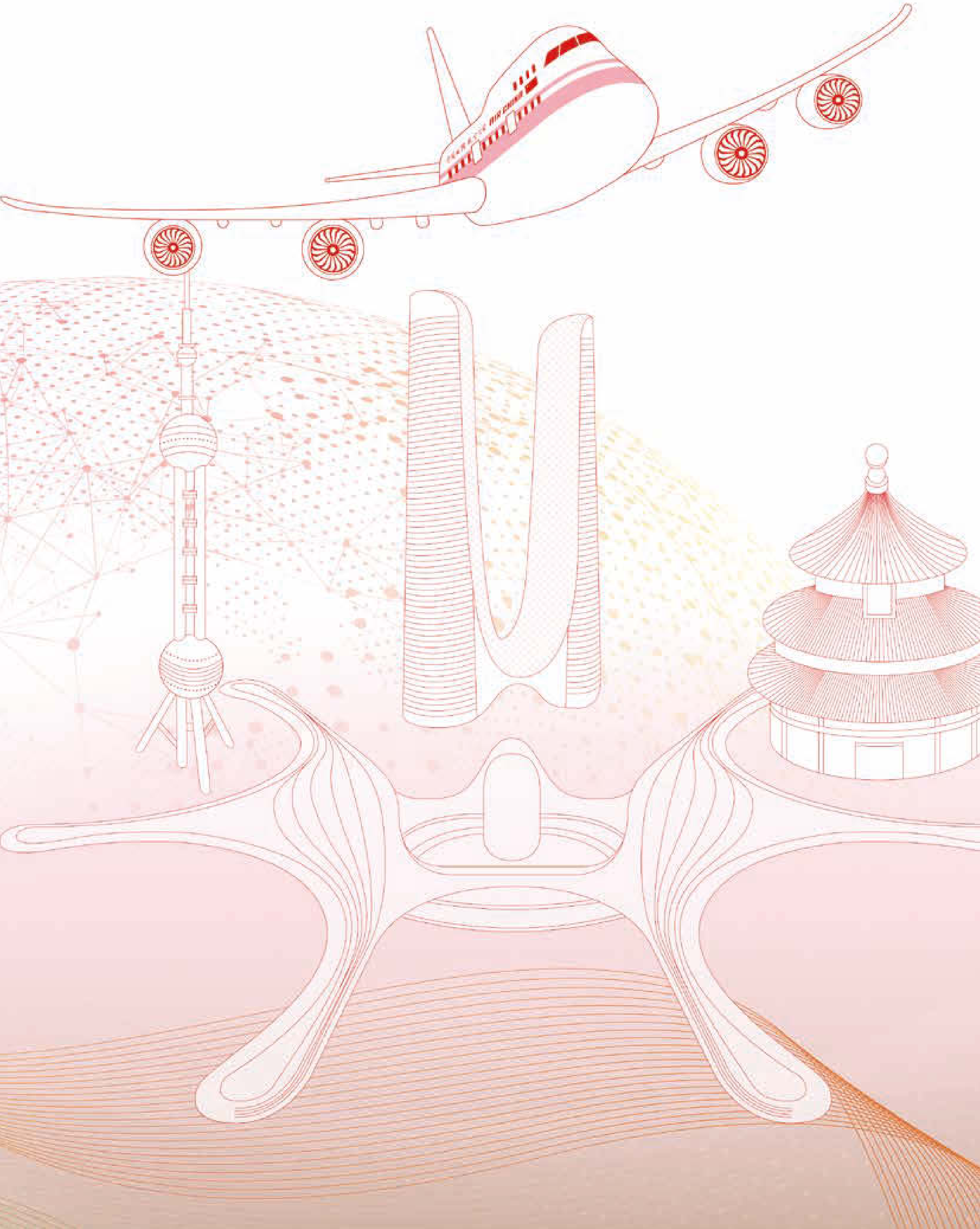
	Sub-total	Self-owned	Finance lease	Operating leases	Average age (year)
Passenger aircraft	**702**	**292**	**212**	**198**	**7.73**
Airbus	**373**	**148**	**118**	**107**	**7.77**
A319	41	32	6	3	13.18
A320/A321	255	88	92	75	6.96
A330	65	28	8	29	8.65
A350	12	0	12	0	1.71
Boeing	**326**	**143**	**92**	**91**	**7.76**
B737	274	119	72	83	7.93
B747	10	8	2	0	11.47
B777	28	4	18	6	6.71
B787	14	12	0	2	3.86
COMAC	**3**	**1**	**2**	**0**	**0.26**
ARJ21	3	1	2	0	0.26
Business jets	**5**	**1**	**0**	**4**	**8.41**
Total	**707**	**293**	**212**	**202**	**7.74**

	Introduction Plan			Phase-out Plan		
Passenger aircraft	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Airbus	**53**	**16**	**5**	**3**	**8**	**7**
A319	–	–	–	–	6	4
A320/A321	48	8	–	–	2	3
A330	–	–	–	3	–	–
A350	5	8	5	–	–	–
Boeing	**–**	**–**	**–**	**3**	**10**	**7**
B737	–	–	–	3	10	7
COMAC	**6**	**8**	**9**	**–**	**–**	**–**
ARJ21	6	8	9	–	–	–
Total	**59**	**24**	**14**	**6**	**18**	**14**

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

BUSINESS OVERVIEW

— *Linking the World* —



Business Overview

CONTAINING THE PANDEMIC

Facing the sudden outbreak of the COVID-19 pandemic, the Group followed the important instructions of General Secretary Xi Jinping, who proposed that "go where there is epidemic, flight it till it perishes". The Group immediately activated the emergency response mechanism and quickly set up a leading team for pandemic prevention and control to provide support in the fight against the epidemic "regardless of the conditions and at the most advanced level". The Group has built anti-epidemic rescue transport channels to aid the battle against the pandemic. This demonstrated the Group's vision and commitment as the national flag carrier. The Group strived to implement the deployment of "preventing the coronavirus from spreading within the city/region or beyond" by establishing the three-dimensional prevention and control network covering from the ground to the air, so as to overcome difficulties and pave way for the resumption of international direct flights from Beijing. The Group consistently implemented regularized pandemic prevention and control measures to ensure the health and safety of passengers and employees.

In the year-long fight against the COVID-19 pandemic, all employees of the Group firmly adhered to the idea that "the epidemic calls us to action" and practiced the fighting spirit of "the airports as the battlefields, the flight routes as the frontline and the cabins as the 'mobile-cabin hospitals", so that our staff remained courageous regardless of any dangers or risks. In the time of crisis, the flight attendant team stayed calm and stood up bravely. With a willingness to take responsibility and sacrifice, they travelled between pandemic-stricken "battlefields" and undertook urgent and high-risk tasks fearlessly. Our employees were put under a total of 98,243 quarantine, of which 68,000 quarantine were for pilots. On average, each employee underwent quarantines

2.6 times and the average quarantine time was more than 36 days per capita. In particular, the quarantine period for pilots of wide-body aircraft of the General Fleet exceeded 100 days per capita. Concurrently, the ground service team and the staff at the aviation security centre were heedless of their own safety and headed for the frontline against the virus, which they had orderly organized diversion of international inbound flights, strenuously discharged transit passengers and accomplished various mission to safeguard the transportation of rescue charter flights, personnel and supplies. While employees at the call centre worked around the clock to handle approximately 10 million ticket exchange and refund requests from passengers, overseas staff were eager to help the country by promptly procuring pandemic control materials and preventing interruption to the important international routes. At the Hubei branch, the Group's employees were determined to stay behind to fulfil their responsibility for local pandemic prevention and securing the transportation for relief operations. Approximately 100,000 frontline and backline employees have made enormous efforts in fighting the epidemic. Together, we have forged the backbone for overcoming difficulties. Since the outbreak of the COVID-19 pandemic, 216 anti-epidemic transport service charter flights have been operated transporting 31,000 passengers. Approximately 32,000 passengers had been put on waitlist for international flights and 631 international inbound flights had been diverted and organized. The General Fleet of the Company was named as National Advanced Unit in Pandemic Prevention and Ms. Liu Tingting of the Cabin Service Department was awarded the title of National Advanced Individual in Pandemic Prevention. In addition, seven teams and 17 individuals were publicly recognized and awarded by the SASAC and within the transportation industry.

The Group always puts the passengers first. With a focus on passengers' needs and experience, the Company provides the passengers with excellent services in a "fast", "customized"

and "flexible" manner. At the beginning of the COVID-19 outbreak, the Group took the lead to offer e-health declaration forms to passengers. In addition to taking strict sterilization measures for aircraft interior, the Group ensures passengers are sanitized before boarding. Moreover, the Group arranged measuring of passengers' body temperature at the boarding gates to ensure steady flight operation and passenger safety. The Group sent messages to notify passengers of the refund and exchange policy and update them on flight resumption. 258,000 prompt text messages were sent throughout the year,

which effectively improved communication and ensured service continuity during the special period. At the same time, the Group advanced the application of mobile technology by completing 112 iterative development for the e-commerce platform and website as it optimized and offered 1,970 new functions addressing the pandemic scenario. The Group was the first domestic airline to allow passengers of international flights to change their waitlist and reservation status through its APP. In order to upgrade passenger experience, the Group streamlined the self-service ticket change process, launched the self-service function for the change of names on tickets, rolled out the self-service reservation function for special requirements such as wheelchair service/checked-in baggage/carried on baggage, brought in voice identification and control functions for visually impaired passengers and developed a more user-friendly and convenient interface. Based on passengers' preference, the Company actively adjusted the in-flight entertainment content and mix. In an effort to innovate flight operating models for an unusual period, the Group launched new food presentation ideas with the "Henishuo" (盒你説) food box.

SAFE OPERATION

The Group is well aware that safety responsibility is a kind of political responsibility and the guarantee for safe flight underlies the foundation of the Group's original aspiration and mission. The Group has firmly established the concept of safety development and stayed committed to safety and risk control. Based on the operational characteristics in times of pandemic prevention, the Group took the approach of "one flight, one policy, one route, one strategy" to prevent and control safety and risks and formulate risk control measures for "passenger aircraft converted for cargo operations". The Company strengthened the safety management and control over the operation process, launched a special inspection for in-flight shutdown prevention and engine management system and implemented measures for proper dangerous goods transportation and warehousing. The Group ensured the safe operation of new aircraft and adopted specific risk control measures for introducing and operating the ARJ21 aircraft. As a result, three ARJ21 have joined the fleet and recorded 1,198 safe flight hours. Meanwhile, the Group enhanced the basis of safety management by launching a special program of "revamping corporate culture, strengthening three basics, and safeguarding the bottom line of safety". The Group revised the SMS manual and operating procedures/standards, so that its requirements for the development of business practices become a part of the institution. The Company properly arranged the training plans and adjusted pace of trainings dynamically to ensure the proficiency of key technicians. Furthermore, the Group established cooperation with aviation schools for setting up exclusive training base to increase support for aviation training. The Group also held pilot skill competition to boost the competency of the workforce.

During the Reporting Period, the Group maintained sound and safe development in the complex operating environment. It recorded 1.553 million safe flight hours and 973.01 million safe flight kilometres when transporting 68.687 million passengers safely, successfully safeguarded the provision of important transportation services for various events, such as the China International Import Expo and the China (Beijing) International Fair for Trade in Services.

MAXIMISING OPERATING PERFORMANCE

During the Reporting Period, the Group strengthened the market research and production organization in view of the challenging conditions. Aiming for higher quality and efficiency, the Group took a multipronged approach to promote operation, strengthen performance and prevent risks. Aside from activating the performance emergency response mechanism, the Group adopted a series of extraordinary measures in the aspects of production organization, marketing and cost management, so as to reverse the downward trend by driving up revenue and cost-effectiveness.

In parallel to that, the Group seized market opportunities and kept abreast of policy changes. For instance, the Group customized 154 flights and transported 18,000 passengers for business, production and schools resumption. The Group precisely tapped the cargo freight supply and demand and enhanced the collaboration between passenger flights and cargo flights. To maintain capacity input and utilize wide-body aircraft effectively, the Group pioneered the "passenger aircraft converted for cargo operations" business model which resulted in profit margin and sharing of fixed costs of passenger aircraft. At the same time, the Group closely monitored the recovery of the domestic market and customized production organization to maximize profit margins. It rapidly resumed the scale of production input, adjusted the allocation and structure of transport capacity dynamically and developed detailed marketing and product investment plans. In terms of value-added services, new product models and precise marketing, the Group continued its innovation efforts and rolled out the "Your Journey, Your Pick" (你的旅程，自由定義) travel product series. Through the online direct sales platform, the Group launched the extensive product and service offering for a wide range of customers, which comprised the "Two-city Card" (雙城次卡), "Curiosity Calendar" (好奇心日曆) and "Youth Right Card" (青春權益卡). Based on the travel pattern of targeted passengers, the Group enriched its value-added product mix by providing electronic upgrade coupons, two-for-one ticket deals and other products developed from unsold seats to cater to passengers' needs at different stages throughout the journey, thereby offsetting the loss of revenue from premium cabins services. The Group moved ahead with the transition towards the customer-oriented business model, with the view of supporting the transformation of Air China from a flight provider to an integrated service provider. It expanded the application of mileage credits monetization on an ongoing basis and accelerated its value development. While establishing a more comprehensive product system, it drove the growth of businesses that generated additional revenue. The Group exercised stringent cost control and aligned operation with costs in a scientific manner. It relocated the cost structures and systems swiftly and allowed internal financing to ensure safe and sound capital flow.

TARGETED POVERTY ALLEVIATION

The Group implemented the important instructions of General Secretary Xi Jinping on surmounting the challenge of poverty alleviation. The Company shouldered its political and social responsibility as a national flag carrier and is dedicated to ending poverty in designated areas. Based on the "8+2" targeted poverty alleviation plan of CNAHC, the Group carried out various supporting projects such as infrastructure construction as well as poverty alleviation through industry, education, health and ecological protection. During the Reporting Period, the Company provided and introduced the same level of relief funds and supporting funds to the targeted poverty alleviation regions. The Company offered trainings to 4,890 grass-roots cadres and technicians, procured the purchase of RMB56.28 million worth of farming and livestock products from poor regions and assisted the sales of such products for RMB10.73 million. During the Reporting Period, the aid recipients, namely Sonid Right Banner of Xilingol League in Inner Mongolia Autonomous Region and Zhaoping County of Hezhou City in Guangxi Zhuang Autonomous Region, had been lifted from the status as a national-level poverty-stricken county.

ENVIRONMENTAL PROTECTION

Adhering to the concept of "green operation for sustainable development", the Company is fully committed to battling against air pollution. To this end, the Company has optimized its energy-saving and environmental protection management system by formulating and issuing the "Implementation Rules for the Management of Energy Saving and Environmental Protection Fund" (《節能環保專項資金管理實施細則》) and the "Implementation Rules of Energy Saving and Environmental Protection Inspection" (《節能環保督查實施細則》). As the Company established and launched the energy-saving and environmental protection management platform, the Company had achieved informatized and automated energy data management for collective data processing and procedure enhancement. In pursuit of a green and low-carbon operation, the Company adopted various fuel-saving measures to lower the use of jet fuel, including fair control over aircraft weight, monitor aircraft performance, implement better route planning and refine fuel consumption management and computation. The Group advanced the replacement of aircraft APU with ground equipment and facilities, which effectively reduced aircraft

ground emissions. In addition, the Company accelerated the "fuel to electricity" project. By the end of the Reporting Period, the Company owned 653 new energy vehicles, built 195 charging piles and completed flue gas renovation for 1,431 on-site fossil fuel vehicles. Besides, the Company improved its capacity of scientific management and control of carbon emission and compiled the "Implementation Rules of Carbon Emission Management" (《碳排放管理實施細則》) for further improvement of the carbon emission management system. The Company optimized and upgraded the carbon emission monitoring and analysis system, and launched the carbon emission calculator for passengers. In December 2020, Air China Passenger Carbon Emission Calculator was launched on Air China APP, its official website and WeChat mini-program simultaneously. In 2020, the Company and its Southwest branch were honoured as the Advanced Civil Aviation Unit in battling against air pollution.

RISK PREVENTION AND CONTROL

The Group continued to comprehensively reinforce the risk management and highlight the forward-looking risk research and assessment for expediting the optimization of the compliance-focused internal control system of the Company. The Company also strengthened the study, judgment and disposal of material risks during the year and performed risk evaluation of major decisions to the greatest extent. The Group carried out risk monitoring and closed-loop management on an ongoing basis and implemented stringent risk mitigation plans. During the year, the Group prioritized overseas compliance facilities for its annual system construction with a view to continuously enhancing the compliance management system. Meanwhile, the Group cultivated compliance culture by organizing compliance promotion month events and holding 31 training sessions on risk control. The Group worked conscientiously to fulfil its responsibility in internal audit and supervision, set up an internal audit and organization structure and optimized the internal audit system. The Group had completed 31 internal audit projects during the year. By strengthening the research in key compliance areas, the Group ensured proper forecasting for compliance risks. In order to keep decision-making process in line with laws, the Group maintained operation compliance and had different systems in place to uphold the rules. The Group aimed to achieve more effective management process and ensure the smooth operation of the risk management mechanism. The compliance and risk prevention capabilities of the Company kept growing, which provided strong support to its steady operation and risk mitigation.

CORE COMPETENCE ANALYSIS

Strong brand advantage

Air China positioned its brand as "professional and reliable with both international quality and Chinese temperament". By virtue of the immense historical heritage, Air China strives to create perfect travel experience and help passengers to stay safe by upholding the spirit of phoenix of being a practitioner, promoter and leader for the development of the Chinese civil aviation industry. The Company is also committed to leading the industrial development by establishing itself as a "National Brand", while pursuing outstanding performance through innovative and excelling efforts. By maintaining its world-class flight safety record and leading comprehensive strengths in Mainland China, the Group has extensive brand recognition and excellent brand reputation among consumers. As the only national flag carrier in the civil aviation industry in China, the Company has been providing special flights and charter flights services to state leaders, diplomatic envoys, cultural and sports representatives of China for a long time, which is the best embodiment of the unique honorable status and comprehensive strengths of the Company.

During 2020, Air China focused on brand communication activities including the prevention and control of the pandemic, safeguarding the Winter Olympic Games and introducing domestically manufactured aircraft. The Company also launched hardcore works such as "pilot's warm broadcast" and "flights to spring". Air China organized the "Flying the national flag to the blue sky by operating the domestically manufactured ARJ aircraft" event and hosted a series of campaigns, including the "500 days of New Voyage for the Winter Olympics" campaign for the first voyage of the color-painted "Winter Olympic Ice and Snow" themed aircraft, so as to demonstrate the good brand image of the aviation company representing "both the Summer Olympic Games and the Winter Olympic Games" and building the active brand image of a responsible central enterprise, which marked the achievement we have made along with our development and the aspiration of expanding the brand influence and the brand value constantly.

In 2020, Air China ranked 21st in the list of "Top 500 Most Valuable Chinese Brands 2020 (2020年中國500最具價值品牌)" released by World Brand Lab with a brand value of RMB186.519 billion, which is the highest ranking among civil aviation companies in China. Air China also ranked 282nd among global brands in the "The World's 500 Most Influential Brands 2020 (2020年世界品牌500強排行榜)" released by World Brand Lab, and was the only Chinese civil aviation company on the list among 43 Chinese enterprises. Meanwhile, Air China received the "China No.1 Brand Award for Year 2020 (Aviation Services Industry) (2020年中國品牌年度大獎NO.1(航空服務行業))" and a special award named "2020 Cultural Brand Award (2020年文化品牌大獎)". In addition, Air China was elected "BrandZ™ Top 100 Most Valuable Chinese Brands 2020" (2020年BrandZ™最具價值中國品牌100強排行榜)", "Chinese Top 50 Global Brand Builders 2020 (2020年中國品牌出海50強)", and received an award named the "Best Listed Companies 2020 (2020年最佳上市公司)".

Market leader of the Beijing hub

The Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China". Situated at the intersection of Europe, the Americas and Asia, Beijing has a unique and prime location advantage for establishing itself into a large international aviation hub in the Northeast Asia. Beijing is also a place with the best local government support, corporate customer and traveller bases. The advantages of Beijing in terms of both geographical location and customer structure are favourable to the Company for maintaining a higher yield level.

In 2020, under the huge impact of the COVID-19 pandemic, the Group has rapidly recovered its transport capacity in Beijing while taking into account the benefits of route operation and striving to sustain flights in important international aviation markets. Upon the implementation of the "Five-One" policy for international flights by the Civil Aviation Administration, the Company was allowed to operate 40 international flights per week, which ranked first among airlines in China. In January 2021, the Company started to operate domestic flights in both Terminal 2 and Terminal 3 of Beijing Capital International Airport. With the commencement of the operation model of "one airport and two terminals", the Company will continue to enhance its operation efficiency and optimize the travel experience of passengers with a view to accelerating the development into a world-class hub. Such efforts included proactively promoted the intelligent domestic travel services of facial-recognition-based self-boarding at our principal base in Beijing and realized facial recognition at the near-flight boarding gates in Terminal 3, promoted transit services between airlines in Beijing and provided check-in services for certain outbound routes from Beijing with transit to Shenzhen Airlines and Shandong Airlines, introduced passenger luggage whole process tracking and enquiry services for 10 routes including Beijing-Chengdu and Beijing-Wuhan and enhanced the hubs' luggage handling efficiency and completed the expansion of lounge on the second floor of T3C in Beijing.

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

Balanced and complementary route network

Adhering to the long-established principle for the market layout of "balanced development between domestic and overseas routes and support international routes with domestic routes", the Company comprehensively reinforced the global network and made consistent efforts in building

a world-class hub in Beijing and an international hub in Chengdu. During the course of the Company's operation over the years, the Company implemented national development strategies and hence formed an extensive and balanced domestic and international route network, covering the most economically-developed and densely-populated regions in China. After years of development, the Company has taken the lead in respect of mainstream international routes from domestic cities to Europe and North America.

Against the backdrop of anti-pandemic work worldwide, the Company made full use of time slot resources and 35% of international flight slots were transferred for the use of domestic flights at the beginning of the summer flight season in 2020. According to the conditions of the pandemic and market recovery progress, the Company reasonably allocated the transport capacity of each base and deployed wide-body aircraft in Beijing to execute flight plans in markets such as Shanghai, Chengdu, Guangzhou and Chongqing. The Company also provided connected international flights to sustain flights in major international aviation markets.

During the Reporting Period, the Company's Beijing world-class hub newly launched domestic routes such as Beijing-Hengyang, Beijing Daxing-Bazhong and Beijing-Yan'an; the Chengdu international hub newly launched routes such as Chengdu-Shijiazhuang and Chengdu-Bazhong; and the Shanghai international portal newly launched international and domestic routes such as Shanghai Pudong-Singapore, Shanghai Pudong-Zhuhai and Shanghai Pudong-Xining. The Company newly launched international and domestic routes such as Hangzhou-Singapore, Chongqing- Zhanjiang, Chongqing-Shantou, Chongqing-Hefei, Nanchang-Shijiazhuang, Hangzhou-Shantou, Tianjin-Ningbo, Hangzhou-Zhengzhou and Nanchang-Xi'an.

As at the end of the Reporting Period, the Company, Shenzhen Airlines (including Kunming Airlines), Air Macau, Beijing Airlines, Dalian Airlines and Air China Inner Mongolia operated a total of 674 passenger routes, including 48 international routes, 6 regional routes and 620 domestic routes. In 2020, the Company's passenger routes reached 28 countries and regions and 147 cities, including 26 international cities, three regions and 118 domestic cities. Through cooperation with members of Star Alliance, the Company has further expanded its service coverage to 1,300 destinations in 195 countries and regions.

High quality customer base

In line with the Company's strategy for hub network, the Company targeted the mainstream market of mid-to-high-end government and corporate passengers, which is currently the most valuable passenger group in China. As at the end of the Reporting Period, the number of "Phoenix Miles" members has exceeded 68.1766 million. Air China was the first domestic airline to offer special membership protection during the pandemic, providing frequent flyer members

who were subject to relegation or downgrade with automatic membership renewal for a period of 12 months. Extension for mileages of VIP members has also been introduced. Revenue contributed by frequent fliers accounted for 52.3% of the Company's air passenger revenue, representing a year-on-year increase of 6 percentage points to revenue. The number of registered users of Air China APP has exceeded 12.34 million, which maintained stable yet rapid growth. In 2020, the Company newly acquired 296 major customers, which brought the total number of effective major customers to 3,620 and the aggregate number of existing and newly acquired customers under global agreements to 122. The Company actively facilitated the resumption of work and production by providing full-chain quality services for customized flights in relation to the resumption of work and production of the government, enterprises and schools. A total of over 100 customized flights and chartered flights have been operated, which received wide recognition from the customers.

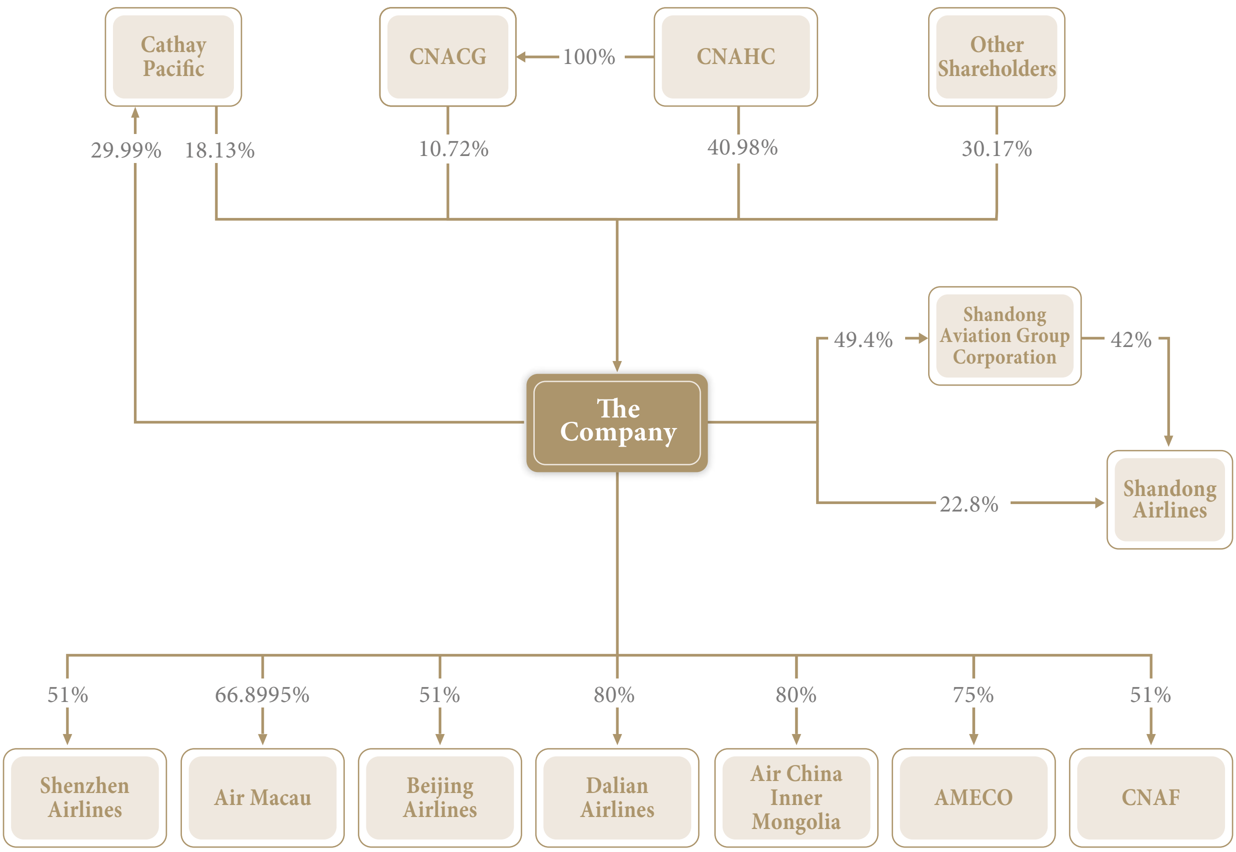
Leading cost control advantages

In 2020, facing the impact of the pandemic, the Group insisted to pursue the approach of "optimized operation for the entire fleet" and the concept of "improving efficiency, optimizing structure and focusing on major items", under which the Group put emphasis on improving the efficiency in resource utilization, optimizing resource allocation and enhancing cost-effectiveness. Through coordination among various departments and with the synergy effect from various segments, the Group adopted a refined all-process management on the variable costs. By further promoting the awareness of "preparing for going through hard times", the Group enhanced refined management, limit management and benchmark management on rigid costs and controllable expenses. On the basis of ensuring secured liquidity for centralized allocation, the Group gradually reduced the amount of funds on hand, increased the capital utilization efficiency and reduced finance costs.

Continuous management innovation mechanism

With a great emphasis on innovative management, the Company has established a set of relatively all-round and well-developed innovation mechanism through practices, thereby formulating a comprehensive technological innovation system. The system mainly consists of the corporate culture encouraging innovation, and the talent management regime motivating and supporting innovation. During 2020, the Company continued to enhance the innovative management system, formulated and issued the Implementation Rules on Managing Special Funds for Scientific Research and Innovation (《科研創新專項經費管理實施細則》) to ensure capital investment for technological innovation and standardize the use and statistics of funds for scientific research and innovation. With a view to accelerating the establishment and operation of the innovation laboratories, the Company has set up three company-level innovation laboratories and eight innovation laboratories for special fields. The Company promulgated the Supporting Mechanisms and Work Guidelines for Innovation Laboratories/Engineering Technology Centers (Trial) (《創新實驗室/工程技術中心配套機制及工作指引(試行)》), specifying the mechanism for updating the supporting innovation management system. With a focus on the actual needs of technological innovation, the Company continued to optimize the supporting management procedures. The Company organized the CNAHC Group youth innovation talent seminar and sharing and exchange activities with some leading innovation enterprises, aiming to promote the exchange of views on the work of technological innovation, foster internal and external innovation wisdom and explore insights for innovative work approaches. In order to improve synergistic innovation, the Company actively participated in strategic alliances for industrial technological innovation to facilitate the effective coordination between the innovation laboratories and external business partners based on the guidance of the needs for innovation resources and the intent of collaboration. As of the end of the Reporting Period, the Company's project named the "Management Platform for Aircraft Condition Prediction and Maintenance Operation" (《飛機狀態預測和維修作業管理平台》) won the second prize of 2020 Science and Technology Award granted by China Communications and Transportation Association.

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



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

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

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

	Shenzhen Airlines	Air Macau	Beijing Airlines	Dalian Airlines	Air China Inner Mongolia	AMECO	CNAF	Cathay Pacific	Shandong Airlines
Year of establishment	1992	1994	2011	2011	2013	1989	1994	1946	1999
Place of domicile	Shenzhen	Macau	Beijing	Dalian	Inner Mongolia	Beijing	Beijing	Hong Kong	Shandong
Principal business	Air passenger and air cargo services	Air passenger and air cargo services	Business charter and public air passenger and air cargo services	Air passenger and air cargo services	Air passenger and air cargo services	Repair and overhaul of aircraft, engines and components	Provision of financial services to CNAHC Group and the Group	Air passenger and air cargo services	Air passenger and air cargo services
Registered capital	RMB5,360,000,000	MOP442,042,000	RMB1,000,000,000	RMB3,000,000,000	RMB1,000,000,000	USD300,052,800	RMB1,127,961,864	6,437,200,203 ordinary shares in issue	RMB400,000,000
Percentage of shareholding by the Company	51%	66.8995%	51%	80%	80%	75%	51%	29.99%	22.8%
Revenue (RMB million)	17,394 (on a consolidated basis)	665	405	1,056	979	8,590	227	40,772 (on a consolidated basis)	10,534 (on a consolidated basis)
Year-on-year changes (%)	(45.44)	(81.94)	(46.59)	(43.22)	(42.85)	(5.07)	(23.39)	(56.98)	(44.53)
Air traffic revenue (RMB million)	16,799	636	345	1,027	964	N/A	N/A	34,609	9,830
Year-on-year changes (%)	(45.79)	(82.35)	(54.55)	(44.72)	(43.12)	N/A	N/A	(60.06)	(46.16)
Profit/(loss) after taxation (RMB million)	(2,133)	(918)	(32)	25	(35)	(153)	65	(18,805)	(2,382)
Profit in the corresponding period of last year (RMB million)	1,152	113	79	141	202	238	105	1,498	361
(Loss)/profit attributable to parent company (RMB million)	(2,062)	(918)	(32)	25	(35)	(153)	65	(18,805)	(2,382)
Profit attributable to parent company in the corresponding period of last year (RMB million)	1,157	113	79	141	202	238	105	1,498	361

Business Overview

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

As at the end of the Reporting Period/During the Reporting Period	Shenzhen Airlines	Air Macau	Beijing Airlines*	Dalian Airlines	Air China Inner Mongolia	Cathay Pacific	Shandong Airlines
Fleet size (unit)	222 (on a consolidated basis)	21	3	13	12	239 (on a consolidated basis)	131
Average age (year)	7.27	6.54	11.08	7.24	8.61	10.1	7.28
Aircraft introduced (unit)	4	0	0	0	1	13	7
Aircraft phased out (unit)	0	2	0	0	0	10	0
ASK (100 million)	520.49	17.65	5.52	29.23	24.60	346.1	337.99
Year-on-year changes (%)	-26.34	-77.23	-29.35	-19.36	-11.48	-78.8	-24.57
RPK (100 million)	371.87	9.12	3.91	20.16	17.22	200.8	256.27
Year-on-year changes (%)	-35.75	-85.12	-39.78	-33.32	-24.23	-85.1	-31.94
Passengers carried (thousand)	25,481.0	545.9	429.1	1,578.2	1,570.9	4,631	18,194.9
Year-on-year changes (%)	-32.68	-85.10	-41.00	-38.18	-26.69	-86.9	-29.58
Average passenger load factor (%)	71.45	51.68	70.88	68.96	69.97	58.0	75.82
Year-on-year changes (ppt)	-10.47	-27.39	-12.28	-14.44	-11.78	-24.3	-8.20
AFTK	1,175 million	27.9127 million	5.9817 million	24.8174 million	20.4057 million	11.33 billion	590 million
Year-on-year changes (%)	-10.32	-77.03	-28.46	-33.37	-35.96	-35.5	-23.18
RFTK	578 million	8.9991 million	2.2482 million	15.0459 million	10.3126 million	8.31 billion	280 million
Year-on-year changes (%)	-15.15	-65.43	-41.89	-23.21	-14.06	-26.5	-9.56
Volume of cargo and mail carried (tonnes)	356,400	5,691.35	2,650.72	11,082.65	8,673.67	1,332,000	165,900
Year-on-year changes (%)	-12.48	-63.92	-43.05	-30.26	-24.36	-34.1	-8.91
Cargo and mail load factor (%)	49.19	32.24	37.58	60.63	50.54	73.3	47.43
Year-on-year changes (ppt)	-2.80	10.82	-8.69	8.02	12.88	8.9	7.14

*Note: As at the end of the Reporting Period, Beijing Airlines operated a fleet of four entrusted business jets and one self-owned business jet with an average age of 8.41 years. During the Reporting Period, in terms of business charter service, Beijing Airlines completed 348 flights, representing a year-on-year decrease of 6.7%; it completed 1,034 flying hours, representing a year-on-year decrease of 27.78%; it carried a total of 2,222 passengers, representing a year-on-year decrease of 31.16%.

OPERATIONAL PLAN

The Company has established its operational focuses for 2021, including (1) containing the pandemic in a solid and meticulous manner; (2) strengthening operation safety; (3) effectively maximizing operating performance; (4) continuously improving product and service quality; (5) firmly deepening the reform; and (6) relentlessly pushing forward the quality development of the Party building.

OUTLOOK FOR FUTURE

In-depth implementation of national strategies for 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 and Guangdong-Hong Kong-Macau Greater Bay Area Development Plan, and will strengthen regional aviation links and coordination as well as the existing landscape of the aviation market. The "Belt and Road" initiative will promote China's economic and trade exchanges and cooperation with Southeast Asia and Europe, not only strengthening the international hub status of 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, 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. The Guangdong-Hong Kong-Macau Greater Bay Area Development Plan will deepen the cooperation between the Mainland and Hong Kong and Macao, and promote the construction of international hubs of

Hong Kong, Guangzhou and Shenzhen. The construction of airport groups serving the three 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

In 2020, the COVID-19 pandemic has brought great challenges to the civil aviation industry. In 2021, as vaccines are gradually becoming available, the global pandemic may be alleviated. There will be 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 pattern which is based on domestic macrocirculation, 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 drivers of the development of the aviation industry, and air travel will become increasingly customized and popular. During the "14th Five-Year Plan" period, airport renovations and expansions are underway in various regions and the industry will embrace immense opportunities with increasing time slots and other key resources.

More intense competition among global and domestic aviation markets

As affected by the COVID-19 pandemic, as of the end of the Reporting Period, over 40 airlines worldwide have either ceased or suspended operation and more airlines are experiencing operation difficulties due to cash consumption. Based on the current situation, the global civil aviation industry may undergo a new round of restructuring.

From the perspective of the international market, as the pandemic prevails in overseas countries and regions, the demand for travelling abroad will recover slowly in the future and hence the Company will slow down the introduction of wide-body aircraft. From the perspective of the domestic market, as the domestic airline market has basically bottomed out, various airlines will shift certain international market capacities to the domestic market, which will further intensify the competition in the domestic market.

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

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

Revenue

During the Reporting Period, the Group's revenue was RMB69,504 million, representing a decrease of RMB66,677 million or 48.96% as compared with last year. Among which, air traffic revenue was RMB64,280 million, representing a decrease of RMB65,977 million or 50.65% as compared with last year; other operating revenue was RMB5,224 million, representing a year-on-year decrease of RMB700 million or 11.82%.

Revenue Contributed by Geographical Segments

	2020		2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**51,953,674**	**74.74%**	89,000,172	65.35%	(41.63%)
Hong Kong SAR, Macau SAR and Taiwan, China	**1,032,767**	**1.49%**	5,911,532	4.34%	(82.53%)
Europe	**6,176,092**	**8.89%**	13,374,965	9.82%	(53.82%)
North America	**3,397,082**	**4.89%**	8,821,998	6.48%	(61.49%)
Japan and Korea	**2,123,022**	**3.05%**	8,592,855	6.31%	(75.29%)
Asia Pacific and others	**4,821,112**	**6.94%**	10,479,168	7.70%	(53.99%)
Total	**69,503,749**	**100.00%**	136,180,690	100.00%	(48.96%)

Air Passenger Revenue

During the Reporting Period, the Group recorded an air passenger revenue of RMB55,727 million, representing a decrease of RMB68,798 million over the previous year. Among the air passenger revenue, the decrease of capacity contributed a decrease of RMB56,998 million to the revenue, and the decrease of passenger load factor led to a decrease of RMB8,874 million to the revenue, while the decrease of passenger yield resulted in a decrease in revenue of RMB2,926 million. The Group's capacity, passenger load factor and yield per RPK in 2020 are as follows:

	2020	2019	Change
ASK (million)	**156,060.66**	287,787.61	(45.77%)
Passenger load factor (%)	**70.38**	81.02	(10.64 ppt)
Yield per RPK (RMB)	**0.5074**	0.5340	(4.98%)

Air Passenger Revenue Contributed by Geographical Segments

	2020		2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**45,307,186**	**81.30%**	81,555,227	65.49%	(44.45%)
Hong Kong SAR, Macau SAR and Taiwan, China	**777,411**	**1.40%**	5,698,251	4.58%	(86.36%)
Europe	**3,567,703**	**6.40%**	12,007,281	9.64%	(70.29%)
North America	**1,955,890**	**3.51%**	7,917,567	6.36%	(75.30%)
Japan and Korea	**1,345,339**	**2.41%**	7,817,141	6.28%	(82.79%)
Asia Pacific and others	**2,773,333**	**4.98%**	9,529,116	7.65%	(70.90%)
Total	**55,726,862**	**100.00%**	124,524,583	100.00%	(55.25%)

Air Cargo and Mail Revenue

During the Reporting Period, the Group's air cargo and mail revenue was RMB8,553 million, representing an increase of RMB2,821 million as compared with last year. Among which, the decrease of capacity contributed a decrease of RMB689 million to the revenue, while the decrease of cargo and mail load factor resulted in a decrease in revenue of RMB775 million, and the increase of yield of cargo and mail resulted in an increase of RMB4,285 million to the revenue. The capacity, cargo and mail load factor and yield per RFTK in 2020 are as follows:

	2020	2019	Change
Available freight tonne kilometres (million)	**9,634.66**	10,951.75	(12.03%)
Cargo and mail load factor (%)	**36.93**	43.63	(6.70 ppt)
Yield per RFTK (RMB)	**2.4040**	1.1995	100.42%

Air Cargo and Mail Revenue Contributed by Geographical Segments

	2020		2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Mainland China	**1,423,008**	**16.64%**	1,520,998	26.53%	(6.44%)
Hong Kong SAR, Macau SAR and Taiwan, China	**255,356**	**2.98%**	213,281	3.72%	19.73%
Europe	**2,608,389**	**30.50%**	1,367,684	23.86%	90.72%
North America	**1,441,192**	**16.85%**	904,431	15.78%	59.35%
Japan and Korea	**777,683**	**9.09%**	775,714	13.53%	0.25%
Asia Pacific and others	**2,047,779**	**23.94%**	950,052	16.58%	115.54%
Total	**8,553,407**	**100.00%**	5,732,160	100.00%	49.22%

Operating Expenses

During the Reporting Period, the Group's operating expenses were RMB85,030 million, representing a decrease of 32.30% from RMB125,598 million in the same period last year. The breakdown of the operating expenses is set out below:

	2020		2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
Jet fuel costs	**14,817,474**	**17.43%**	35,965,239	28.64%	(58.80%)
Take-off, landing and depot charges	**9,239,943**	**10.87%**	16,440,081	13.09%	(43.80%)
Depreciation and amortisation	**20,408,317**	**24.00%**	21,279,084	16.94%	(4.09%)
Aircraft maintenance, repair and overhaul costs	**6,423,313**	**7.55%**	6,119,539	4.87%	4.96%
Employee compensation costs	**22,012,834**	**25.89%**	25,473,898	20.28%	(13.59%)
Air catering charges	**1,605,027**	**1.89%**	4,026,090	3.21%	(60.13%)
Selling and marketing expenses	**2,568,362**	**3.02%**	4,684,722	3.73%	(45.18%)
General and administrative expenses	**1,051,495**	**1.24%**	1,844,232	1.47%	(42.98%)
Others	**6,902,750**	**8.12%**	9,765,077	7.77%	(29.31%)
Total	**85,029,515**	**100.00%**	125,597,962	100.00%	(32.30%)

Jet fuel costs decreased by RMB21,148 million on a year-on-year basis, mainly due to the combined effect of the decrease in the consumption and prices of jet fuel.

Take-off, landing and depot charges decreased by RMB7,200 million on a year-on-year basis, mainly due to a decrease in the number of take-offs and landings.

Depreciation and amortisation decreased by RMB871 million on a year-on-year basis, mainly due to the change of depreciation method of the Group's overhaul components of engine from straight-line method to the units-of-production method (please refer to note 3A to the consolidated financial statements contained in this annual report for details).

Employee compensation costs decreased by RMB3,461 million on a year-on-year basis, mainly due to the decrease in the number of flights, the adjustment of compensation standards and the 50% reduction in social insurance.

Air catering charges decreased by RMB2,421 million on a year-on-year basis, mainly due to the decrease in the number of passengers.

Selling and marketing expenses decreased by RMB2,116 million on a year-on-year basis, mainly due to the decrease in handling fees and booking fees resulting from the decrease in the sales volume and the number of passengers.

Other operating expenses mainly included contributions to the civil aviation development fund and ordinary expenses arising from the core air traffic business not specifically mentioned above, which decreased by 29.31% on a year-on-year basis. The decrease was mainly due to the decrease in transport and the exemption of civil aviation development fund.

Finance Income, Finance Costs and Net Exchange Gain/Loss

During the Reporting Period, the Group recorded a finance income of RMB192 million, representing a year-on-year increase of RMB28 million or 17.41%; and incurred finance costs (excluding the capitalised portion) of RMB5,100 million, representing a year-on-year increase of RMB151 million. During the Reporting Period, the Group recorded a net exchange gain of RMB3,604 million, as compared to the net exchange loss of RMB1,211 million for the same period of 2019, which was mainly attributable to the deprecation of USD against RMB during the Reporting Period.

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 RMB5,993 million, as compared to the net gain of RMB475 million for the same period of 2019. Among which, during the Reporting Period, the Group recognized a loss on investment of Cathay Pacific of RMB5,109 million, as compared to the gain on investment of Cathay Pacific of RMB67 million recognized for the same period last year; and recognized a loss on investment of Shandong Aviation Group Corporation and Shandong Airlines of RMB968 million, as compared to the gain on investment of RMB197 million for the same period last year.

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 RMB284,030 million, representing a decrease of 3.46% from that as at 31 December 2019, among which current assets accounted for RMB19,736 million or 6.95% of the total assets, while non-current assets accounted for RMB264,294 million or 93.05% of the total assets.

Among the current assets, cash and cash equivalents were RMB5,838 million, accounting for 29.58% of the current assets and representing a decrease of 34.66% from that as at 31 December 2019.

Among the non-current assets, the net book value of property, plant and equipment and right-of-use assets as at the end of the Reporting Period amounted to RMB215,886 million, accounting for 81.68% of the non-current assets and representing a decrease of 2.55% from that as at 31 December 2019.

Asset Mortgage

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 net book value of approximately RMB79,981 million (RMB81,724 million as at 31 December 2019) and land use rights with net book value of approximately RMB27 million (RMB27 million as at 31 December 2019). In addition, as at the end of the Reporting Period, the Group had restricted bank deposits of approximately RMB737 million (approximately RMB728 million as at 31 December 2019), which were mainly reserves deposited in the People's Bank of China.

Capital Expenditure

In 2020, the Group's capital expenditure totalled RMB13,319 million, of which the total investment in aircraft was RMB9,847 million, mainly including procurement of aircraft and engines, aircraft modifications, flight simulators, etc. Other capital expenditure investment amounted to RMB3,472 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 RMB10,938 million, representing a decrease of 25.33% from that as at 31 December 2019. Among this, the balance of the equity investment of the Group in Cathay Pacific, Shandong Aviation Group Corporation and Shandong Airlines amounted to RMB9,761 million, RMB673 million and RMB55 million, respectively, with such companies recording net loss attributable to shareholders of RMB18,806 million, RMB927 million and RMB2,382 million, respectively during the Reporting Period.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB1,581 million, representing an increase of 2.44% from that as at 31 December 2019.

Debt Structure Analysis

As at the end of the Reporting Period, the Group's total liabilities were RMB200,257 million, representing an increase of 3.83% from that as at 31 December 2019. Among them, current liabilities amounted to RMB80,598 million, accounting for 40.25% of the total liabilities; and non-current liabilities amounted to RMB119,659 million, accounting for 59.75% of the total liabilities.

Among the current liabilities, interest-bearing debts (including bank loans and other borrowings, bills payable and lease liabilities) amounted to RMB53,254 million, representing an increase of 45.54% from that as at 31 December 2019, which is mainly due to the increase of financing scale to cope with the impact of Covid-19 pandemic so as to ensure the liquidity safety.

Among the non-current liabilities, interest-bearing debts (including bank loans and other borrowings and lease liabilities) amounted to RMB107,738 million, representing an increase of 4.41% from that as at 31 December 2019.

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

	31 December 2020		31 December 2019		
(in RMB'000)	**Amount**	**Percentage**	Amount	Percentage	Change
RMB	**109,420,080**	**67.97%**	77,029,395	55.11%	42.05%
US dollars	**49,669,410**	**30.85%**	60,356,994	43.18%	(17.71%)
Others	**1,902,082**	**1.18%**	2,390,421	1.71%	(20.43%)
Total	**160,991,572**	**100.00%**	139,776,810	100.00%	15.18%

Commitments and Contingent Liabilities

The Group's capital commitments, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment, decreased by 17.97% from RMB50,007 million as at 31 December 2019 to RMB41,020 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 RMB23 million as at the end of the Reporting Period, as compared to RMB24 million as at 31 December 2019.

Details of the Group's contingent liabilities are set out in note 42 to the consolidated financial statements of the Group for 2020.

Gearing Ratio

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 70.51%, representing an increase of 4.95 percentage points from that as at 31 December 2019. 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 RMB60,862 million, representing an increase of RMB7,706 million from that as at 31 December 2019. Based on the structure of current assets and current liabilities, the Group's current ratio (current assets divided by current liabilities) was 0.24, representing a decrease as compared to that of 0.32 as at 31 December 2019.

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 outflow from operating activities was RMB4,017 million, as compared to the net cash inflow of RMB33,599 million for the corresponding period in 2019, which was mainly because the sales fell and the number of ticket refunds rose on a year-on-year basis as affected by the Covid-19 pandemic. Net cash outflow from investing activities was RMB15,865 million, representing an increase of 33.58% from RMB11,967 million for the corresponding period in 2019, mainly due to the subscription of the shares of Cathay Pacific amounting to HK$3,514 million in August 2020. Net cash inflow from financing activities amounted to RMB16,888 million, as compared with the net cash outflow from financing activities of RMB19,510 million for the same period of the previous year, mainly due to the increase of its financing scale to cope with the impact of Covid-19 pandemic and ensure the liquidity safety.

The Company has obtained bank facilities of RMB174,669 million in aggregate granted by several banks in China, among which approximately RMB52,427 million has been utilised. The remaining amount is sufficient to meet our demands on working capital and future capital commitments.

RISK FACTORS

Risks of External Environment

Market Fluctuation

With regularized pandemic prevention and control measures, China stayed committed to the general working principle of pursuing progress while ensuring stability in 2020. It continued to adopt the new development concept and focused on the supply-side structural reform. In order to promote high-quality development, it devoted strenuous efforts to the "Six Stabilities", which led to steady economic recovery and overall positive market expectation. However, global economic growth was dragged down by the significantly tightening external economic environment.

Oil Price Fluctuation

In 2020, the global economy took a heavy hit from the worldwide pandemic, which led to the decline in the demand for crude oil. During 2020, oil price remained at a relatively low range in general. Jet fuel constitutes one of the major components of the Group's operating costs, for which the Group's financial performance is substantially subject to the fluctuation of jet fuel price. During the Reporting Period, with other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel costs will rise or fall by approximately RMB741 million.

Exchange Rate Fluctuation

The Group's certain lease liabilities, bank loans and other loans are mainly denominated in US dollar, Euro and Japanese Yen. Certain international income and expenses are denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity as at 31 December 2020 by RMB357 million; the appreciation or depreciation of RMB against Euro by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity as at 31 December 2020 by RMB9.314 million; the appreciation or depreciation of RMB against Japanese Yen by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity as at 31 December 2020 by RMB6.59 million.

Details of the financial risk management objectives and policies of the Group are set out in note 44 to the financial statements of the Group for 2020.

Risks of Competition

Industry competition

As the Covid-19 pandemic weakened the global market demand, domestic aviation companies increased their investments in the domestic market, which might escalate the competition in the domestic market. In addition, global airlines grounded a large number of planes and faced a cash flow crisis, while many aviation companies in the United States and Europe went bankrupt. Such integration is expected to alleviate excess capacity and facilitate the integration of civil aviation resources and subsequent development.

Alternative competition

China has built up the world's largest high-speed railway network. It is extending its reach towards central and western China and accelerating development through long-term planning. In the long run, the high-speed railway will change China's geographic pattern of the economy and, as a result of its cooperation and competition with civil aviation, the air-rail interlink operation will provide strong support to the development of international hubs. Regarding the domestic routes, as the Company's medium- and short-haul routes account for a relatively low proportion in the industry, the Company may suffer from the competition of high-speed railway transportation to a limited extent overall.

Corporate Governance Report

MEMBERS OF THE FIFTH SESSION OF THE BOARD


Mr. Song Zhiyong


Mr. Feng Gang


Mr. Patrick Healy


Mr. Xue Yasong


Mr. Duan Hongyi


Mr. Stanley Hui Hon-chung

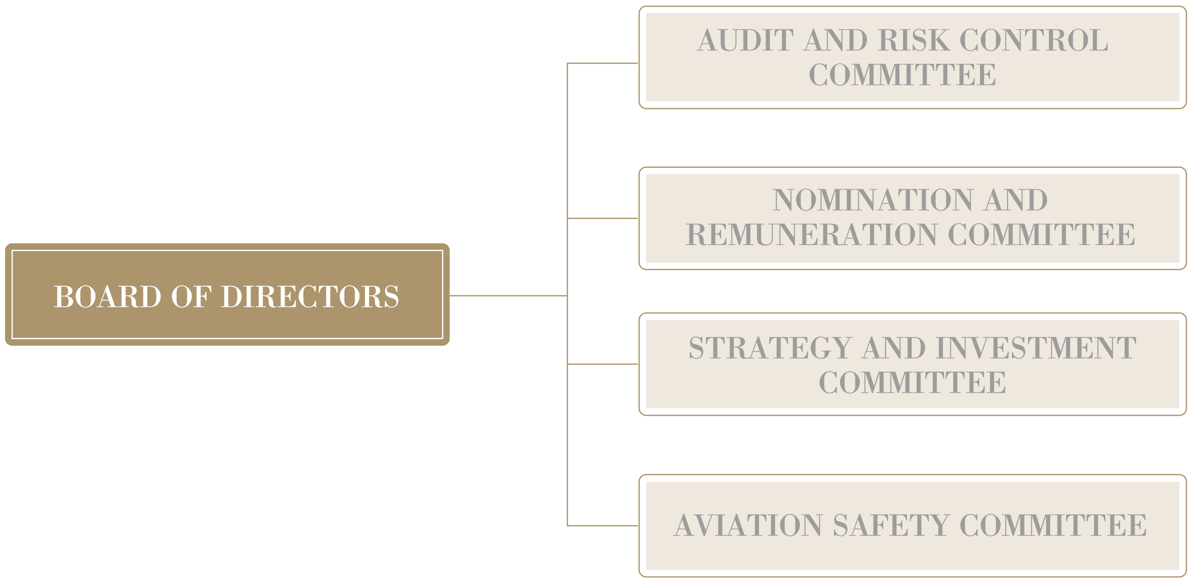

Mr. Li Dajin

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

BOARD OF DIRECTORS

Governance Structure

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



MEMBERS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Zhao Xiaohang

Mr. He Chaofan

Ms. Lyu Yanfang

Mr. Wang Jie

Mr. Qin Hao

As of the end of the Reporting Period, the Board of the Company comprised eight Directors, out of which four were independent non-executive Directors. All of the Directors have actively participated in the activities of the Company. The attendance records of all the Directors present in person at general meetings, Board meetings and meetings of each special committee during the Reporting Period are as follows:

	Number of meetings attended in person/should be attended					
	General Meeting	Board Meeting	Audit and Risk Control Committee Meeting	Nomination and Remuneration Committee Meeting	Strategy and Investment Committee Meeting	Aviation Safety Committee Meeting
Executive Director						
Song Zhiyong (Chairman)	2/2	7/7	N/A	N/A	3/3	2/2
Non-executive Directors						
Cai Jianjiang (resigned during the Reporting Period)	1/2	5/6	N/A	3/3	3/3	N/A
Feng Gang	1/1	3/4	N/A	N/A	N/A	N/A
Patrick Healy	2/2	7/7	N/A	N/A	N/A	N/A
Xue Yasong	2/2	7/7	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Wang Xiaokang (resigned after the Reporting Period)	2/2	7/7	N/A	4/4	N/A	N/A
Liu Deheng (resigned during the Reporting Period)	N/A	N/A	N/A	N/A	N/A	N/A
Duan Hongyi	1/1	4/4	4/4	N/A	2/2	N/A
Stanley Hui Hon-chung	2/2	7/7	8/8	N/A	N/A	2/2
Li Dajin	2/2	6/7	7/8	4/4	N/A	N/A

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

The Responsibilities of the Board

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

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

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

Procedure of Board Meeting

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

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

For the purpose of considering resolutions or matters during Board meetings, the Directors may require the presence of the persons-in-charge of the relevant departments of the Company at the Board meetings to answer queries, so that the Directors can have a thorough understanding of the key issues and the general situation.

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

Election of Directors

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

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

Chairman and President

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

The Company has a President who shall be appointed or dismissed by the Board. The President is authorised to oversee the Group's business, implement various strategies and be responsible for the Company's daily operation to attain overall commercial goals. Mr. Song Zhiyong was appointed as the President on 28 January 2014. As mentioned above, due to change of job assignments, Mr. Song Zhiyong was elected as the Chairman on 29 December 2020 and resigned as the President on the same day.

Board Diversity Policy

The Directors have extensive expertise and experience in the fields of aviation, finance, law and financial management and provide substantial support for the scientific and effective decision-making of the Board. The "Board Diversity Policy" was adopted by the Board in September 2013, which sets out the approach of the Company towards achieving diversity of the Board.

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

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

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

Directors' Training and Continuous Professional Development

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

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

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

Training for Directors during the Reporting Period	Category Notes
Executive Director	
Song Zhiyong (Chairman)	a,b
Non-executive Directors	
Cai Jianjiang (resigned during the Reporting Period)	a,b
Feng Gang	a
Patrick Healy	a
Xue Yasong	a,b
Independent Non-executive Directors	
Wang Xiaokang (resigned after the Reporting Period)	a,b
Liu Deheng (resigned during the Reporting Period)	a,b
Duan Hongyi	a,b
Stanley Hui Hon-chung	a,b
Li Dajin	a,b

Notes:

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

b. Special trainings provided by the regulatory authorities.

Biographical Details and Other Information of Directors

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

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

Pursuant to the Listing Rules, as at the end of the Reporting Period, the four independent non-executive Directors, namely, Mr. Wang Xiaokang (resigned after the Reporting Period), Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, have confirmed their independence with the Hong Kong Stock Exchange when they were elected. The Company had already received from all independent non-executive Directors the annual statements concerning their independence and re-confirmed their independence. The Company considers all independent non-executive Directors as independent within the meaning of Rule 3.13 of the Listing Rules.

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

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

SPECIAL COMMITTEES OF THE BOARD

Audit and Risk Control Committee

As at the end of the Reporting Period, the Audit and Risk Control Committee comprised Mr. Duan Hongyi, Mr. Li Dajin and Mr. Stanley Hui Hon-chung, all of whom are independent non-executive Directors, with Mr. Duan Hongyi serving as the chairman of the committee.

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

The main work of the Audit and Risk Control Committee during the Reporting Period includes reviewing the following documents: (1) the 2019 annual report, the reports for the first and third quarters and the interim report of 2020; (2) the 2019 profit distribution plan; (3) the 2019 assessment report on internal control and the audit report on internal control; (4) the 2020 financial plan and capital expenditure plan; (5) the special reports regarding the deposit and actual use of the proceeds from issuance of A Shares for 2019 and the first half of 2020; (6) the re-appointment of international and domestic auditors and internal control auditors for the year; (7) the guarantee business provided by CNAF; (8) the performance report by the Audit and Risk Control Committee; (9) the change of depreciation method of overhaul components of engines of the Company; (10) the participation in the recapitalization plan of Cathay Pacific; (11) the election of Mr. Duan Hongyi as the chairman of the Audit and Risk Control Committee; (12) the renewal of the trademark license framework agreement between the Company and CNAHC; (13) the renewal of the financial services framework agreement between the Company and CNAF and the application of annual caps for continuing connected transactions; and (14) the renewal of the financial services framework agreement between CNAF and CNAHC and the application of annual caps for continuing connected transactions.

In addition to the above, the Audit and Risk Control Committee also received the following reports during the Reporting Period: (1) the work requirements of the securities regulation authorities with regard to annual report and the overall timetable for the preparation of 2019 annual report of the Company; (2) the audit report of the financial statements for the year of 2019; (3) the summary of internal audit work for 2019; (4) the list of A share related parties of the Company for the year of 2019 and the first half of 2020; (5) the audit work plan for 2020; (6) the review of the financial statements for the first half of 2020 and the plan for internal control audit for the year of 2020; (7) the self-assessment plan on internal control for the year of 2020; (8) interim adjustment to the financial plan for the year of 2020; and (9) the implementation report of the work arrangement for the final budgets meeting of SASAC for the year of 2020.

The annual results and annual report of the Company for the year of 2020 had been reviewed by the Audit and Risk Control Committee.

Nomination and Remuneration Committee

As at the end of the Reporting Period, the Nomination and Remuneration Committee comprised Mr. Li Dajin and Mr. Wang Xiaokang, both are independent non-executive Directors, with Mr. Li Dajin serving as the chairman of the committee. On 9 February 2021, Mr. Wang Xiaokang resigned from his position as a member of the Nomination and Remuneration Committee due to his age. On 30 March 2021, Mr. Duan Hongyi was elected as a member of the Nomination and Remuneration Committee.

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

During the Reporting Period, the Nomination and Remuneration Committee reviewed the proposals in relation to the election of Mr. Song Zhiyong as the new Chairman, the nomination of Mr. Feng Gang as a candidate for Director and Mr. Duan Hongyi as a candidate for independent non-executive Director, the appointment of Mr. Ni Jiliang as the chief engineer, the appointment of Mr. Zhang Sheng as a vice president of the Company and the change of joint company secretary.

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

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

Details of the remuneration for the Directors and senior management during the Reporting Period are disclosed in note 13 to the financial statements of this annual report.

Strategy and Investment Committee

As at the end of the Reporting Period, the Strategy and Investment Committee comprised Mr. Song Zhiyong, the Chairman, and Mr. Duan Hongyi, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the committee.

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

During the Reporting Period, the Strategy and Investment Committee considered and approved the investment plan of the Company for 2020, and received reports on the implementation of the three-year action plan of SASAC for the state-owned enterprise reform, the social responsibility report work plan for the year of 2020, the completion of investment plans for the year of 2019 and the implementation progress of investment plan for the year of 2020.

Aviation Safety Committee

As at the end of the Reporting Period, the Aviation Safety Committee comprised Mr. Song Zhiyong, the Chairman, and Mr. Stanley Hui Hon-chung, an independent non-executive Director, with Mr. Song Zhiyong serving as the chairman of the committee.

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

During the Reporting Period, the Aviation Safety Committee received reports of the safety status of the Company and the operation of China-made aircraft.

MANAGEMENT

Duties of the Management

The management shall be accountable to the Board and its main responsibilities include: (1) to formulate the strategic development plans of the Company; (2) to formulate the plans on the establishment of the Company's internal management bodies; (3) to implement annual business plans, investment proposals, preliminary and final annual financial budgets; (4) to establish general management systems regarding employment, remuneration and other fundamental internal rules and regulations; (5) to make decisions on major issues such as operation safety and business management; (6) to make decision on transactions relating to the Company's main business involving a value within a monetary threshold or within a specific proportion of the Company's latest audited net asset value; and (7) to implement Board resolutions, etc..

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

FINANCIAL REPORTING

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

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

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

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

According to the risk assessment in 2020, the main risks that the Group is facing are set out in the section headed "Management's Discussion and Analysis of Financial Position and Operating Results – Risk Factors" of this annual report.

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

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

ARTICLES OF ASSOCIATION

During the Reporting Period, no amendments were made to the Articles of Association.

On 18 March 2021, the Board resolved to propose to amend the provisions relating to the Company's address and the business name of the promotor of the Company in the Articles of Association. The proposed amendments to the Articles of Association are subject to shareholders' approval at the general meeting of the Company. For details, please refer to the announcement of the Company dated 18 March 2021.

COMPANY SECRETARY

The company secretary, namely Mr. Zhou Feng, is responsible for facilitating the procedures of the Board, as well as facilitating the communications among Board members, and communications with shareholders and with the management. The biographies of the company secretary are set out in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. During the Reporting Period, the company secretary attended a total of more than 15 hours of professional training to update his skill and knowledge.

AUDITORS AND THEIR REMUNERATION

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

RMB9,522,000 (including value-added tax) was charged in aggregate for the review of the Group's financial statements for the six months ended 30 June 2020 and for the audit of the Group's financial statements for the year ended 31 December 2020; an aggregate amount of RMB8,138,000 (including value-added tax) was charged for the audit of the financial statements of certain subsidiaries of the Group for the year ended 31 December 2020; an aggregate of RMB1,000,000 (including value-added tax) was charged for providing internal control audit services to the Group; and an aggregate of RMB435,000 (including value-added tax) was charged for providing other non-audit services to the Group.

COMMUNICATION WITH SHAREHOLDERS

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

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

Other than the annual general meeting, the Company would also hold extraordinary general meeting ("EGM") as required. In accordance with articles 66 and 92 of the Articles of Association, shareholder(s), individually or in aggregate, holding more than 10% of the shares of the Company may request the Board to convene an extraordinary general meeting by making one or more written request(s) in the same form to the Board with a clear agenda. The Board shall respond to such written request(s) within ten days of receipt of such written request(s). If the Board agrees to convene an extraordinary general meeting, it shall within five days of the Board resolution resolving to hold an extraordinary general meeting issue a notice convening an extraordinary general meeting within two months of receiving such request(s) from the shareholder(s). If the Board does not accept the request(s) from shareholder(s) for a meeting or fails to respond within ten days of the receipt of such written request(s), such shareholder(s) shall request the Supervisory Committee to convene an extraordinary general meeting by written request(s). If the Supervisory Committee fails to issue a notice convening a meeting within five days of the receipt of such written request(s), shareholder(s), individually or in aggregate, holding more than 10% of the shares of the Company for a consecutive 90 days or more may convene and hold a meeting by themselves.

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

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

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

OTHER EVENTS

On 9 February 2021, Mr. Wang Xiaokang resigned as an independent non-executive Director and a member of the nomination and remuneration committee of the Board due to his age. The resignation took effect from 9 February 2021. For details, please refer to the announcement of the Company dated 9 February 2021.

On 30 March 2021, Mr. Duan Hongyi, an independent non-executive Director, was elected as a member of the nomination and remuneration committee of the Board. For details, please refer to the announcement of the Company dated 30 March 2021.

Report of the Directors

STRATEGIC OBJECTIVES

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

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2020 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements of this annual report.

REVIEW OF BUSINESS

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2020 are summarized and set out in the section headed "Summary of Financial Information" of this annual report.

SHARE CAPITAL STRUCTURE

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

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

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

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

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

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

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

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

2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 55.20% equity interest and 64.28% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

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

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

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

INFORMATION OF SHAREHOLDERS

Total number of shareholders

Total number of holders of ordinary shares as at the end of the Reporting Period (account)	176,299 accounts, of which 3,144 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at the end of the month preceding to the disclosing date of the annual results (account)	160,622 accounts, of which 3,121 accounts are registered holders of H Shares

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

Unit: Share

Shareholdings of the top 10 shareholders							
Name of shareholder (full name)	Change(s) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)	Number of shares held subject to selling restrictions	Shares pledged or frozen Status	Shares pledged or frozen Number	Nature of shareholder
China National Aviation Holding Corporation Limited	0	5,952,236,697	40.98	0	Frozen	127,445,536	State-owned legal person
Cathay Pacific Airways Limited	0	2,633,725,455	18.13	0	Nil	0	Foreign legal person
HKSCC NOMINEES LIMITED	-84,040	1,687,734,388	11.62	0	Nil	0	Foreign legal person
China National Aviation Corporation (Group) Limited	0	1,556,334,920	10.72	0	Frozen	36,454,464	Foreign legal person
China National Aviation Fuel Group Corporation	0	466,583,102	3.21	0	Nil	0	State-owned legal person
China Securities Finance Corporation Limited	0	311,302,365	2.14	0	Nil	0	State-owned legal person
Hong Kong Securities Clearing Company Limited	94,437,174	154,556,873	1.06	0	Nil	0	Foreign legal person
Beijing Chengtong Financial Investment Co., Ltd. (北京誠通金控投資有限公司)	36,366,210	36,366,210	0.25	0	Nil	0	State-owned legal person
Ke Yunjun (柯允君)	30,252,050	30,252,050	0.21	0	Nil	0	Domestic natural person
Huaxia Life Insurance Company Limited – Own funds (華夏人壽保險股份有限公司－自有資金)	18,971,300	23,224,900	0.16	0	Nil	0	Domestic non-state-owned legal person

Shareholdings of the top 10 shareholders not subject to selling restrictions			
Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares: Class	Number
China National Aviation Holding Corporation Limited	5,952,236,697	RMB ordinary shares	5,952,236,697
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,687,734,388	Overseas listed foreign shares	1,687,734,388
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares Overseas listed foreign shares	1,332,482,920 223,852,000
China National Aviation Fuel Group Corporation	466,583,102	RMB ordinary shares	466,583,102
China Securities Finance Corporation Limited	311,302,365	RMB ordinary shares	311,302,365
Hong Kong Securities Clearing Company Limited	154,556,873	RMB ordinary shares	154,556,873
Beijing Chengtong Financial Investment Co., Ltd. (北京誠通金控投資有限公司)	36,366,210	RMB ordinary shares	36,366,210
Ke Yunjun (柯允君)	30,252,050	RMB ordinary shares	30,252,050
Huaxia Life Insurance Company Limited – Own funds (華夏人壽保險股份有限公司－自有資金)	23,224,900	RMB ordinary shares	23,224,900
Explanation on connected relationship or action in concert among the above shareholders	China National Aviation Corporation (Group) Limited is a wholly-owned subsidiary of China National Aviation Holding Corporation Limited. Accordingly, China National Aviation Holding Corporation Limited is directly and indirectly interested in 51.70% of the shares of the Company.		

1. HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,687,734,388 H shares held by it in the Company do not include the 166,852,000 shares held by it as nominee of China National Aviation Corporation (Group) Limited.

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

PUBLIC FLOAT

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

DIVIDEND POLICY

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

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

DIVIDENDS

According to the audit under the Chinese accounting standards and the international accounting standards, the Company recorded a net loss attributable to the owner of the parent company in 2020. As considered and approved by the 27th meeting of the fifth session of the Board, the Company proposed not to make profit distribution for the year of 2020. Such proposal is subject to the approval by the shareholders of the Company at the general meeting.

ANNUAL GENERAL MEETING

The Company proposed to convene the annual general meeting on 25 May 2021. The register of members of H Shares will be closed from Sunday, 25 April 2021 to Tuesday, 25 May 2021 (both days inclusive), during which period no transfer of H Shares will be effected. In order to qualify for attendance and voting at the annual general meeting, the holders of H Shares must return all the transfer documents to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Friday, 23 April 2021. The holders of H Shares whose names appear on the register of members of the Company on Sunday, 25 April 2021 are entitled to attend the annual general meeting.

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

USE OF THE PROCEEDS RAISED IN THE NON-PUBLIC ISSUANCE OF A SHARES

On 10 March 2017, the Company completed the non-public issue of 1,440,064,181 A Shares to CNAHC, China Structural Reform Fund Co., Ltd., Zhongyuan Equity Investment Management Co., Ltd., China National Aviation Fuel Group Corporation, Caitong Fund Management Co., Ltd., CIB Asset Management Co., Ltd., Horizon Asset Management Co., Ltd. and E Fund Management Co., Ltd., at an issue price of RMB7.79 per share (the "Non-public Issuance of A Shares"). The net proceeds raised is RMB11,200.4185 million. The table below shows the use of the proceeds raised by the Non-public Issuance of A Shares:

Unit: RMB (million)

Committed investment project target	Total committed investment amount of proceeds	Amount available as at the beginning of the Reporting Period	Amount invested during the Reporting Period	Cumulative amount invested as at the end of the Reporting Period	Outstanding amount to be invested as at the end of the Reporting Period
1. Purchase of 15 Boeing B787 aircraft	7,450	-	-	7,450	-
2. Upgrade of e-commerce direct sale project	100	20.1662	20.1662	100	-
3. On-board WIFI (first phase) project	50.4185	-	-	50.4185	-
4. Replenish the working capital	3,600	-	-	3,600	-
Total:	11,200.4185	20.1662	20.1662	11,200.4185	-

Note: According to the plan on the Non-public Issuance of A Shares, if the actual proceeds raised by the Non-public Issuance of A Shares are less than the total amount of proceeds proposed to be invested in the projects, the Company will adjust and determine the specific amount invested in each project based on the net proceeds actually raised and priorities of projects. As the proceeds actually raised are less than the total proposed investment amount of RMB12.0 billion, the Company has adjusted the specific investment amount in "upgrade of e-commerce direct sale project" and "on-board WIFI (first phase) project" according to the above authorization (that was, RMB800 million and RMB150 million respectively before adjustment). Please refer to the above table for the total investment amount after adjustment. As at the end of the Reporting Period, there is no change in the use of proceeds.

As at the end of the Reporting Period, the proceeds raised by the Company were fully applied to the intended proposes. Total amount applied was RMB11,200,418,471.06, among which the amount applied in prior years and 2020 was RMB11,180,252,323.58 and RMB20,166,147.48, respectively. The interest income generated from the above proceeds totalled RMB49,742,010.19 and was used to replenish the working capital of the Company.

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

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

Name	Date of election and if applicable, leaving office as Director
Song Zhiyong (Chairman and executive Director)	Elected as executive Director on 22 May 2014 and as Vice Chairman on 6 June 2016, elected as Chairman on 29 December 2020
Cai Jianjiang (Then Chairman and non-executive Director)	Elected as non-executive Director on 28 January 2014 and as Chairman on 21 February 2014, resigned on 29 December 2020
Feng Gang (Non-executive Director)	Elected on 26 May 2020
Patrick Healy (Non-executive Director)	Elected on 19 December 2019
Xue Yasong (Non-executive Director and employee representative Director)	Elected on 29 March 2018
Wang Xiaokang (Then independent non-executive Director)	Elected on 25 May 2017, resigned on 9 February 2021
Liu Deheng (Then independent non-executive Director)	Elected on 25 May 2017, resigned on 21 January 2020
Duan Hongyi (Independent non-executive Director)	Elected on 26 May 2020
Stanley Hui Hon-chung (Independent non-executive Director)	Elected on 22 May 2015
Li Dajin (Independent non-executive Director)	Elected on 22 December 2015

Supervisors

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

Name	Date of election and if applicable, leaving office as Supervisor
Zhao Xiaohang (Chairman of the Supervisory Committee)	Elected on 19 December 2019
He Chaofan	Elected on 29 October 2013
Lyu Yanfang	Elected on 18 December 2020
Xiao Yanjun (Then employee representative Supervisor)	Elected on 16 June 2011 and resigned on 25 September 2020
Li Guixia (Then employee representative Supervisor)	Elected on 27 October 2017 and resigned on 25 September 2020
Wang Jie	Elected on 25 September 2020
Qin Hao	Elected on 25 September 2020

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND SERVICE CONTRACTS

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

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

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

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

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

PERMITTED INDEMNITY PROVISION

Appropriate directors' liability insurance coverage has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities.

EMPLOYEES

As at the end of the Reporting Period, the Group had a total of 89,373 employees, among which, the Company had 46,819 employees and the subsidiaries of the Company had 42,554 employees. The categories of employees of the Group are as follows:

Professional Categories	As at 31 December 2020	As at 31 December 2019	Increase/(Decrease)
Management	11,001	10,538	463
Marketing and Sales	6,277	6,709	(432)
Operation	4,705	4,708	(3)
Ground Handling	11,278	11,146	132
Cabin Service	23,619	23,501	118
Logistics and Support	7,323	8,331	(1,008)
Flight Crew	9,632	8,899	733
Engineering and Maintenance	13,628	13,724	(96)
Information Technology	820	730	90
Others	1,090	1,538	(448)
Total	89,373	89,824	(451)

REMUNERATION POLICY

Upholding the concept of "paying salary with reference to the job value, personal ability as well as performance appraisal" and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company has continually established and improved a linkage mechanism combining salary distribution with performance, and implemented differentiated management on gross payroll and budget. During the Reporting Period, the Company continued to deepen the reform of its remuneration and welfare system. It pushed forward the market-oriented remuneration benchmarking, established a scientific mechanism on wage decision and growth that reflects the labour market standards. In addition, the Company implemented the differentiated salary adjustment for employees and increased incentives to staff with continuous outstanding performance.

TRAINING PROGRAMME

In 2020, the Company adhered to the working approach of "fighting against the pandemic while maintaining the training scheme". It actively expanded the training model in times of the pandemic and explored the new mode for online training. It organised cadre education and training on the online learning platform and took various measures including the launch of online training on the "CNAHC Group Leadership" WeChat learning platform and the online live sharing session on the special topic of "Benchmarking with World-class Aviation Enterprises". With a total of 1,411 participants completing 98,022 hours of training, these programs provided strong support for the knowledge-driven fight against the pandemic. To maintain valid qualification of all operating staff, the Company provided various types of qualification training for pilots, flight attendants, flight trainees, aircraft maintenance personnel, aviation dispatch personnel and ground service personnel during the Covid-19 outbreak by establishing 13 live streaming lecture rooms and offering 813 live training sessions, which recorded a total of 277,689 participants and 215,311 hours of training. As pandemic prevention and control became part of the routine, the Company timely adjusted the training programmes, actively coordinated learning resources, improved and optimized course content. It adopted multiple measures with flexibility to roll out education and training programs for all levels and categories of cadres, so as to enhance the relevance and effectiveness of training on an ongoing basis. It launched a total of 17 off-the-job training sessions for 345 participants with 14,778 training hours in aggregate. This has profoundly safeguarded the quality training of cadre team and the development of the Group with their high standard services.

In 2021, the Company will take the initiative to resume work, production and training, so that all types of training can be rolled out smoothly. Capitalising on a wide range of education and training bases as well as the "CNAHC Group Leadership" WeChat learning platform, the Company will organise cadre and employees education and training by integrating online and offline channels. Through theory learning, education of the Communist Party mindset, professional training and knowledge update, the Group will further enhance the commitment, theoretical knowledge and Party mindset of its employees, and improve their operational practice, ethical standards and job competency, thereby laying a sound foundation for building an outstanding world-class aviation group.

SUPPLIER MANAGEMENT

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

EMPLOYEES AND EMPLOYEES' PENSION SCHEME

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group are set out in note 36 to the financial statements of this annual report.

FIXED ASSETS

Changes in the fixed assets of the Group for the year ended 31 December 2020 are set out in note 17 to the financial statements of this annual report.

AIRCRAFT AND FLIGHT EQUIPMENT

The aggregate net book value of the Group's aircraft, engines and flight equipment as at the end of the Reporting Period are set out in note 17 to the financial statements of this annual report. The Group's capital commitment amounts for aircraft and flight equipment as at the end of the Reporting Period are set out in note 43 to the financial statements of this annual report.

CAPITALISED INTERESTS

Details of the capitalised interests of the Group for the year ended 31 December 2020 are set out in note 12 to the financial statements of this annual report.

RESERVES

Changes in the reserves of the Company and the Group during the year are set out in note 41 and the consolidated statement of changes in equity to the financial statements of this annual report.

DONATIONS

During the Reporting Period, the Group made donations for charitable and other purposes amounting to RMB95.28 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the purchases of the Group from the largest supplier accounted for 15.95% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 33.25% of the total purchases of the Group. None of the Directors or Supervisors, their associates, nor any shareholder of the Company, who to the knowledge of the Directors owns 5% or more of the Company's share capital, had any interest in the five largest suppliers of the Company.

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

PROPERTY TITLE CERTIFICATE

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

COMPLIANCE OPERATIONS

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

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

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

Save as disclosed in note 42 to the financial statements of this annual report, as at the end of the Reporting Period, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there was no litigation or claim of material importance pending or threatened or initiated against the Company.

CONNECTED TRANSACTIONS

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

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

ONE-OFF CONNECTED TRANSACTION – SUBSCRIPTION OF CATHAY PACIFIC RIGHTS SHARES

On 9 June 2020, the Company issued an irrevocable undertaking to Cathay Pacific, pursuant to which the Company has irrevocably undertaken to procure each of the relevant subsidiaries to take up in full at the subscription price of HK$4.68 per Cathay Pacific Rights Share its respective entitlement to Cathay Pacific Rights Shares according to the Cathay Pacific Rights Issue. Cathay Pacific Rights Issue was completed on 10 August 2020 and the relevant subsidiaries of the Company have taken up a total of 750,756,347 Cathay Pacific Rights Shares which were allocated to such subsidiaries in the Cathay Pacific Rights Issue at a total consideration of approximately HK$3,514 million. Immediately after the subscription, the Company's shareholding percentage in Cathay Pacific remained unchanged at 29.99%. Cathay Pacific is a substantial shareholder of the Company and therefore a connected person of the Company. For details, please refer to the announcement of the Company dated 9 June 2020.

Continuing connected transactions

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

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
1	Properties Leasing Framework Agreement	The Company and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	Renewed on 30 October 2018 with a term from 1 January 2019 to 31 December 2021 The details are set out in the announcement of the Company dated 30 October 2018	The Group agreed to lease from and to CNAHC Group a number of properties	The rent payable will be consulted and determined based on the price for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including property service quality, location, district of properties and specific needs of the parties
2	Sales Agency Services Framework Agreement	The same as above	The same as above	Certain subsidiaries of CNAHC Group will (i) solicit customers and act as the Group's sales agents for the Group's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Group and resell such air tickets and cargo spaces to end customers	The air passenger agency services: agency service fee shall be consulted and determined on a fair and voluntary basis; specific sales targets and the corresponding incentive plans for achieving such targets may be agreed to the extent permitted by law and in accordance with the industry practice The air cargo agency services: the transportation prices shall be not less favorable than the prices offered by independent third parties in China's air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type as well as the specific product types and required transportation time; specific sales targets and the corresponding price discounts on cargo transportation for achieving such sales targets may be agreed in accordance with the industry practice.

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
3	Comprehensive Services Framework Agreement	The same as above	The same as above	(i) The subsidiaries of CNAHC engaged in ancillary services in relation to air transportation business will be appointed as suppliers of ancillary services in relation to production or supply services business to the Company (ii) The Company is commissioned by CNAHC to provide welfare-logistics services for CNAHC's retired employees	Ancillary services in relation to air transportation business: (i) the prices of airline catering services will be consulted and determined based on the price for the same type of catering services available from independent third parties with reference to relevant factors; (ii) the prices of property management services will be consulted and determined based on the price for the same type of property management services available from independent third parties with reference to relevant factors; (iii) the prices of hotel accommodation and staff recuperation services shall be no less favourable than the price for the same type of guest room products or services available to the Group from independent third parties with equivalent level in the same location of the hotel and determined with reference to relevant factors; and (iv) catering supplies, publications and other services are provided in accordance with the bidding management requirements of the Group, and the prices shall be no less favourable than the price of similar products or services available from independent third parties to the Group Welfare-logistics services for CNAHC's retired employees: management fee charged by the Company at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC
4	Government Charter Flight Service Framework Agreement	The same as above	The same as above	CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment	Hourly rate of the charter flight services = Total cost per flight hour * (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs
5	Media Services Framework Agreement	The Company and CNAMC (CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNAMC provided the Group with media services. Among them, the Company grants CNAMC an exclusive right to distribute the in-flight reading materials of the Company	For the entrusted media services provided by CNAMC to the Company, the Company should pay the relevant service fee at market price to CNAMC For the media resources of the Company used in the course of the Company's media business by CNAMC, CNAMC should pay the Company RMB13.8915 million as media usage fee for each year within the term of the agreement
6	Construction Project Management Framework Agreement	The Company and CNACD (a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	Signed on 30 October 2018 with a term from 1 January 2019 to 31 December 2021 The details are set out in the announcement of the Company dated 30 October 2018	CNACD was commissioned by the Company to serve as the manager of the construction projects and establish project headquarters. It shall provide management services for the Company's projects based on its project characteristics using its industry expertise and professional skills	CNACD receives service fees based on the audited amounts in the financial settlement of specific commissioned projects in accordance with the commissioned management contract. The service fees shall be calculated at 3% of the audited amount in the financial settlement of the investment relating to the management contents provided by CNACD as commissioned by the Company, with the rewards and penalties agreed by both parties based on the project management progress and the balance. Alternatively, CNACD may receive service fees from the Company as per the commissioned management contents based on the size of or investment in the projects to be commissioned, and the service fees shall be calculated as per the full-labor cost (including management fee) based on the human resources and materials invested by CNACD, with the rewards and penalties agreed by both parties based on the project management progress and the balance

Report of the Directors

	Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
7	Financial Services Agreement	The Company and CNAF (CNAF is a non-wholly owned subsidiary of the Company that CNAHC holds 49% of its equity interest and therefore a connected subsidiary of the Company)	Renewed and revised on 30 August 2017 with a term from 1 January 2018 to 31 December 2020 The details are set out in the announcement of the Company dated 30 August 2017 Renewed and revised on 28 August 2020 with a term from 1 January 2021 to 31 December 2023 The details are set out in the announcement of the Company dated 28 August 2020	CNAF agreed to provide the Group with a range of financial services including deposit services, credit services and other financial services	Interest rates applicable to deposits: not be lower than (i) the interest rates for the same type of services charged by state-owned commercial banks to the Group under the same conditions; and (ii) the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions Interest rates applicable to credit services: not be higher than (i) the interest rates for the same type of services offered by state-owned commercial banks to the Group under the same conditions; and (ii) the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions Fees for other financial services: not be higher than (i) those for the same type of services charged by state-owned commercial banks to the Group under the same conditions; and (ii) those for the same type of services charged by CNAF to other CNAHC member companies under the same conditions
8	Financial Services Framework Agreement	CNAF (a non-wholly owned subsidiary of the Company), and CNAHC (a substantial shareholder of the Company and therefore a connected person of the Company)	The same as above	CNAF agreed to provide CNAHC Group with a range of financial services including deposit services, credit services and other financial services	The interest rates for deposits: not be higher than (i) the interest rates for the same type of services charged by state-owned commercial banks to CNAHC Group under the same conditions; and (ii) the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions The interest rates applicable to credit services: not be lower than (i) the interest rates for the same type of services offered by state-owned commercial banks to CNAHC Group under the same conditions; and (ii) the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions Fees for other financial services: not be lower than (i) the fees for the same type of services charged by state-owned commercial banks to CNAHC Group under the same conditions; and (ii) fees for the same type of services charged by CNAF to the Group under the same conditions

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

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

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

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

Transaction Caps and Actual Transaction Amounts for the Reporting Period

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

		Total amount for the Reporting Period	
	Currency	**Annual cap** *(in millions)*	**Actual amount** *(in millions)*
Transactions with CNAHC Group:			
Charter flight services	RMB	900	425
Comprehensive services	RMB	2,500	967
Total value of right-of-use assets involved in property leasing	RMB	550	34
Media and advertising services	RMB	700	114
Expenditure on construction project management services	RMB	130	44
Financial services			
Maximum daily balance of loans and other credit services granted by CNAF to CNAHC Group	RMB	10,000	540
Transactions with CNACG Group:			
Ground handling and other services	RMB	600	111
Total value of right-of-use assets involved in financing and operating leasing	RMB	14,500	1,959
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Group to Cathy Pacific Group	HKD	900	54
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	71
Transactions with ACC Group:			
Operation expenses of bellyhold space paid by the Group to ACC Group	RMB	800	351
Aggregate amount of ground handling and other services paid by the Group to ACC Group	RMB	1,000	569
Bellyhold space business contracting operation paid by ACC Group to the Group	RMB	8,000	7,685
Aggregate amount of ground handling and other services paid by ACC Group to the Group	RMB	800	603
Transactions with CNAF:			
Maximum daily balance of deposits placed by the Group with CNAF	RMB	15,000	9,665

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONFIRMATION FROM THE AUDITOR

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

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

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

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

(4) have exceeded the cap.

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

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Reporting Period are set out in note 47 to the financial statements of this annual report. None of these related party transactions constitutes a disclosable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed "Connected Transactions" in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

CONTRACT OF SIGNIFICANCE

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

CORPORATE BONDS

The Group's corporate bonds are summarised as the followings:

Unit: RMB billion Currency: RMB

Name of Corporate Bond	Abbreviation	Code	Issue Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest	Transaction Venue
Air China Limited 2012 Corporate Bond (First Tranche)	12AC01	122218	18 January 2013	18 January 2023	5.243	5.10	On annual basis	Shanghai Stock Exchange
Air China Limited 2012 Corporate Bond (Second Tranche)	12AC03	122269	16 August 2013	16 August 2023	1.530	5.30	On annual basis	Shanghai Stock Exchange
Air China Limited 2016 Corporate Bond (Second Tranche)	16AC02	136776	20 October 2016	20 October 2021	4.025	3.08	On annual basis	Shanghai Stock Exchange
Air China Limited 2020 Corporate Bond (First Tranche)	20AC01	163459	17 April 2020	17 April 2021	1.520	1.95	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (First Tranche)	18SA02	143499	13 March 2018	14 March 2021	0.521	5.27	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (Second Tranche)	18SA04	143601	23 April 2018	24 April 2021	0.825	4.55	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2018 Corporate Bond (Third Tranche)	18SA06	143793	6 September 2018	7 September 2021	0.608	4.35	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2019 Corporate Bond (First Tranche)	19SA01	155388	25 April 2019	26 April 2022	1.027	4.00	On annual basis	Shanghai Stock Exchange
Shenzhen Airlines Company Limited 2020 Non-public Issue Short-term Corporate Bond (First Tranche)	20SAD1	114694	17 March 2020	19 March 2021	0.511	2.74	On annual basis	Shenzhen Stock Exchange

Interest payments for corporate bonds

On 18 January 2020, the Company paid the interests on 2012 Corporate Bond (First Tranche) for the current period.

On 17 August 2020, the Company paid the interests on 2012 Corporate Bond (Second Tranche) for the current period.

On 20 October 2020, the Company paid the interests on 2016 Corporate Bond (Second Tranche) for the current period.

On 14 March 2020, Shenzhen Airlines paid the interests on 2018 Corporate Bond (First Tranche) for the current period.

On 24 April 2020, Shenzhen Airlines paid the interests on 2018 Corporate Bond (Second Tranche) for the current period.

On 26 April 2020, Shenzhen Airlines paid the interests on 2019 Corporate Bond (First Tranche) for the current period.

On 7 September 2020, Shenzhen Airlines paid the interests on 2018 Corporate Bond (Third Tranche) for the current period.

The proceeds from the issuance of “12AC01”, “12AC03”, “16AC02” and “20AC01” Corporate Bonds were used towards the replenishment of liquidity and repayment of bank loans so as to satisfy the needs of the Company’s daily production and operation. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectus and the balance of proceed as at the end of the Reporting Period is zero.

The proceeds from the issuance of “18SA02”, “18SA04”, “18SA06”, “19SA01” and “20SAD1”Corporate Bonds were used towards the replenishment of liquidity and repayment of bank loans so as to satisfy the needs of the Company’s daily production and operation. The abovementioned proceeds have been fully utilized in accordance with the use of proceeds as set out in the prospectus and the balance of proceed as at the end of the Reporting Period is zero.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP (collectively, “Deloitte”) as the Company’s international auditor and domestic auditor respectively for the year of 2020. The auditor of the Company has been changed to Deloitte since 2017.

SUBSEQUENT EVENTS

On 18 March 2021, the Company and Air China Import and Export Co., Ltd. (國航進出口公司) entered into the Aircraft Purchase Agreement with AFS Investments I, Inc. Pursuant to which, the Company will purchase five Airbus A320-200N aircraft and 13 Airbus A321-200NX aircraft from AFS Investments I, Inc. For details, please refer to the announcement of the Company dated 18 March 2021.

On 18 March 2021, the Board resolved to propose to amend the provisions relating to the Company’s address and the business name of the promotor of the Company in the Articles of Association. The proposed amendments to the Articles of Association are subject to shareholders’ approval at the general meeting of the Company by way of a special resolution. For details, please refer to the announcement of the Company dated 18 March 2021.

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

By Order of the Board
Song Zhiyong
Chairman
30 March 2021

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Mr. Song Zhiyong, aged 55, is a senior pilot and graduated from the First Flying Academy of China Air Force with a bachelor's degree in aviation. He started his career in China's civil aviation industry in 1987 and was previously a pilot, Assistant Manager, Chief Pilot, and Deputy General Manager of the Third Fleet, Deputy General Manager of the General Fleet and the General Manager of the Training Department of Air China International Corporation. He served as the General Manager and Deputy Secretary of the Communist Party Committee of the General Fleet of the Company from November 2002 to June 2008. Mr. Song held the post of Assistant to President of the Company from September 2004 to October 2006. He was the Vice President, a member and a standing member of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of CNAHC from December 2010 to April 2014. He has been a member of the Communist Party Group of CNAHC since December 2010. From January 2014 to December 2020, he served as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company. Mr. Song has served as an executive Director of the Company since May 2014 and the Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He served as the Vice Chairman of the Company from June 2016 to December 2020, the Director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC from December 2016 to October 2020. He has been serving as the Chairman and Secretary of the Communist Party Group of CNAHC since October 2020, and the Chairman and Secretary of the Communist Party Committee of the Company since December 2020. He has served as the Vice Chairman of the Board of Cathay Pacific since December 2020.

Mr. Feng Gang, aged 57, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. Mr. Feng was appointed as the Deputy General Manager of China Southwest Airlines in October 1995, the Assistant to President of Air China International Corporation in October 2002, and the General Manager and Secretary of the Communist Party Committee of China National Aviation Holding Assets Management Company in February 2003. He was appointed as the Chairman, President and Deputy Secretary of the Communist Party Committee of Shandong Aviation Group Corporation in May 2007. He served as the Vice President of the Company from April 2010 and August 2014, and concurrently as the Director, President, Deputy Secretary of the Communist Party Committee of Shenzhen Airlines between May 2010 and May 2014. From April 2014, Mr. Feng served as a member of the Communist Party Group of CNAHC. From April 2014 to November 2019, he served as the Deputy General Manager of CNAHC. He was the non-executive Director of the Company between August 2014 and October 2017. From May 2017 to November 2019, he was the Deputy President of the Company. Since November 2019, he has served as the Director and the Deputy Secretary of the Communist Party Group of CNAHC and the Deputy Secretary of the Communist Party Committee of the Company. From May 2020, he has been the non-executive Director of the Company.

Mr. Patrick Healy, aged 55, graduated from the University of Cambridge with a Bachelor of Arts (Honours) degree in Modern Languages. He joined the Swire Group in August 1988 and worked in Swire Group's offices in Hong Kong SAR, Germany and Mainland China. He acted as the chief executive officer of Taikoo (Xiamen) Aircraft Engineering Company Limited from August 2008 to July 2012, and the chief executive officer of Swire Coca-Cola Limited from August 2012 to September 2019. He has acted as an executive director of the beverages division of Swire Pacific Limited since January 2013, a director of John Swire & Sons (H.K.) Limited since December 2014, and a director of Swire Properties Limited since January 2015. He has been serving as the chairman of Swire Coca-Cola Limited since October 2019 and the chairman of Cathay Pacific Airways Limited since November 2019. He has been serving as a non-executive Director of the Company since December 2019.

Mr. Xue Yasong, aged 59, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as assistant to the general manager of the international finance department, head of the asset reorganization group and head of preparatory group for the securities company. He served as a director, executive deputy general manager and secretary of the board of directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999, the deputy general manager of CNAHC from November 2004 to July 2009, the chairman of the labour union of CNAHC in July 2009. He was elected as the chairman of the labour union of the Company in October 2016. He has been serving as an employee representative director of CNAHC since December 2017, and was elected as employee representative Director of the Company in March 2018.

Mr. Wang Xiaokang, aged 65, graduated from Peking University majoring in law. He served as chairman and deputy secretary of the Communist Party Committee of China Energy Conservation and Environmental Protection Group from May 2010 to December 2016. Since December 2011, he has been serving as the president of China Industrial Energy Conservation and Clean Production Association. He is also currently a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference (CPPCC) and a member of the Committee of Population, Resources and Environment under the Twelfth National Committee the CPPCC, a member of China Economic and Social Council, a member of National Manufacturing Strategy Advisory Committee and a member of the Sixth China Council for International Cooperation on Environment and Development. He served as an independent non-executive Director of the Company between May 2017 and February 2021. He served as an external director of China Datang Corporation Ltd. from August 2018 to August 2019.

Mr. Duan Hongyi, aged 57, is a professorate senior accountant and a holder of master's degree in business administration. He held various positions including vice director, director of planning and accounting department and vice chief accountant of Harbin Electric Company Limited, deputy general manager of the Harbin Turbine Company Limited and vice chairman of Harbin Power Technology & Trade Incorporation. He was also the deputy general manager of Harbin Electric Corporation, the director of Harbin Electric Company Limited and the chairman of Harbin Electric Finance Company Limited. He served as an executive director and general manager of Nam Kwong (Group) Company Limited, as well as a director and general manager of Nam Kwong (Group) Company Limited [China Nam Kwong (Group) Company Limited]. He has been a professional external director for state-owned enterprises since November 2019. He has also served as the external director of both China Telecommunications Corporation and China National Nuclear Corporation since March 2020. He was appointed as the Independent Non-executive Director of the Company in May 2020.

Mr. Stanley Hui Hon-chung, aged 70, holds the bachelor's degree of Science from the Chinese University of Hong Kong. He joined Cathay Pacific in 1975 and had held a range of management positions in Hong Kong and overseas. From 1990 to 1992, Mr. Hui served in Cathy Dragon as general manager of Planning and International Affairs and was appointed as the chief representative of John Swire & Sons (China) Limited in Beijing in 1992. He assumed the position of chief operating officer of AHK Air Hong Kong Limited from 1994 to 1997. Mr. Hui joined Hong Kong Dragon Airlines Limited as its chief executive officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the chief executive officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 13th session of National Committee of CPPCC and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui has been serving as an independent non-executive Director of the Company since May 2015. From September 2015 to October 2017, Mr. Hui was an executive director and the Vice CEO of NWS Holdings Limited. He served as independent non-executive director of Guangzhou Baiyun International Airport Co., Ltd. from December 2016, and served as advisor in NWS Holdings Limited from October 2017 to October 2018. He served as the independent non-executive director of Beijing Capital International Airport Co., Ltd. since June 2020. In October 2020, he was appointed as the director of NWFB Services and Citybus Limited. In December 2020, he was appointed as the Director of Greater Bay Airlines Company Limited in Hong Kong.

Mr. Li Dajin, aged 62, graduated from Peking University majoring in law. He is a director, partner and lawyer of East & Concord Partners. He has practiced law since 1982 and was one of the first lawyers who obtained the qualifications to engage in securities law business in 1994. He was the vice president of the sixth All China Lawyers Association, the president of the seventh Beijing Lawyers Association, member of the 13th standing committee of Beijing Municipal People's congress, member of Internal and Judicial Affairs Committee and the deputy to the 12th National People's Congress. Mr. Li currently also serves as a member of the 13th CPPCC, legislative consultant to the Standing Committee of Beijing Municipal People's Congress, invited supervisor to the PRC Supreme People's Court, visiting professor to Lawyer College Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. Since December 2015, he has been serving as an independent non-executive Director of the Company.

SUPERVISORS

Mr. Zhao Xiaohang, aged 59, graduated from the School of Economics and Management of Tsinghua University majoring in management engineering, and holds a postgraduate diploma. He started his career in August 1986 and served various positions, including the assistant of the Planning Department of Beijing Administration of Civil Aviation Administration of China, assistant, section chief and deputy division chief of the Planning Department, manager and deputy secretary of the Ground Handling Department, general manager of the Planning and Development Department, and assistant president of Air China. He served as the director and vice president of CNACG from September 2003 to February 2011, and a secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as the general manager of CNAC from July 2005 to May 2016. From April 2007 to February 2016, he served as director and general manager of China National Aviation Corporation (Macau) Company Limited. From December 2009 to April 2011, he served as chairman, executive director and general manager of Air Macau. Mr. Zhao has been serving as the vice president and a member of the Standing Committee of Communist Party Committee of the Company since February 2011. He has been serving as the chairman of Air Macau since March 2016, a member of the Communist Party Group of CNAHC since August 2016, the vice general manager of CNAHC and the chairman of CNAMC since December 2016, and the deputy chairman of CNACG between December 2016 and May 2020. He has been serving as chairman of Capital Holding since September 2018. Since December 2019, he has been serving as Chairman of the Supervisory Committee of the Company. He was appointed as the chairman of CNACG in May 2020.

Mr. He Chaofan, aged 58, graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of Civil Aviation Administration of China (CAAC), and served various positions in Air China International Corporation, including the section chief, deputy director and director of the finance department and general manager of the revenue accounting centre of Air China International Corporation. From March 2003 to October 2008, he served as the general manager and the deputy secretary of Communist Party Committee of CNAF. He served as the general manager of the finance department of CNAHC and a Supervisor of the Company concurrently from October 2008 to April 2011. He served as vice president of CNACG from May 2011 to December 2018, and concurrently served as a director, general manager, member of Party Committee and the deputy secretary of the Communist Party Committee of Zhongyi Aviation Investment Co., Ltd. from August 2013 to December 2018. He served as the chairman of Zhongyi Aviation Investment Co., Ltd. between February 2019 and September 2020. Mr. He was appointed as a Supervisor of the Company in October 2013 and has been serving as the director, president, member of Party Committee of CNACG since December 2018.

Ms. Lyu Yanfang, aged 49, graduated from Northwest Institute of Politics and Law majoring in law and holds a bachelor's degree in law. She joined Air China in 1996 and served as project manager of legal affairs, deputy manager, manager and senior manager of the president's office of the Company. She served as deputy director of the president's office of the Company from May 2013 to August 2017. She has been serving as the general manager of the legal department of China National Aviation Holding Corporation Limited and the Company since August 2017. From April 2018, she has served as the chairwoman of the supervisory committee of Beijing Golden Phoenix Human Resource Co., Ltd. and the supervisor of China National Aviation Construction and Development Company and of China National Aviation Capital Holding Co., Ltd. From August 2018, she has served as the supervisor of China National Aviation Media Co., Ltd. From August 2018, she has served as the chairwoman of the supervisory committee of China National Aviation Finance Co., Ltd. She has been serving as the Supervisor of the Company since December 2020.

Mr. Wang Jie, aged 55, graduated from China Europe International Business School with a master's degree in Business Administration. He started his career since August 1989 and was the head of secretary of the organization department of the Communist Party Committee, personnel manager of the human resource department, general manager of the human resource department of the engineering technology branch, as well as the deputy general manager, deputy secretary of the Communist Party Committee, secretary of the Communist Party Committee, secretary of Committee for Discipline Inspection and chairman of the labour union of the base in Southern China of the Company. From December 2009 to November 2014, he served as the general manager of the human resource department of the Company. He has been serving as the deputy director and secretary of the Communist Party Committee of the commercial committee of the Company since November 2014 as well as chairman of the labour union of the commercial committee of the Company since May 2019. He has been serving as the employee representative Supervisor of the Company since September 2020.

Mr. Qin Hao, aged 52, graduated from Party School of the Central Committee of the Chinese Communist Party with a master's degree in Political Economics. He started his career since August 1989 and was the head of quality management division of the ground service department, deputy manager of the passenger traffic office, manager of quality management of operation and quality management department and deputy general manager of service development department of the Company. From June 2009 to November 2014, he served as the deputy general manager and a member of the Communist Party Committee of Hubei Branch of the Company. He has been serving as the deputy general manager and secretary of the Communist Party Committee of the passenger cabin service department of the Company since November 2014 as well as chairman of the labour union of the passenger cabin service department of the Company since August 2019. He has been serving as the employee representative Supervisor of the Company since September 2020.

SENIOR MANAGEMENT

Mr. Ma Chongxian, aged 55, graduated from Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA in Tsinghua University. Mr. Ma started his career in July 1988 and served as Planner of the Mechanical Division of Inner Mongolia Administration of CAAC and various positions in Air China International Corporation, including deputy chief and secretary of the Party branch of aircraft repair plant in Inner Mongolia branch, general manager of the bluesky customer service department, deputy general manager of Inner Mongolia branch, deputy general manager, secretary of the Communist Party Committee and general manager of Zhejiang branch. He served as general manager and deputy secretary of the Communist Party Committee of Hubei Branch of the Company from June 2009. Mr. Ma has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since April 2010. From April 2010 to November 2016, he served as chairman and president of Shandong Aviation Group Corporation and vice chairman of Shandong Airlines. He has been a member of the Communist Party Group of CNAHC since August 2016 and vice general manager of CNAHC since December 2016.

Mr. Zhao Xiaohang, aged 59, graduated from the School of Economics and Management of Tsinghua University majoring in management engineering, and holds a postgraduate diploma. He started his career in August 1986 and served various positions, including the assistant of the Planning Department of Beijing Administration of Civil Aviation Administration of China, assistant, section chief and deputy division chief of the Planning Department, manager and deputy secretary of the Ground Handling Department, general manager of the Planning and Development Department, and assistant president of Air China. He served as the director and vice president of CNACG from September 2003 to February 2011, and a secretary of the Commission for Discipline Inspection of CNACG from May 2004 to February 2011. He served as the general manager of CNAC from July 2005 to May 2016. From April 2007 to February 2016, he served as director and general manager of China National Aviation Corporation (Macau) Company Limited. From December 2009 to April 2011, he served as chairman, executive director and general manager of Air Macau. Mr. Zhao has been serving as the vice president and a member of the Standing Committee of Communist Party Committee of the Company since February 2011. He has been serving as the chairman of Air Macau since March 2016, a member of the Communist Party Group of CNAHC since August 2016, the vice general manager of CNAHC and the Chairman of CNAMC since December 2016, and the deputy chairman of CNACG between December 2016 and May 2020. He has been serving as chairman of Capital Holding since September 2018. Since December 2019, he has been serving as Chairman of the Supervisory Committee of the Company. He was appointed as the Chairman of CNACG in May 2020.

Mr. Tan Huanmin, aged 56, graduated from Jilin University School of Law majoring in constitutional law. Mr. Tan previously served as the deputy principal officer and principal officer of Policies and Laws Department of the Ministry of Supervision. From January 1993 to May 2008, Mr. Tan consecutively served as principal officer and deputy director of the Review Division of Regulation Office of the Central Commission for Discipline Inspection, deputy director, director-level inspector and supervisor of Supervision and Regulation Division, deputy director of Supervision and Regulation Division, and director of Supervision and Regulation Division. From May 2008 to December 2016, Mr. Tan consecutively served as Discipline Inspector of vice-bureau level and specialised Supervisor of Regulation Office of the Central Commission for Discipline Inspection, deputy director of Regulation Office, and Discipline Inspector of bureau level, specialised Supervisor and deputy director of Regulation Office. From December 2016 to January 2019, Mr. Tan was a member of the Communist Party Group and team leader of the Discipline Inspection Group of Communist Party Group of China Aerospace Science & Technology Corporation. Since January 2019, Mr. Tan has been serving as team leader of the Discipline Inspection and Supervision Group and a member of the Communist Party Group of CNAHC, and in January 2019, he was appointed as a standing member of the Communist Party Committee and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Wang Mingyuan, aged 55, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in July 1988 and served various positions in China Southwest Airlines, including assistant of the planning department, manager of the production plan office of the sales & marketing department, deputy manager of the sales & marketing department, deputy manager and manager of the market department, and served various positions in Air China International Corporation, including deputy general manager of the marketing department, member of the commerce commission, Member of the Communist Party Committee and general manager of network revenue department. Mr. Wang served as the director of the commerce commission and Deputy Secretary of the Communist Party Committee of the Company from July 2008 to March 2012. Mr. Wang was appointed as the Vice President and a member of the Standing Committee of CPC of the Company in February 2011. He was appointed as the deputy general manager and a member of the Communist Party Group of CNAHC in April 2020.

Mr. Zhang Sheng, aged 48, graduated from the Renmin University of China/American City University with a bachelor's degree in business administration and a master's degree in business administration. Mr. Zhang started his career in July 1992 and served various positions including the deputy manager of the marketing division of the transportation department, the deputy director of the general dispatching office and the deputy general manager of the marketing department of the former China Xinjiang Airlines, the general manager of the marketing department of the Xinjiang branch of China Southern Airlines Company Limited, the deputy general manager of the capacity network division of the marketing committee, the deputy general manager of Shanghai Base and the deputy general manager of the Xinjiang Branch of China Southern Airlines Company Limited, the general manager, deputy secretary of the Communist Party Committee and the executive deputy general manager of the Beijing Branch of Guizhou Airlines. From August 2017 to May 2020, he served as the general manager and the deputy secretary of the Communist Party Committee of the Beijing Branch of China Southern Airlines Company Limited. In May 2020, he was appointed as the deputy general manager and a member of the Communist Party Group of CNAHC as well as a member of the Standing Committee of the Communist Party Committee of the Company. In June 2020, he was appointed as the Vice President of the Company.

Mr. Chen Zhiyong, aged 57, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class pilot. Mr. Chen started his career in October 1982 and served various positions, including navigator of the Third Section of the Seventh Fleet of CAAC, section manager and general manager of Chengdu flight department of China Southwest Airlines and general manager of Flight Technology Management Department of China Southwest Airlines, general manager of Chengdu Flight Department of Southwest Branch of Air China International Corporation, and deputy general manager, member of the Standing Committee of the Communist Party Committee and Chief Pilot of Southwest Branch. He served as general manager and Deputy Secretary of the Communist Party Committee of southwest branch of the Company from December 2009 to December 2012. Mr. Chen has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since December 2012. Between December 2012 and April 2015, he concurrently served as the Chief Operating Officer of the Company. He was appointed as the director of Shenzhen Airlines in May 2014. Between May 2014 and September 2020, he was also the president and deputy secretary of the Community Party Committee of Shenzhen Airlines. He was appointed as the Chairman of Shenzhen Airlines in March 2020. Since July 2020, he served as the deputy general manager and a member of the Communist Party Group of CNAHC.

Mr. Chai Weixi, aged 58, graduated from City University of Seattle and holds a postgraduate diploma and a master's degree. Mr. Chai is a senior engineer. Mr. Chai started his career in September 1980 and served various positions, including engineer and manager of airframe team of engineering department of AMECO, deputy director of the engineering division under the aircraft engineering department of Air China International Corporation, manager of aircraft Maintenance Subdivision and manager of aircraft overhaul division, general manager of aircraft engineering department of AMECO and deputy general manager of the engineering technology branch of the Company. From October 2005 to March 2009, he served as general manager and a member of the Communist Party Committee of AMECO as well as a member of the Communist Party Committee of the engineering technology branch of the Company. He served as general manager and Deputy Secretary of the Communist Party Committee of the engineering technology branch of the Company from March 2009 to June 2015. He was the director of AMECO between October 2005 and January 2020, and appointed as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company in March 2012. He also served as the chief executive officer of AMECO from June 2015 to September 2017.

Mr. Xue Yasong, aged 59, graduated from the Institute of Financial Science under the Ministry of Finance with a master's degree in Economics. He joined Guangdong Yuecai Trust & Investment Co., Ltd. in July 1994 and consecutively served as assistant to the general manager of the international finance department, head of the asset reorganization group and head of preparatory group for the securities company. He served as a director, executive deputy general manager and secretary of the board of directors of Guangdong Guanhao High-tech Co., Ltd. since March 1999, the deputy general manager of CNAHC from November 2004 to July 2009, the chairman of the labour union of CNAHC in July 2009. He was elected as the chairman of the labour union of the Company in October 2016. He has been serving as an employee representative director of CNAHC since December 2017, and was elected as employee representative Director of the Company in March 2018.

Mr. Xu Chuanyu, aged 56, graduated from Civil Aviation Flight University of China majoring in airplane piloting and obtained an MBA degree from Tsinghua University. Mr. Xu is a first-class pilot. He started his career in July 1985. Mr. Xu previously served various positions in Air China International Corporation, including pilot, assistant manager of the flight technology office of the third fleet of the general fleet, an inspector of the safety monitoring office and the general manager of the third fleet. In December 2001, Mr. Xu was appointed as the deputy general manager of the general fleet of Air China International Corporation. In March 2006, Mr. Xu was appointed as the general manager and deputy secretary of the Communist Party Committee of the Tianjin branch of the Company. Mr. Xu served as deputy operation officer of the Company, and concurrently served as general manager, a member and Deputy Secretary of the Communist Party Committee of the operation control centre of the Company from January 2009 to March 2011. He served as the Chief Pilot of the Company from January 2009 to April 2011 and as Vice President of the Company from February 2011 to December 2012. He has been serving as the Chief Pilot of CNAHC and chief safety officer of the Company since December 2012. Mr. Xu was appointed as chairman, president, deputy secretary of the Communist Party Committee of Shandong Aviation Group Corporation in November 2016.

Mr. Zhang Hua, aged 55, graduated from Zhongnan University of Finance and Economics majoring in industrial economics and is an on-job postgraduate of the Party School of the Central Committee of the Communist Party of China majoring in economics and management. He started his career in 1986 and served various positions, including a director of China Factory Director (Manager) Work Research Association, an officer at vice-director level of China Enterprise Management Association, the project manager of China Business Consulting Company, an officer at director level, deputy director and director of Division of Economic Law and Regulations of State Economic and Trade Commission as well as the director and deputy legal director of Bureau of Policies, Laws and Regulations of the SASAC. He was appointed as the general legal counsel of CNAHC and of the Company in August 2016 and August 2017, respectively.

Mr. Xiao Feng, aged 52, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He started his career in July 1990, and served as an accountant of the infrastructure office, deputy section chief and section chief of the finance office, treasury manager of the finance department and deputy general manager of the finance department of Air China International Corporation and the chief accountant and deputy general manager of Shandong Airlines. Mr. Xiao served as the general manager of the finance department of the Company from December 2009 to July 2014. He has been serving as the chief accountant of the Company since July 2014.

Mr. Wang Yingnian, aged 57, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a first-class pilot. Mr. Wang started his career in China's civil aviation industry in August 1984 and has been engaged in work related to piloting. He was deputy general manager, a member and a standing member of the Communist Party Committee of the general fleet of the Company from August 2007 to April 2011. Mr. Wang served as the general manager, Deputy Secretary of Communist Party Committee of the general fleet of the Company from April 2011 to December 2014. He has been serving as Chief Pilot of the Company since November 2014 and served as general manager and Deputy Secretary of Communist Party Committee of the training department of the Company from February 2017 to November 2019. He has also been serving as the chairman of Air China Inner Mongolia Co., Ltd. since November 2017.

Mr. Ni Jiliang, aged 54, graduated from Civil Aviation College of China majoring in maintenance of aircraft, engines and equipment under the department of aviation machinery. He started his career in July 1988 and served various positions, including process engineer of the engine maintenance department at the civil aviation maintenance base in Beijing; the system engineer of the engineering department, the manager of engine team of engine division under the engineering department, the division manager of the engine division under the engineering department, the manager of the engine section and the section manager of the operation department of AMECO; the general manager and Deputy Secretary of the Communist Party Committee of the maintenance base in Chengdu of the engineering technology branch of Air China; the deputy general manager and a member of the Communist Party Committee of the engineering technology branch of Air China (during which he concurrently served as the general manager and a member of the Communist Party Committee of AMECO); and the deputy secretary of the Communist Party Committee and the chief strategy officer of AMECO. He has been the chief executive officer and the deputy secretary of the Communist Party Committee of AMECO between September 2017 and April 2020, and the chief engineer of the Company since January 2020. Since April 2020, he has served as the chairman and secretary to the Communist Party Committee of AMECO.

Mr. Zhou Feng, aged 59, obtained a master's degree in economics from Shanghai University of Finance and Economics and a master's degree of business administration (EMBA) from China Europe International Business School, and is a senior accountant. He served as the director of the financial planning and audit department of Zhejiang Administration of CAAC in 1992; the chief accountant of CNAC Zhejiang Airlines in 1997; assistant to the general manager of China National Aviation Corporation (Macau) Company Limited and an executive director of Air Macau in 2001; the deputy general manager of CNAF in 2003; director and executive vice president of Samsung Air China Life Insurance Co., Ltd. in 2005; secretary of the Communist Party Committee of CNAF in 2010. Mr. Zhou served as the general manager of the finance department of CNAHC from April 2011 to May 2017 and as a Supervisor of the Company from November 2011 to August 2017. He has been serving as the head of the office of the board of CNAHC and the Company since June 2017 and was appointed as Secretary to the Board of the Company from August 2017.

Mr. Shao Bin, aged 55, graduated from Tsinghua University School of Economics and Management majoring in EMBA, and is a first-class pilot. He started his career in July 1987 and had held various positions in Tianjin branch of Air China International Corporation, including assistant manager and manager of the first section, deputy general manager and general manager of the general fleet, manager of the flight department, deputy general manager and a member of the Communist Party Committee; he was appointed as the general manager of flight safety monitoring department in December 2006 and as the general manager of the aviation safety management department in August 2008. Mr. Shao served as assistant to the president and the general manager of the flight department of Shenzhen Airlines since April 2010; as assistant to the president of the Company and the general manager of the aviation safety management department since March 2012. He has been serving as assistant to the President of the Company and the vice president of Shenzhen Airlines since November 2014.

Mr. Zhao Yang, aged 53, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Zhao started his career in August 1988 and served various positions in Southwest Branch of Air China International Corporation, including the manager of the seventh section, the general manager of the first fleet, deputy general manager, general manager and deputy secretary of the Communist Party Committee of the flight department. Mr. Zhao served as the deputy general manager and Chief Pilot, a member and standing member of the Communist Party Committee of the southwest branch of the Company since November 2014. He served as the deputy operation officer of the Company and the general manager of the operation control centre, and Deputy Secretary of the Communist Party Committee of the operation control centre since October 2017. Mr. Zhao has been serving as the assistant to the President of the Company since October 2017.

COMPANY SECRETARY

Mr. Zhou Feng, aged 59, obtained a master's degree in economics from Shanghai University of Finance and Economics and a master's degree of business administration (EMBA) from China Europe International Business School, and is a senior accountant. He served as the director of the financial planning and audit department of Zhejiang Administration of CAAC in 1992; the chief accountant of CNAC Zhejiang Airlines in 1997; assistant to the general manager of China National Aviation Corporation (Macau) Company Limited and an executive director of Air Macau in 2001; the deputy general manager of CNAF in 2003; director and executive vice president of Samsung Air China Life Insurance Co., Ltd. in 2005; secretary of the Communist Party Committee of CNAF in 2010. Mr. Zhou served as the general manager of the finance department of CNAHC from April 2011 to May 2017 and as a Supervisor of the Company from November 2011 to August 2017. He has been serving as the head of the office of the board of CNAHC and the Company since June 2017 and was appointed as Secretary to the Board of the Company in August 2017.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Air China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 87 to 192, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for major overhauls	
As at 31 December 2020, the provision for major overhauls of RMB6,011 million was recorded in the consolidated statement of financial position. The Group held certain aircraft under leases at 31 December 2020. Under the terms of the lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Management estimates the maintenance costs of major overhauls for aircraft held under leases at the end of each reporting period and accrues such costs over the lease terms. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. We identified provision for major overhauls to fulfil the return condition of aircraft under leases as a key audit matter because of the significant management estimation and judgement required in assessing the variable factors and assumptions in order to quantify the amount of provision required at each reporting date. Details of the related estimation uncertainty are set out in Notes 4, 5 and 37 to the consolidated financial statements.	Our procedures in relation to provision for major overhauls to fulfil the return condition of aircraft under leases included: • Testing and evaluating the design and operating effectiveness of the key internal controls relevant to the audit of provision for major overhauls to fulfil the return condition of aircraft under leases. • Evaluating the appropriateness of the methodology and key assumptions adopted by management in estimating the provision for these major overhauls. This evaluation based on the terms of the leases and the Group's maintenance cost experience. • Performing a retrospective review of the provision for major overhauls to evaluate the appropriateness of the assumptions adopted by management by comparing the assumptions adopted by management in prior years with actual maintenance costs incurred. • Discussing with managers in the engineering department responsible for aircraft engineering about the utilisation pattern of aircraft, obtaining relevant operating data, performing recalculation and checking the assumptions adopted by management and the mathematical accuracy of the calculation of provision for major overhauls prepared by management for those aircraft under leases.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Passenger revenue recognition	
The Group's revenue primarily consists of passenger revenue amounting to RMB55,727 million for the year ended 31 December 2020. Passenger revenue are recognised as revenue when the related transportation service is provided. The value of passenger revenue for which the related transportation service has not yet been provided at the end of the reporting period is recorded as air traffic liabilities in the consolidated statement of financial position. The Group allocates the transaction price to passenger revenue and miles awards on a relative stand-alone selling price basis. The transaction price allocated to miles awards under the Group's frequent-flyer programme is deferred and included in contract liabilities in the consolidated statement of financial position. The Group maintains complex information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation and expiry of frequent-flyer programme awards. We identified passenger revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and an estimation of the stand-alone selling price of miles in the frequent-flyer programme, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to management manipulation. Details of passenger revenue are set out in Notes 4, 5, and 6 to the consolidated financial statements.	Our procedures in relation to passenger revenue recognition included: • Testing and evaluating the design and operating effectiveness of the key internal controls, including IT controls, relevant to our audit of passenger revenue recognition. • Performing substantive analytical procedures on passenger revenue by developing an expectation for passenger revenue using independent inputs and information generated from the Group's IT systems and to obtain evidence to support the reasonableness of the amounts recorded. • Evaluating the appropriateness of the assumptions adopted by management in estimating the stand-alone selling price of miles in the frequent-flyer programme by comparison with historical experience and planned changes to the programme that may impact future redemption activities. • Checking underlying supporting documents for passenger revenue transactions which are material or meet other specified criteria on a sample basis.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	6	**69,503,749**	136,180,690
Other income and gains	8	**4,356,946**	4,059,190
		73,860,695	140,239,880
Operating expenses			
Jet fuel costs		**(14,817,474)**	(35,965,239)
Employee compensation costs	9	**(22,012,834)**	(25,473,898)
Depreciation and amortisation		**(20,408,317)**	(21,279,084)
Take-off, landing and depot charges		**(9,239,943)**	(16,440,081)
Aircraft maintenance, repair and overhaul costs		**(6,423,313)**	(6,119,539)
Air catering charges		**(1,605,027)**	(4,026,090)
Aircraft and engine lease expenses		**(223,034)**	(966,227)
Other lease expenses		**(463,265)**	(565,160)
Other flight operation expenses		**(5,869,393)**	(8,193,008)
Selling and marketing expenses		**(2,568,362)**	(4,684,722)
General and administrative expenses		**(1,051,495)**	(1,844,232)
Impairment loss recognised on property, plant and equipment	17	**(439,656)**	–
Net impairment loss reversed/(recognised) under expected credit loss model	10	**92,598**	(40,682)
		(85,029,515)	(125,597,962)
(Loss)/profit from operations	11	**(11,168,820)**	14,641,918
Finance income		**191,598**	163,185
Finance costs	12	**(5,099,785)**	(4,948,928)
Share of results of associates		**(6,148,692)**	215,532
Share of results of joint ventures		**155,541**	259,727
Exchange gain/(loss), net		**3,603,752**	(1,211,171)
(Loss)/profit before taxation		**(18,466,406)**	9,120,263
Income tax credit/(expense)	14	**2,650,275**	(1,856,499)
(Loss)/profit for the year		**(15,816,131)**	7,263,764
Attributable to:			
– Equity shareholders of the Company		**(14,403,343)**	6,420,294
– Non-controlling interests		**(1,412,788)**	843,470
		(15,816,131)	7,263,764
(Loss)/earnings per share			
– Basic and diluted	15	**RMB(104.87) cents**	RMB46.74 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
(Loss)/profit for the year	**(15,816,131)**	7,263,764
Other comprehensive (expense)/income for the year		
Items that will not be reclassified to profit or loss:		
– Fair value (losses)/gains on investments in equity instruments at fair value through other comprehensive income	**(19,933)**	3,842
– Income tax relating to items that will not be reclassified to profit or loss	**4,983**	(59)
– Remeasurement of net defined benefit liability	**3,265**	(3,905)
– Share of other comprehensive income of associates	**94,761**	441,862
Items that may be reclassified subsequently to profit or loss:		
– Fair value (losses)/gains on investments in debt instruments at fair value through other comprehensive income	**(4,310)**	3,551
– Impairment loss on investments in debt instruments at fair value through other comprehensive income included in profit or loss	**7,637**	8,096
– Income tax relating to items that may be reclassified subsequently to profit or loss	**(832)**	(2,912)
– Share of other comprehensive income of associates	**139,255**	23,272
– Exchange differences on translation of foreign operations	**(1,111,691)**	495,324
Other comprehensive (expense)/income for the year (net of tax)	**(886,865)**	969,071
Total comprehensive (expense)/income for the year	**(16,702,996)**	8,232,835
Attributable to:		
– Equity shareholders of the Company	**(15,260,368)**	7,370,539
– Non-controlling interests	**(1,442,628)**	862,296
	(16,702,996)	8,232,835

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	17	**101,346,490**	102,158,432
Right-of-use assets	18	**114,539,680**	119,376,500
Investment properties	19	**600,329**	637,986
Intangible assets	20	**36,580**	36,610
Goodwill	21	**1,099,975**	1,099,975
Interests in associates	23	**10,938,428**	14,647,561
Interests in joint ventures	24	**1,581,105**	1,543,509
Advance payments for aircraft and flight equipment		**24,907,862**	22,413,867
Deposits for aircraft under leases		**615,537**	636,671
Equity instruments at fair value through other comprehensive income	25	**233,180**	253,113
Debt instruments at fair value through other comprehensive income	26	**1,344,829**	1,688,451
Deferred tax assets	27	**6,750,883**	4,352,452
Other non-current assets		**298,836**	544,390
		264,293,714	269,389,517
Current assets			
Inventories	28	**1,853,990**	2,098,673
Accounts receivable	29	**2,942,799**	5,997,690
Bills receivable		**6,593**	362
Prepayments, deposits and other receivables	30	**3,912,471**	3,724,468
Restricted bank deposits	31	**737,245**	728,385
Cash and cash equivalents	31	**5,837,998**	8,935,282
Other current assets	32	**4,444,806**	3,331,996
		19,735,902	24,816,856
Total assets		**284,029,616**	294,206,373
Current liabilities			
Air traffic liabilities		**(2,002,649)**	(9,980,300)
Accounts payable	33	**(12,510,582)**	(16,578,153)
Bills payable		**(62,570)**	–
Dividends payable		**(98,000)**	–
Other payables and accruals	34	**(11,177,928)**	(11,977,447)
Current taxation		**(45,614)**	(938,732)
Lease liabilities	35	**(13,560,862)**	(13,861,503)
Interest-bearing bank loans and other borrowings	36	**(39,630,365)**	(22,729,991)
Provision for return condition checks	37	**(229,514)**	(869,651)
Contract liabilities	38	**(1,280,102)**	(1,037,031)
		(80,598,186)	(77,972,808)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	31 December 2020 RMB'000	31 December 2019 RMB'000
Net current liabilities		**(60,862,284)**	(53,155,952)
Total assets less current liabilities		**203,431,430**	216,233,565
Non-current liabilities			
Lease liabilities	35	**(76,098,678)**	(86,586,353)
Interest-bearing bank loans and other borrowings	36	**(31,639,097)**	(16,598,965)
Provision for return condition checks	37	**(8,580,560)**	(7,538,095)
Provision for early retirement benefit obligations		**(1,351)**	(1,989)
Long-term payables		**(21,022)**	(115,190)
Contract liabilities	38	**(2,264,843)**	(2,670,910)
Defined benefit obligations	39	**(229,332)**	(249,933)
Deferred income	40	**(488,791)**	(521,227)
Deferred tax liabilities	27	**(334,720)**	(621,440)
		(119,658,394)	(114,904,102)
NET ASSETS		**83,773,036**	101,329,463
CAPITAL AND RESERVES			
Issued capital	41	**14,524,815**	14,524,815
Treasury shares	41	**(3,047,564)**	(3,047,564)
Reserves		**66,064,076**	81,981,426
Total equity attributable to equity shareholders of the Company		**77,541,327**	93,458,677
Non-controlling interests		**6,231,709**	7,870,786
TOTAL EQUITY		**83,773,036**	101,329,463

The consolidated financial statements on pages 87 to 192 were approved and authorised for issue by the board of directors on 30 March 2021 and signed on its behalf by:

Song Zhiyong
DIRECTOR

Feng Gang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

	Note	Attributable to equity shareholders of the Company									
		Issued capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	General reserve RMB'000	Foreign exchange translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019		14,524,815	(3,047,564)	29,449,636	9,953,163	93,188	(1,705,555)	38,328,805	87,596,488	6,811,867	94,408,355
Changes in equity for 2019											
Profit for the year		–	–	–	–	–	–	6,420,294	6,420,294	843,470	7,263,764
Other comprehensive income		–	–	468,589	–	–	481,656	–	950,245	18,826	969,071
Total comprehensive income		–	–	468,589	–	–	481,656	6,420,294	7,370,539	862,296	8,232,835
Capital contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	400,000	400,000
Appropriation of statutory reserve funds		–	–	–	537,682	–	–	(537,682)	–	–	–
Appropriation of discretionary reserve funds and others		–	–	–	535,760	–	–	(543,966)	(8,206)	(2,837)	(11,043)
Appropriation of general reserve		–	–	–	–	17,440	–	(17,440)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	(200,540)	(200,540)
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	(1,500,123)	(1,500,123)	–	(1,500,123)
Disposal of an equity instruments at fair value through other comprehensive income		–	–	(1,839)	–	–	–	1,839	–	–	–
Others		–	–	–	–	–	–	(21)	(21)	–	(21)
As at 31 December 2019 and 1 January 2020		**14,524,815**	**(3,047,564)**	**29,916,386**	**11,026,605**	**110,628**	**(1,223,899)**	**42,151,706**	**93,458,677**	**7,870,786**	**101,329,463**
Changes in equity for 2020											
Loss for the year		–	–	–	–	–	–	**(14,403,343)**	**(14,403,343)**	**(1,412,788)**	**(15,816,131)**
Other comprehensive income/(expense)		–	–	**230,112**	–	–	**(1,087,137)**	–	**(857,025)**	**(29,840)**	**(886,865)**
Total comprehensive income/(expense)		–	–	**230,112**	–	–	**(1,087,137)**	**(14,403,343)**	**(15,260,368)**	**(1,442,628)**	**(16,702,996)**
Appropriation of discretionary reserve funds and others		–	–	–	**537,682**	–	–	**(549,472)**	**(11,790)**	**(3,944)**	**(15,734)**
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	**(192,505)**	**(192,505)**
Dividends declared in respect of the previous year	16	–	–	–	–	–	–	**(645,192)**	**(645,192)**	–	**(645,192)**
As at 31 December 2020		**14,524,815**	**(3,047,564)**	**30,146,498**	**11,564,287**	**110,628**	**(2,311,036)**	**26,553,699**	**77,541,327**	**6,231,709**	**83,773,036**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
(Loss)/profit before taxation	**(18,466,406)**	9,120,263
Adjustments for:		
Share of results of associates and joint ventures	**5,993,151**	(475,259)
Exchange (gain)/loss, net	**(3,603,752)**	1,211,171
Finance income	**(191,598)**	(163,185)
Finance costs	**5,099,785**	4,948,928
Depreciation of property, plant and equipment	**9,168,355**	9,704,731
Depreciation of right-of-use assets	**11,214,630**	11,548,619
Gain on disposal of property, plant and equipment	**(38,943)**	(65,319)
Gain on disposal of right-of-use assets	**(348)**	–
Gain on derecognition of land use rights	**–**	(52,798)
Loss on disposal of interests in joint ventures and associates	**–**	414
Depreciation of investment properties	**25,302**	25,692
Amortisation of intangible assets	**30**	42
Impairment loss on property, plant and equipment	**439,656**	–
Impairment loss on debt instruments at fair value through other comprehensive income	**7,637**	8,096
Impairment losses recognised/(reversed) on inventories	**35,958**	(2,805)
Impairment loss (reversed)/recognised on accounts receivable, net	**(73,882)**	39,051
Impairment losses recognised/(reversed) on deposits and other receivables, net	**2,508**	(190)
Impairment losses reversed on other non-current assets, net	**(3,174)**	(299)
Impairment losses reversed on other current assets, net	**(25,687)**	(5,976)
Dividend income	**(8,034)**	(12,550)
Operating cash flows before movements in working capital	**9,575,188**	35,828,626
Decrease/(increase) in deposits for aircraft under leases	**21,134**	(23,325)
Decrease in other non-current assets	**115,531**	28,687
Decrease/(increase) in inventories	**212,825**	(199,630)
Decrease/(increase) in accounts receivable	**3,174,548**	(665,276)
(Increase)/decrease in bills receivable	**(6,231)**	41
(Increase)/decrease in prepayments, deposits and other receivables	**(56,132)**	199,319
Decrease in other current assets	**599,807**	1,120,610
(Decrease)/increase in air traffic liabilities	**(7,977,651)**	1,094,026
(Decrease)/increase in accounts payable	**(4,419,169)**	1,384,618
Increase in bills payable	**62,570**	–
Increase in dividends payable	**98,000**	–
Increase in other payables and accruals	**1,002,580**	2,473,507
Increase/(decrease) in provision for return condition checks	**247,016**	(16,797)
Decrease in provision for early retirement benefit obligations	**(638)**	(1,116)
Decrease in defined benefit obligations	**(26,548)**	(26,714)
Decrease in deferred income	**(32,436)**	(146)
Decrease in contract liabilities	**(162,996)**	(656,316)
Decrease in long-term payables	**(94,168)**	(38,981)
Cash generated from operations	**2,333,230**	40,501,133
Income tax paid	**(925,056)**	(2,160,950)
Interest paid	**(5,425,047)**	(4,740,840)
Net cash (used in)/generated from operating activities	**(4,016,873)**	33,599,343

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	NOTE	2020 RMB'000	2019 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(5,030,019)**	(7,456,399)
Advance payments for aircraft and flight equipment		**(7,008,116)**	(5,626,747)
Proceeds from disposal of property, plant and equipment		**133,118**	344,537
Proceeds from derecognition of land use rights		**–**	421,412
Payments for purchase of investment properties		**–**	(25,536)
Cash refunded on intangible assets		**–**	261
(Increase)/decrease in restricted bank deposits against aircraft leases and others		**(920)**	190,558
Disposal of investment in joint ventures and associates		**–**	(414)
Payment for ordinary shares of an associate (Note 23)		**(2,957,136)**	–
Purchase of debt instruments at fair value through other comprehensive income		**(1,331,309)**	(632,199)
Proceeds from disposal of equity instruments at fair value through other comprehensive income		**–**	18,800
Interest received		**191,598**	163,185
Dividends received from associates and joint ventures		**129,999**	623,362
Dividends received from equity instruments at fair value through other comprehensive income		**7,472**	12,550
Net cash used in investing activities		**(15,865,313)**	(11,966,630)
Financing activities			
Capital contribution from a non-controlling shareholder of a subsidiary		**–**	400,000
New bank loans and other loans		**63,607,615**	21,918,459
Proceeds from issuance of corporate bonds and short-term commercial papers		**29,700,000**	15,500,000
Repayment of bank loans and other loans		**(27,348,267)**	(28,273,520)
Repayment of lease liabilities		**(14,332,052)**	(14,754,685)
Repayment of corporate bonds and short-term commercial papers		**(34,000,000)**	(12,600,000)
Dividends paid		**(739,697)**	(1,700,663)
Net cash from/(used in) financing activities		**16,887,599**	(19,510,409)
Net (decrease)/increase in cash and cash equivalents		**(2,994,587)**	2,122,304
Cash and cash equivalents at 1 January	31	**8,935,282**	6,763,183
Effect of foreign exchange rate changes		**(102,697)**	49,795
Cash and cash equivalents at 31 December	31	**5,837,998**	8,935,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

1. CORPORATE INFORMATION

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

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

The registered office of the Company is located at Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing 101312, the PRC.

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

2. BASIS OF PREPARATION

As at 31 December 2020, the Group's current liabilities exceeded its current assets by approximately RMB60,862 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 RMB122,242 million as at 31 December 2020, 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 2020. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

2. BASIS OF PREPARATION (continued)

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

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

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

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

3. APPLICATION OF AMENDMENTS TO IFRSs

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. APPLICATION OF AMENDMENTS TO IFRSs (continued)

In addition, the Group has early applied the Amendment to IFRS 16 *Covid-19-Related Rent Concessions*. Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all the specified conditions are met. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in profit or loss in the period in which the event occurs.

The application of *the Amendments to References to the Conceptual Framework in IFRS Standards* and 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 consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	*Insurance Contracts and the related Amendments*[1]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform-Phase 2*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts-Cost of Fulfilling a Contract*[2]
Amendments to IFRS Standards	*Annual Improvements to IFRS Standards 2018-2020*[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3A. CHANGE IN AN ACCOUNTING ESTIMATE

During the current year, the Group changed the depreciation method of overhaul components of engines, included in property, plant and equipment and right-of-use assets, from straight-line method to the units of production method. The change was accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* effect from 1 January 2020 and the impact on the consolidated financial statements for the year ended 31 December 2020 was a reduction in depreciation expense of approximately RMB1,611 million.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

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

Investments in associates and joint ventures

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and overhaul costs

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

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

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

Leases

Definition of a lease

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

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

The lease payments include:

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

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

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

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

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

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

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

Covid-19 related rent concessions

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

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

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

Lease modification

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

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

Sale and leaseback transactions

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

The Group acts as a seller-lessee

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

Borrowing costs

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

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

Employee benefits

Retirement benefit costs

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs (continued)

Defined benefit costs are categorised as follows:

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

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

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

Termination benefits

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

Short-term and other long-term employee benefits

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax for the year

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Investment properties

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

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

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

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets (other than goodwill)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (other than goodwill) (continued)

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as at FVTOCI

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

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

(ii) Definition of default

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at amortised cost

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

Financial guarantee contracts

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

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

Derecognition of financial liabilities

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

Estimated impairment of goodwill

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

As at 31 December 2020, the carrying amount of goodwill was RMB1,100 million (31 December 2019: RMB1,100 million) (net of impairment). Details of the recoverable amount calculation are disclosed in Note 21.

Impairment of non-financial assets (other than goodwill)

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

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

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

During the year, the Group recognised impairment loss of approximately RMB439,7 million for certain aircraft included in property, plant and equipment that will be retired before the end of year 2021, and as at 31 December 2020, the aggregate carrying amount of property, plant and equipment, right-of-use assets, investment properties, intangible assets, interests in associates and interests in joint ventures (net of impairment) was RMB229,043 million (31 December 2019: RMB238,401 million). Details of these items are set out in Notes 17, 18, 19, 20, 23 and 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

Overhaul provisions

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

As at 31 December 2020, overhaul provisions of the Group amounted to RMB6,011 million (31 December 2019: RMB5,629 million) and details are disclosed in Note 37.

Frequent-flyer programme

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

As at 31 December 2020, the contract liabilities related to frequent-flyer programme was RMB3,093 million (31 December 2019: RMB3,454 million) and details are disclosed in Note 38.

Expected breakage

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

Deferred tax assets

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

As at 31 December 2020, deferred tax assets of RMB6,751 million (31 December 2019: RMB4,352 million) in relation to differences in value of property, plant and equipment, provisions and accruals, unrealised profit of intra-group transactions, impairment of assets, deductible tax losses and temporary differences relating to right-of-use assets and lease liabilities have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the deductible tax losses of RMB500 million (31 December 2019: RMB36 million) and other deductible temporary differences of RMB0.2 million (31 December 2019: RMB5 million) due to the unpredictability of the future streams and details are disclosed in Note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

6. REVENUE

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	**69,244,930**	135,898,971
Rental income (included in revenue of airline operations segment)	**258,819**	281,719
Total revenue	**69,503,749**	136,180,690

Disaggregation of revenue from contracts with customers

Segments	2020 Airline operations RMB'000	2020 Other operations RMB'000	2019 Airline operations RMB'000	2019 Other operations RMB'000
Type of goods or services				
Airline operations				
Passenger	**55,726,862**	–	124,524,583	–
Cargo and mail	**8,553,407**	–	5,732,160	–
Ground service income	**239,713**	–	753,272	–
Others	**1,565,162**	–	2,078,460	–
	66,085,144	–	133,088,475	–
Other operations				
Aircraft engineering income	–	**2,771,588**	–	2,491,912
Others	–	**388,198**	–	318,584
	–	**3,159,786**	–	2,810,496
Total	**66,085,144**	**3,159,786**	133,088,475	2,810,496
Geographical markets				
Mainland China	**48,535,069**	**3,159,786**	85,907,957	2,810,496
Hong Kong, Special Administrative Region ("SAR"), Macau SAR and Taiwan, China	**1,032,767**	–	5,911,532	–
International	**16,517,308**	–	41,268,986	–
Total	**66,085,144**	**3,159,786**	133,088,475	2,810,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

6. REVENUE (continued)

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 RMB1,537 million (2019: RMB2,304 million) which was included in contract liabilities in relation to frequent-flyer programme at the beginning of the year.

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

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

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

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

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

7. SEGMENT INFORMATION

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

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

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

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

7. SEGMENT INFORMATION (continued)

Operating segments

The following tables present the Group's consolidated revenue and (loss)/profit 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 2020 and 2019 and the reconciliations of reportable segment revenue and (loss)/profit before taxation to the Group's consolidated amounts under IFRSs:

Year ended 31 December 2020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2019

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	133,370,194	2,810,496	–	136,180,690
Inter-segment sales	147,968	7,999,141	(8,147,109)	–
Revenue for reportable segments under CASs and IFRSs	133,518,162	10,809,637	(8,147,109)	136,180,690
Segment profit before taxation				
Profit before taxation for reportable segments under CASs	8,425,964	899,234	(220,559)	9,104,639
Effect of differences between IFRSs and CASs				15,624
Profit before taxation for the year under IFRSs				9,120,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables present the segment assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2020 and 2019 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 2020 under CASs	**276,189,234**	**21,125,795**	**(13,244,319)**	**284,070,710**
Effect of differences between IFRSs and CASs				**(41,094)**
Total assets under IFRSs				**284,029,616**
Total assets for reportable segments as at 31 December 2019 under CASs	286,516,534	25,238,859	(17,501,840)	294,253,553
Effect of differences between IFRSs and CASs				(47,180)
Total assets under IFRSs				294,206,373

	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 2020 under CASs and IFRSs	**198,629,828**	**14,553,683**	**(12,926,931)**	**200,256,580**
Total liabilities for reportable segments as at 31 December 2019 under CASs and IFRSs	194,202,329	15,917,668	(17,243,087)	192,876,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2020

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

Year ended 31 December 2019

	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 profit of associates and joint ventures	143,914	331,345	–	475,259	–	475,259
Impairment losses recognised/(reversed) on financial assets	42,615	(6,555)	4,622	40,682	–	40,682
Impairment losses recognised/(reversed) on non-financial assets	2,041	(4,846)	–	(2,805)	–	(2,805)
Depreciation and amortisation	20,991,268	337,462	(32,152)	21,296,578	(17,494)	21,279,084
Income tax expense	1,726,798	148,744	(22,949)	1,852,593	3,906	1,856,499
Interests in associates and joint ventures	14,327,393	1,776,946	(53,188)	16,051,151	139,919	16,191,070
Additions to non-current assets	34,636,914	281,948	–	34,918,862	–	34,918,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

7. SEGMENT INFORMATION (continued)

Geographical information

The following table presents the Group's consolidated revenue under IFRSs by geographical location for the years ended 31 December 2020 and 2019, respectively:

Year ended 31 December 2020

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

Year ended 31 December 2019

	Mainland China RMB'000	Hong Kong SAR, Macau SAR and Taiwan, China RMB'000	International RMB'000	Total RMB'000
Sales to external customers and total revenue	89,000,172	5,911,532	41,268,986	136,180,690

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.

There was no revenue from transactions with a single customer amounting to 10% or more of the Group's revenue during the year ended 31 December 2020 (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

8. OTHER INCOME AND GAINS

	2020 RMB'000	2019 RMB'000
Co-operation routes income and subsidy income	**4,076,199**	3,643,407
Dividend income	**8,034**	12,550
Gain/(loss) on disposal of		
– Interests in joint ventures	**–**	(414)
– Property, plant and equipment	**38,943**	65,319
– Right-of-use assets	**348**	–
Gain on derecognition of land use rights	**–**	52,798
Others	**233,422**	285,530
	4,356,946	4,059,190

9. EMPLOYEE COMPENSATION COSTS

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

	2020 RMB'000	2019 RMB'000
Wages, salaries and other benefits	**20,338,486**	22,475,397
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	**1,674,117**	2,998,431
– Early retirement benefits	**231**	70
	22,012,834	25,473,898

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

10. NET IMPAIRMENT LOSS REVERSED/(RECOGNISED) UNDER EXPECTED CREDIT LOSS MODEL

	2020 RMB'000	2019 RMB'000
Impairment losses reversed/(recognized) on financial assets:		
– Accounts receivable	**73,882**	(39,051)
– Deposits and other receivables	**(2,508)**	190
– Debt instruments at FVTOCI	**(7,637)**	(8,096)
– Financial assets included in other current assets	**25,687**	5,976
– Financial assets included in other non-current assets	**3,174**	299
	92,598	(40,682)

Details of impairment assessment are set out in Note 44.

11. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after charging/(crediting):

	2020 RMB'000	2019 RMB'000
Depreciation of property, plant and equipment	**9,168,355**	9,704,731
Depreciation of right-of-use assets	**11,214,630**	11,548,619
Depreciation of investment properties	**25,302**	25,692
Amortisation of intangible assets	**30**	42
Impairment losses recognised on property, plant and equipment (Note 17)	**439,656**	–
Impairment losses recognised/(reversed) on inventories	**35,958**	(2,805)
Auditors' remuneration:		
– Audit related services	**18,660**	17,923
– Other services	**435**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

12. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on interest-bearing bank loans and other borrowings	**1,848,869**	1,581,534
Interest on lease liabilities	**3,694,546**	3,897,514
Imputed interest expenses on defined benefit obligations	**8,163**	8,880
	5,551,578	5,487,928
Less: Interest capitalised	**(451,793)**	(539,000)
	5,099,785	4,948,928

The interest capitalisation rates during the year ranged from 1.9% to 4.41% (2019: 3.14% to 4.75%) per annum relating to the costs of related borrowings during the year.

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

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

	2020 RMB'000	2019 RMB'000
Directors' fee	**465**	520
Salaries and other allowances	**1,041**	1,272
Discretionary bonus	**663**	457
Retirement benefit scheme contributions	**113**	233
	2,282	2,482

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

2020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

2019

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive director					
Song Zhiyong (Note (a))	–	–	–	–	–
Non-executive directors					
Cai Jianjiang (Note (a))	–	–	–	–	–
Xue Yasong	–	719	160	110	989
Patrick Healy (Note (b)) (Appointed on 19 December 2019)	–	–	–	–	–
Cao Jianxiong (Note (a)) (Appointed on 30 May 2019 and resigned on 27 December 2019)	–	–	–	–	–
John Robert Slosar (Note (b)) (Resigned on 6 November 2019)	–	–	–	–	–
	–	719	160	110	989
Independent non-executive directors					
Wang Xiaokang	60	–	–	–	60
Liu Deheng	60	–	–	–	60
Stanley Hui Hon-chung	200	–	–	–	200
Li Dajin	200	–	–	–	200
	520	–	–	–	520
Supervisors					
He Chaofan (Note (a))	–	–	–	–	–
Xiao Yanjun	–	251	160	46	457
Li Guixia	–	302	137	77	516
Zhao Xiaohang (Note (a)) (Appointed on 19 December 2019)	–	–	–	–	–
Wang Zhengang (Note (a)) (Resigned on 19 December 2019)	–	–	–	–	–
	–	553	297	123	973
	520	1,272	457	233	2,482

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

Notes:

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

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

(c) None of the directors, supervisors and chief executive (Mr. Song Zhiyong) has waived any emoluments during the years ended 31 December 2020 and 2019.

(d) For the year ended 31 December 2020, the Group received cash consideration from Cathay Pacific of HKD2,672,000 for making available directors' services to Cathay Pacific (2019: HKD2,579,000).

Five highest paid individuals

For both 2020 and 2019, the five highest paid employees were not directors, supervisors nor chief executive of the Group.

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

	2020 RMB'000	2019 RMB'000
Salaries and other allowances	**9,950**	13,289
Discretionary bonuses	**187**	144
Retirement benefit scheme contributions	**130**	162
	10,267	13,595

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

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

	2020	2019
HKD2,000,001 to HKD2,500,000	**5**	–
HKD2,500,001 to HKD3,000,000	–	2
HKD3,000,001 to HKD3,500,000	–	3
	5	5

During the year, no emoluments were paid by the Group to any of the directors, supervisors, chief executive, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

14. INCOME TAX (CREDIT)/EXPENSE

	2020 RMB'000	2019 RMB'000
Current income tax:		
– Mainland China	**23,894**	2,047,335
– Hong Kong SAR and Macau SAR, China	**326**	23,227
Under-provision in respect of prior years	**7,718**	5,182
Deferred tax (Note 27)	**(2,682,213)**	(219,245)
	(2,650,275)	1,856,499

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 two subsidiaries which are taxed at a preferential rate of 15% (2019: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% (2019: 25%) during the year. Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 8.25% and 16.5% (2019: 8.25% and 16.5%) and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (2019: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

14. INCOME TAX (CREDIT)/EXPENSE (continued)

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

	2020 RMB'000	2019 RMB'000
(Loss)/profit before taxation	**(18,466,406)**	9,120,263
Tax at the applicable tax rate of 25%	**(4,616,602)**	2,280,066
Preferential tax rates on income/(loss) of group entities	**304,015**	(113,980)
Tax effect of share of results of associates and joint ventures	**1,498,288**	(118,815)
Tax effect of non-deductible expenses	**48,931**	100,099
Tax effect of non-taxable income	**(8,133)**	(30,749)
Tax effect of deductible temporary differences and tax losses not recognised	**118,485**	613
Tax effect of utilisation of tax losses not recognised in prior years	**(1,818)**	(18,180)
Tax effect of utilisation of deductible temporary differences not recognised in prior years	**(1,159)**	(247,737)
Under-provision in respect of prior years	**7,718**	5,182
Income tax (credit)/expense for the year	**(2,650,275)**	1,856,499

15. (LOSS)/EARNINGS PER SHARE

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

	2020 RMB'000	2019 RMB'000
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	**(14,403,343)**	6,420,294

	2020 '000	2019 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**13,734,961**	13,734,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

15. (LOSS)/EARNINGS PER SHARE (continued)

The number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share is calculated based on the number of ordinary shares in issue during the year, as adjusted to reflect the number of treasury shares held by Cathay Pacific through reciprocal shareholding (Note 41(c)).

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

16. DIVIDENDS

Dividends for the shareholders of ordinary shares of the Company recognised as distribution during the year:

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved during the current year, of RMB0.4442 per ten shares (including tax) (2019: RMB1.0328 per ten shares (including tax))	**645,192**	1,500,123

Subsequent to the end of the reporting period, no dividend has been proposed in respect of the year ended 31 December 2020 by the Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Aircraft, engines and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2019	145,595,953	12,335,198	11,121,703	10,875,931	179,928,785
Additions	1,535,811	28,201	320,503	18,763,027	20,647,542
Transfer from construction in progress	3,982,850	91,548	526,452	(4,600,850)	–
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	2,700,946	–	–	–	2,700,946
Transfer to right-of-use assets	–	–	–	(12,175,957)	(12,175,957)
Disposals	(3,584,566)	(28,067)	(467,419)	–	(4,080,052)
Exchange realignment	38,167	–	1,747	–	39,914
At 31 December 2019	**150,269,161**	**12,426,880**	**11,502,986**	**12,862,151**	**187,061,178**
Additions	**876,309**	**9,090**	**211,886**	**11,392,091**	**12,489,376**
Transfer from construction in progress	**5,670,677**	**230,541**	**387,829**	**(6,289,047)**	**–**
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	**2,180,463**	**–**	**–**	**–**	**2,180,463**
Transfer to right-of-use assets	**–**	**–**	**–**	**(4,728,612)**	**(4,728,612)**
Transfer to investment properties	**–**	**–**	**–**	**(5,579)**	**(5,579)**
Disposals	**(2,443,673)**	**(16,480)**	**(172,859)**	**–**	**(2,633,012)**
Exchange realignment	**(109,360)**	**–**	**(9,833)**	**–**	**(119,193)**
At 31 December 2020	**156,443,577**	**12,650,031**	**11,920,009**	**13,231,004**	**194,244,621**
Accumulated depreciation					
At 1 January 2019	(65,128,091)	(4,719,615)	(7,005,467)	–	(76,853,173)
Depreciation charge for the year	(8,542,105)	(444,066)	(718,560)	–	(9,704,731)
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	(1,409,983)	–	–	–	(1,409,983)
Eliminated on disposals	3,362,028	13,882	284,745	–	3,660,655
Exchange realignment	(9,868)	–	(1,181)	–	(11,049)
At 31 December 2019	**(71,728,019)**	**(5,149,799)**	**(7,440,463)**	**–**	**(84,318,281)**
Depreciation charge for the year	**(8,040,603)**	**(418,740)**	**(709,012)**	**–**	**(9,168,355)**
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	**(910,760)**	**–**	**–**	**–**	**(910,760)**
Eliminated on disposals	**2,271,177**	**3,508**	**157,479**	**–**	**2,432,164**
Exchange realignment	**53,831**	**–**	**8,168**	**–**	**61,999**
At 31 December 2020	**(78,354,374)**	**(5,565,031)**	**(7,983,828)**	**–**	**(91,903,233)**

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For the Year Ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Aircraft, engines and flight equipment RMB'000	Buildings RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Impairment					
At 1 January 2019	(701,666)	–	–	–	(701,666)
Eliminated on disposals	117,201	–	–	–	117,201
At 31 December 2019	**(584,465)**	**–**	**–**	**–**	**(584,465)**
Recognised for the year (Note)	**(439,656)**	**–**	**–**	**–**	**(439,656)**
Eliminated on disposals	**29,223**	**–**	**–**	**–**	**29,223**
At 31 December 2020	**(994,898)**	**–**	**–**	**–**	**(994,898)**
Net book value					
At 31 December 2020	**77,094,305**	**7,085,000**	**3,936,181**	**13,231,004**	**101,346,490**
At 31 December 2019	77,956,677	7,277,081	4,062,523	12,862,151	102,158,432

Note: During the year, the Group recognised impairment loss amounting to approximately RMB439.7 million for certain aircraft that will be retired before the end of year 2021.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

As at 31 December 2020, the Group's aircraft and flight equipment, buildings and machinery with an aggregate net book value of approximately RMB1,593 million (31 December 2019: RMB2,779 million) were pledged to secure certain bank loans of the Group (Note 36).

As at 31 December 2020, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB3,478 million (31 December 2019: RMB3,445 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2020.

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For the Year Ended 31 December 2020

18. RIGHT-OF-USE ASSETS

	Aircraft and engines RMB'000	Land RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
Cost					
At 1 January 2019	147,114,032	3,218,555	1,141,040	12,341	151,485,968
Additions	10,422,081	56,818	640,710	160,456	11,280,065
Transfer from property, plant and equipment	12,175,957	–	–	–	12,175,957
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(2,700,946)	–	–	–	(2,700,946)
Reduction upon completion/early termination of lease	(571,489)	(55,427)	(87,688)	–	(714,604)
Exchange adjustments	(2,708)	–	(86)	–	(2,794)
At 31 December 2019	166,436,927	3,219,946	1,693,976	172,797	171,523,646
Additions	2,864,993	3,504	253,746	9,246	3,131,489
Transfer from property, plant and equipment	4,725,726	–	–	2,886	4,728,612
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(2,180,463)	–	–	–	(2,180,463)
Reduction upon completion/early termination of leases	(1,241,205)	(25,775)	(96,291)	(1,730)	(1,365,001)
Exchange adjustments	(277,991)	–	(10,598)	–	(288,589)
At 31 December 2020	170,327,987	3,197,675	1,840,833	183,199	175,549,694
Accumulated depreciation					
At 1 January 2019	(41,986,013)	(619,497)	–	–	(42,605,510)
Depreciation charged for the year	(10,912,057)	(67,949)	(548,618)	(19,995)	(11,548,619)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	1,409,983	–	–	–	1,409,983
Reduction upon completion/early termination of lease	568,370	16,783	10,607	–	595,760
Exchange adjustments	1,207	–	33	–	1,240
At 31 December 2019	(50,918,510)	(670,663)	(537,978)	(19,995)	(52,147,146)
Depreciation charged for the year	(10,456,209)	(67,746)	(669,212)	(21,463)	(11,214,630)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	910,760	–	–	–	910,760
Reduction upon completion/early termination of lease	1,226,946	6,266	77,334	401	1,310,947
Exchange adjustments	123,972	–	6,083	–	130,055
At 31 December 2020	(59,113,041)	(732,143)	(1,123,773)	(41,057)	(61,010,014)
Net book value					
At 31 December 2020	111,214,946	2,465,532	717,060	142,142	114,539,680
At 31 December 2019	115,518,417	2,549,283	1,155,998	152,802	119,376,500

18. RIGHT-OF-USE ASSETS (continued)

During the year, expense relating to short-term leases amounted to approximately RMB686 million (2019: RMB1,517 million), expense relating to leases of low-value assets, excluding short-term leases of low value assets, amounted to approximately RMB1 million (2019: RMB14 million).

Leases committed

As at 31 December 2020, the Group had future undiscounted lease payments under non-cancellable period of RMB1,386 million (31 December 2019: RMB1,092 million), which was not recognised as lease liabilities since leases have yet to be commenced.

During the year, total cash outflow for leases was RMB15,018 million (2019: RMB16,286 million).

Details of the lease maturity analysis of lease liabilities are set out in Notes 35 and 44.

As at 31 December 2020, the Group's land use rights, which are recorded as part of right-of-use assets and all located in Mainland China, with an aggregate carrying amount of approximately RMB27 million (31 December 2019: RMB27 million) were pledged to secure certain bank loans and other borrowings of the Group (Note 36).

As at 31 December 2020 and 2019, the Group had title certificates for all the land use rights acquired.

19. INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
Cost		
As at 1 January	**779,134**	766,242
Additions	**–**	25,536
Transfer from property, plant and equipment	**5,579**	–
Decrease	**(20,260)**	(12,644)
As at 31 December	**764,453**	779,134
Accumulated depreciation		
As at 1 January	**(141,148)**	(115,456)
Depreciation for the year	**(25,302)**	(25,692)
Decrease	**2,326**	–
As at 31 December	**(164,124)**	(141,148)
Net carrying amount		
As at 31 December	**600,329**	637,986

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20. INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
As at 1 January	**36,610**	36,913
Amortisation for the year	**(30)**	(42)
Cash refund upon admission of new Star Alliance members	–	(261)
As at 31 December	**36,580**	36,610

The Group's intangible assets include the admission rights of the Company and Shenzhen Airlines Company Limited ("Shenzhen Airlines") to Star Alliance (the "Admission Rights"), which are stated at cost less impairment losses amounting to approximately RMB35 million as at 31 December 2020 (31 December 2019: approximately RMB35 million). The Admission Rights have an indefinite useful life due to their lasting legal and economic significance.

21. GOODWILL

	2020 RMB'000	2019 RMB'000
Carrying amount		
As at 1 January and 31 December	**1,099,975**	1,099,975

Impairment testing of goodwill

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

The recoverable amount of the Shenzhen Airlines cash-generating unit was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rate of 12.5% (2019: 10%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Shenzhen Airlines' cash flows beyond the five-year period were extrapolated using a 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Shenzhen Airlines cash-generating unit to exceed the recoverable amount of Shenzhen Airlines cash-generating unit.

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22. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2020 and 31 December 2019 were as follows:

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong SAR, China	Limited liability company	HK$331,268,000	69	31	Investment holding
Air China Import and Export Co., Ltd. # (國航進出口有限公司)(Note(a))	PRC/Mainland China	Limited liability company	RMB95,080,786	100	–	Import and export trading
Zhejiang Aviation Service Co., Ltd.# (浙江航空服務有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB20,000,000	100	–	Provision of cabin service and airline catering
Shanghai International Aviation Air Service Co., Ltd.# (上海國航航空服務有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of ground service
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong SAR, China	Limited liability company	HK$9,379,010	95	–	Provision of air ticketing services
Beijing Golden Phoenix Human Resource Co., Ltd. # (北京金鳳凰人力資源服務有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB2,000,000	100	–	Provision of human resources services
Total Transform Group Ltd. (國航海外控股有限公司)	British Virgin Islands	Limited liability company	HK$13,765,440,000	99.94	0.06	Investment holding
Air Macau Company Limited (澳門航空股份有限公司)	Macau SAR, China	Limited liability company	MOP442,042,000	–	66.9	Airline operator

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

22. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Chengdu Falcon Aircraft Engineering Service Co., Ltd. # (成都富凱飛機工程服務有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	30	30	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB5,360,000,000	51	–	Airline operator
Kunming Airlines Co., Ltd. # (昆明航空有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	–	80	Airline operator
Beijing Airlines Co., Ltd. # (北京航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	–	Airline operator
Dalian Airlines Co., Ltd. # (大連航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB3,000,000,000	80	–	Airline operator
Air China Inner Mongolia Co., Ltd. # (中國國際航空內蒙古有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	–	Airline operator
Aircraft Maintenance and Engineering Corporation ("AMECO") (北京飛機維修工程有限公司) (Note(b))	PRC/Mainland China	Limited liability company	US$300,052,800	75	–	Provision of aircraft overhaul and maintenance services
China National Aviation Finance Co., Ltd. ("CNAF") (中國航空集團財務有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	–	Provision of financial services

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

Notes:

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

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

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22. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

As at 31 December 2019, the Company had a subsidiary which had outstanding issued debt securities as follows:

Name	Face value of debt securities RMB'000	Carrying value of debt securities RMB'000	Maturity date
Shenzhen Airlines	500,000	521,080	14/03/2021
	800,000	824,974	24/04/2021
	600,000	608,265	07/09/2021
	1,000,000	1,029,322	26/04/2022
	1,000,000	1,026,517	18/03/2022
	1,000,000	1,022,191	23/05/2022
	500,000	511,403	15/01/2020
	500,000	511,114	21/01/2020
	800,000	815,650	22/01/2020
	500,000	508,847	01/03/2020
	500,000	507,608	22/03/2020
	500,000	506,208	22/01/2020
	500,000	504,819	14/02/2020
	500,000	504,484	25/02/2020
	500,000	503,531	24/03/2020
	500,000	502,581	10/04/2020
	500,000	502,325	17/04/2020
	500,000	502,058	13/03/2020
	500,000	501,053	20/05/2020
	500,000	500,252	12/06/2020
		12,414,282	

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22. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activity	Place of incorporation/ registration and operations	Number of principal subsidiaries	
		2020	2019
Airline operator	PRC/Macau SAR	**6**	6
Investment holding	Hong Kong SAR/BVI	**2**	2
Import and export trading	PRC	**1**	1
Provision of cabin service and airline catering	PRC	**1**	1
Provision of ground service	PRC	**1**	1
Provision of air ticketing service	Hong Kong SAR	**1**	1
Provision of human resources services	PRC	**1**	1
Provision of aircraft overhaul and maintenance services	PRC	**2**	2
Provision of financial services	PRC	**1**	1
		16	16

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

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

Name of subsidiary	Place of registration and operations	Proportion of equity interests and voting rights held by non-controlling interests at 31 December		(Loss)/profit allocated to non-controlling interests year ended 31 December		Accumulated non-controlling interests at 31 December	
		2020	2019	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Shenzhen Airlines	PRC	**49%**	49%	**(1,081,740)**	561,986	**2,991,480**	4,178,018
Individually immaterial subsidiaries with non-controlling interests				**(331,048)**	281,484	**3,240,229**	3,692,768
Total				**(1,412,788)**	843,470	**6,231,709**	7,870,786

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

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For the Year Ended 31 December 2020

22. INTERESTS IN SUBSIDIARIES (continued)

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

	Shenzhen Airlines	
	2020	**2019**
	RMB'000	**RMB'000**
Current assets	**2,266,583**	3,424,615
Non-current assets	**61,551,957**	63,191,261
Current liabilities	**(24,638,535)**	(25,125,117)
Non-current liabilities	**(33,037,450)**	(33,000,911)
Net assets	**6,142,555**	8,489,848
– Equity contributed to equity shareholders of Shenzhen Airlines	**6,178,578**	8,454,568
– Equity contributed to the non-controlling interests ("NCI") of Shenzhen Airlines' subsidiaries	**(36,023)**	35,280
Carrying amount of NCI	**2,991,480**	4,178,018
Revenue	**17,394,252**	31,879,423
(Loss)/profit for the year	**(2,133,420)**	1,152,011
Total comprehensive (expense)/income	**(2,147,294)**	1,155,139
– attributable to equity shareholders of Shenzhen Airlines	**(2,075,991)**	1,160,041
– attributable to NCI of Shenzhen Airlines' subsidiaries	**(71,303)**	(4,902)
Dividend paid to NCI	**(98,000)**	(122,598)
Cash generated from operating activities	**1,364,932**	3,745,448
Cash used in investing activities	**(1,004,598)**	(2,725,432)
Cash used in financing activities	**(1,026,268)**	(971,867)

23. INTERESTS IN ASSOCIATES

	2020	**2019**
	RMB'000	**RMB'000**
Share of net assets		
– Listed shares in the PRC	**–**	552,008
– Listed shares in Hong Kong SAR, China	**7,372,164**	9,794,836
– Unlisted investments	**976,857**	1,545,736
Goodwill	**2,589,407**	2,754,981
As at 31 December	**10,938,428**	14,647,561
Market value of listed shares	**12,207,958**	13,008,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates of the Group as at 31 December 2020 and 31 December 2019 were as follows:

Company name	Place of incorporation/ registration and operations	Paid up issued/registered capital	Percentage of equity interests attributable to the Group %	Principal activities
Cathay Pacific * (國泰航空有限公司)	Hong Kong SAR, China	HK$787,139,514	29.99	Airline operator
Shandong Aviation Group Co., Ltd. (山東航空集團有限公司)	PRC/Mainland China	RMB580,000,000	49.4	Investment holding
Shandong Airlines Co., Ltd. (山東航空股份有限公司)	PRC/Mainland China	RMB400,000,000	22.8	Airline operator
Menzies Macau Airport Services Limited* (明捷澳門機場服務有限公司)	Macau SAR, China	MOP10,000,000	41	Provision of airport ground handling services
Yunnan Airport Aircraft Maintenance & Services Co., Ltd. (雲南空港飛機維修服務有限公司)	PRC/Mainland China	RMB10,000,000	40	Civil aircraft line maintenance
Chongqing Civil Aviation Cares Information Technology Co., Ltd. # (重慶民航凱亞信息技術有限公司)	PRC/Mainland China	RMB14,800,000	24.5	Provision of airline-related information system services
Chengdu Civil Aviation Southwest Cares Co., Ltd. # (成都民航西南凱亞有限責任公司)	PRC/Mainland China	RMB10,000,000	35	Provision of airline-related information system services
Tibet Airlines Co., Ltd.# (西藏航空有限公司)	PRC/Mainland China	RMB280,000,000	31	Airline operator

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

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

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

On 6 August 2020, the Group further subscribed 750,756,347 ordinary shares of Cathay Pacific at HK$4.68 per share, total consideration of which were HK$3.514 billion. The Group's percentage of equity interests in Cathay Pacific remained unchanged after the subscription.

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

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For the Year Ended 31 December 2020

23. INTERESTS IN ASSOCIATES (continued)

Cathay Pacific

	2020 RMB'000	2019 RMB'000
Gross amounts of the associate's		
Current assets	**23,201,490**	24,441,007
Non-current assets	**148,976,171**	167,722,426
Current liabilities	**(39,324,787)**	(50,936,980)
Non-current liabilities	**(71,193,486)**	(84,991,712)
Equity	**61,659,388**	56,234,741
– Equity contributed to equity shareholders of the associate	**45,244,041**	56,232,054
– Equity contributed to preferred shareholders of the associate	**16,411,980**	–
– Equity contributed to NCI of the associate	**3,367**	2,687
Revenue	**40,772,035**	94,778,078
(Loss)/profit for the year	**(18,804,965)**	1,498,226
Other comprehensive income	**862,629**	874,482
Total comprehensive (expenses)/income	**(17,942,336)**	2,372,708
Dividend received from the associate	**–**	397,195
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	**45,244,041**	56,232,054
Group's effective interest	**29.99%**	29.99%
Group's share of net assets of the associate	**13,568,688**	16,863,993
Elimination of reciprocal shareholding	**(6,196,524)**	(7,069,157)
Goodwill	**2,388,549**	2,542,196
Carrying amount in the consolidated financial statements	**9,760,713**	12,337,032

Aggregate information of associates that are not individually material:

	2020 RMB'000	2019 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	**1,177,715**	2,310,529
Aggregate amounts of the Group's share of those associates'		
– (Loss)/profit for the year	**(1,039,558)**	148,966
– Other comprehensive (expense)/income for the year	**(81,202)**	156,239
– Total comprehensive (expense)/income for the year	**(1,120,760)**	305,205

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24. INTERESTS IN JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Share of net assets	**1,574,610**	1,537,014
Goodwill	**6,495**	6,495
	1,581,105	1,543,509

Particulars of the joint ventures of the Group at 31 December 2020 and 31 December 2019 were as follows:

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

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

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

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24. INTERESTS IN JOINT VENTURES (continued)

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

	2020 RMB'000	2019 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	**1,581,105**	1,543,509
Aggregate amounts of the Group's share of those joint ventures'		
– Profit for the year	**155,541**	259,727
– Total comprehensive income for the year	**155,541**	259,727

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Unlisted investments:		
– Equity securities	**233,180**	253,113

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

26. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 **RMB'000**	**2019** **RMB'000**
Investments in listed bonds	**1,344,829**	1,291,250
Negotiable certificates of deposits	–	397,201
Total	**1,344,829**	1,688,451

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

Details of impairment assessment are set out in Note 44.

27. DEFERRED TAXATION

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

	2020 **RMB'000**	**2019** **RMB'000**
Deferred tax assets:		
As at 1 January	**5,604,557**	5,557,278
Credited to profit or loss (Note 14)	**2,576,398**	46,883
Exchange realignment	**(1,213)**	396
Gross deferred tax assets as at 31 December	**8,179,742**	5,604,557
Deferred tax liabilities:		
As at 1 January	**1,873,545**	2,042,936
Credited to profit or loss (Note 14)	**(105,815)**	(172,362)
(Credited)/charged to other comprehensive income	**(4,151)**	2,971
Gross deferred tax liabilities as at 31 December	**1,763,579**	1,873,545
Net deferred tax assets as at 31 December	**6,416,163**	3,731,012

27. DEFERRED TAXATION (continued)

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

	2020 RMB'000	2019 RMB'000
Deferred tax assets:		
Differences in value of property, plant and equipment	**58,920**	60,948
Provisions and accruals	**3,169,837**	3,333,043
Unrealised profit of intra-group transactions	**195,515**	172,208
Impairment	**414,705**	327,874
Deductible tax losses	**3,098,764**	–
Impairment of investments in debt instruments at FVTOCI	**5,640**	3,731
Right-of-use assets and lease liabilities	**1,236,361**	1,706,753
Gross deferred tax assets	**8,179,742**	5,604,557
Deferred tax liabilities:		
Changes in fair value of equity instruments at FVTOCI	**(49,013)**	(53,996)
Changes in fair value of debt instruments at FVTOCI	**(3,246)**	(4,323)
Depreciation allowances in excess of the related depreciation	**(1,429,407)**	(1,535,222)
Impairment of investments in debt instruments at FVTOCI	**(5,640)**	(3,731)
Others	**(276,273)**	(276,273)
Gross deferred tax liabilities	**(1,763,579)**	(1,873,545)
Net deferred tax assets	**6,416,163**	3,731,012

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

	2020 RMB'000	2019 RMB'000
Net deferred tax assets	**6,750,883**	4,352,452
Net deferred tax liabilities	**(334,720)**	(621,440)
	6,416,163	3,731,012

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For the Year Ended 31 December 2020

27. DEFERRED TAXATION (continued)

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

	2020 RMB'000	2019 RMB'000
Deductible tax losses	**500,376**	35,898
Other unrecognised deductible temporary differences	**232**	4,864
	500,608	40,762

At the end of the reporting period, the Group has unused tax losses of approximately RMB12,895 million (2019: RMB36 million) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately RMB12,395 million (2019: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately RMB500 million (2019: RMB36 million) which relate to subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised. Included in unrecognised tax losses are losses of approximately RMB488 million (2019: RMB36 million) with expiry dates as disclosed in the following table. Other tax losses may be carried forward indefinitely.

	2020 RMB'000	2019 RMB'000
2020	–	9,457
2021	**11,582**	11,582
2022	**8,219**	8,219
2023	**445,810**	4,189
2024	**2,451**	2,451
2025	**19,980**	–
	488,042	35,898

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For the Year Ended 31 December 2020

28. INVENTORIES

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

	2020 RMB'000	2019 RMB'000
Spare parts of flight equipment	**1,089,743**	1,194,998
Catering supplies	**92,538**	81,434
Equipment	**8,836**	10,321
Others	**662,873**	811,920
	1,853,990	2,098,673

29. ACCOUNTS RECEIVABLE

	2020 RMB'000	2019 RMB'000
Accounts receivable	**3,102,328**	6,242,241
Less: Allowance for expected credit losses	**(159,529)**	(244,551)
	2,942,799	5,997,690

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:

	2020 RMB'000	2019 RMB'000
Within 30 days	**1,270,198**	2,589,150
31 to 60 days	**488,965**	789,472
61 to 90 days	**259,396**	452,542
Over 90 days	**924,240**	2,166,526
	2,942,799	5,997,690

Details of impairment assessment of accounts receivable are set out in Note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2020 RMB'000	2019 RMB'000
Manufacturers' credits	**1,036,936**	1,341,074
Prepayments of jet fuel	**61,520**	105,580
Other prepayments	**359,717**	373,449
Others	**15,604**	39,520
	1,473,777	1,859,623
Deposits and other receivables	**2,438,694**	1,864,845
	3,912,471	3,724,468

As at 31 December 2020, the impairment loss mainly consisted of the full provision for the amount due from Shenzhen Airlines Property Development Co., Ltd. of RMB468,796,000 (31 December 2019: RMB468,796,000).

Details of impairment assessment of deposits and other receivables are set out in Note 44.

31. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Note	2020 RMB'000	2019 RMB'000
Time deposits with banks		**93,765**	345,573
Bank and cash		**6,481,478**	9,318,094
Less: Restricted bank deposits	(i)	**(737,245)**	(728,385)
Cash and cash equivalents		**5,837,998**	8,935,282

Note:

(i) Details of restricted bank deposits are as follows:

	2020 RMB'000	2019 RMB'000
Deposits with The People's Bank of China by CNAF	**629,042**	612,060
Restricted bank deposits against aircraft leases and others	**108,203**	116,325
	737,245	728,385

32. OTHER CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
The value added tax credit	**2,682,245**	2,083,311
Debt instruments at fair value through other comprehensive income	**1,686,930**	–
Loans to related parties	**20,000**	559,600
Others	**56,241**	715,382
	4,445,416	3,358,293
Impairment	**(610)**	(26,297)
	4,444,806	3,331,996

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at a rate of 3.3% (2019: 3.40% to 4.02%) per annum.

Details of impairment assessment of other current assets are set out in Note 44.

33. ACCOUNTS PAYABLE

The following was an ageing analysis of the accounts payable presented based on the transaction date as at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Within 30 days	**4,674,784**	7,760,994
31 to 60 days	**1,394,258**	1,599,072
61 to 90 days	**1,385,660**	1,201,101
Over 90 days	**5,055,880**	6,016,986
	12,510,582	16,578,153

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

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For the Year Ended 31 December 2020

34. OTHER PAYABLES AND ACCRUALS

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

	2020 RMB'000	2019 RMB'000
Accrued salaries, wages and benefits	**2,717,751**	3,307,210
Accrued operating expenses	**172,655**	498,742
Other tax payables	**160,933**	316,324
Deposits received from sales agents	**564,275**	907,911
Current portion of long-term payables	**28,449**	32,038
Deposits received by CNAF from related parties	**4,460,614**	3,372,495
Others	**3,073,251**	3,542,727
	11,177,928	11,977,447

35. LEASE LIABILITIES

The Group has obligations under lease agreements expiring during the years from 2021 to 2033 (31 December 2019: from 2020 to 2033). An analysis of the lease payments as at the end of the reporting period, together with the present values of the lease payments which are principally denominated in foreign currencies, is as follows:

	At 31 December 2020		At 31 December 2019	
	Lease payments RMB'000	Present values of lease payments RMB'000	lease payments RMB'000	Present values of lease payments RMB'000
Amounts repayable				
– Within 1 year	**16,632,893**	**13,560,862**	17,453,162	13,861,503
– After 1 year but within 2 years	**15,824,712**	**13,160,310**	16,599,398	13,485,697
– After 2 years but within 5 years	**41,987,455**	**36,749,314**	44,314,764	37,984,614
– After 5 years	**27,801,689**	**26,189,054**	37,941,936	35,116,042
Total	**102,246,749**	**89,659,540**	116,309,260	100,447,856
Less: Amounts representing future finance costs	**(12,587,209)**		(15,861,404)	
Present values of lease payments	**89,659,540**		100,447,856	
Less: Portion classified as current liabilities	**(13,560,862)**		(13,861,503)	
Non-current portion	**76,098,678**		86,586,353	

The weighted average incremental borrowing rates applied to lease liabilities ranged from 0.27% to 5.22% per annum at 31 December 2020 (2019: from 0.25% to 5.83%).

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

36. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank loans and other borrowings		
– Secured	**2,023,792**	1,634,858
– Unsecured	**50,359,853**	14,482,144
	52,383,645	16,117,002
Corporate bonds and short-term commercial papers:		
– Secured	**6,773,214**	6,773,099
– Unsecured	**12,112,603**	16,438,855
	18,885,817	23,211,954
	71,269,462	39,328,956

	2020 RMB'000	2019 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year or payable on demand	**31,242,946**	14,916,572
– After 1 year but within 2 years	**733,833**	525,214
– After 2 years but within 5 years	**20,175,216**	491,075
– After 5 years	**231,650**	184,141
	52,383,645	16,117,002
Corporate bonds and short-term commercial papers repayable:		
– Within 1 year	**8,387,419**	7,813,419
– After 1 year but within 2 years	**2,999,157**	5,900,000
– After 2 years but within 5 years	**7,499,241**	9,498,535
	18,885,817	23,211,954
Total interest-bearing bank loans and other borrowings	**71,269,462**	39,328,956
Less: Portion classified as current liabilities	**(39,630,365)**	(22,729,991)
Non-current portion	**31,639,097**	16,598,965

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For the Year Ended 31 December 2020

36. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

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

	2020 RMB'000	2019 RMB'000
United State Dollar ("USD")	**532,013**	750,690
European Dollar ("EURO")	**648,209**	1,184,451
Hong Kong Dollar ("HKD")	**42,178**	–
Macau Pataca ("MOP")	**164,539**	–
	1,386,939	1,935,141

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

	2020		2019	
	RMB'000	%	RMB'000	%
Fixed rate bank and other borrowings	**38,204,596**	**1.50-4.38**	14,877,652	1.40-4.75
Fixed rate corporate bonds and short-term commercial papers	**18,885,817**	**1.95-5.30**	23,211,954	2.20-5.30
Floating rate bank and other borrowings	**14,179,049**	**2.57-4.75**	1,239,350	3.14-4.90
	71,269,462		39,328,956	

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

The nominal amount of the Group's bank loans and corporate bonds of approximately RMB8,797 million as at 31 December 2020 (31 December 2019: RMB8,408 million) were secured or guaranteed by:

(a) Mortgages over certain of the Group's aircraft and flight equipment, buildings and machinery with an aggregate net carrying amount of approximately RMB1,593million as at 31 December 2020 (31 December 2019: RMB2,779 million) (Note 17); and land use rights with an aggregate carrying amount of approximately RMB27 million as at 31 December 2020 (31 December 2019: RMB27 million) (Note 18);

(b) As at 31 December 2020, the Group pledged its rights to collect cash flows in relation to Billing and Settlement Plan ("BSP") to secure bank loans of RMB150 million (31 December 2019: RMB150 million);

(c) As at 31 December 2020, corporate bonds issued by the Group with a face value of RMB6,500 million (31 December 2019: RMB6,500 million) were guaranteed by CNAHC.

As at 31 December 2020, corporate bonds and short-term commercial papers with carrying amount of RMB6,568 million (31 December 2019: RMB12,414 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

37. PROVISION FOR RETURN CONDITION CHECKS

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

	2020 RMB'000	2019 RMB'000
As at 1 January	**8,407,746**	7,999,889
Provision for the year	**1,052,793**	2,168,934
Utilisation during the year	**(650,465)**	(1,761,077)
As at 31 December	**8,810,074**	8,407,746
Less: Portion classified as current liabilities	**(229,514)**	(869,651)
Non-current portion	**8,580,560**	7,538,095

As at 31 December 2020, provision for major overhauls was RMB6,011 million (31 December 2019: RMB5,629 million). Provision for major overhauls is calculated based on a number of variable factors and assumptions, including the anticipated utilisation of the aircraft and the expected costs of maintenance. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

38. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Frequent-flyer programme (Note)	**3,092,542**	3,453,557
Others	**452,403**	254,384
	3,544,945	3,707,941
Analysed as:		
Current portion	**1,280,102**	1,037,031
Non-current portion	**2,264,843**	2,670,910
	3,544,945	3,707,941

Note:

The movements of the Group's frequent-flyer programme during the year were as follows:

	2020 RMB'000	2019 RMB'000
As at 1 January	**3,453,557**	3,794,006
Additions during the year	**1,176,071**	1,963,244
Recognised as revenue during the year	**(1,537,086)**	(2,303,693)
As at 31 December	**3,092,542**	3,453,557
Less: Portion classified as current liabilities	**(827,699)**	(782,647)
Non-current portion	**2,264,843**	2,670,910

39. DEFINED BENEFIT OBLIGATIONS

The liabilities recognised in the consolidated statement of financial position represent:

	2020 RMB'000	2019 RMB'000
Post-retirement benefit obligations	**254,932**	276,582
Less: current portion	**(25,600)**	(26,649)
Long-term portion	**229,332**	249,933

AMECO, a subsidiary of the Company, provides monthly retirement benefits for those staff who were retired before AMECO adopted its own enterprise annuity plan (the "Plan"). These retirement benefits are recognised as defined benefit obligations.

Movements of the defined benefit obligations were set out as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**276,582**	291,178
Remeasurement (gain)/loss	**(3,265)**	3,905
Interest cost	**8,163**	8,880
Payments	**(26,548)**	(27,381)
At 31 December	**254,932**	276,582
Less: current portion	**(25,600)**	(26,649)
Long-term portion	**229,332**	249,933

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2020 RMB'000	2019 RMB'000
Finance costs		
– Interest cost	**8,163**	8,880
Other comprehensive (income)/expense		
– Remeasurement (gain)/loss	**(3,265)**	3,905
Total defined benefit costs	**4,898**	12,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

39. DEFINED BENEFIT OBLIGATIONS (continued)

The Plan exposes the Group to actuarial risks such as interest rate risk and longevity risk.

Interest rate risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.
Longevity risk	The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2020 were carried out by an independent firm of actuaries, Mercer (China) Limited Beijing Branch, fellow of China Association of Actuaries. The present value of the defined benefit obligations, and the related past cost were measured using the projected unit credit method.

Significant actuarial assumptions (expressed as weighted averages) are as follows:

	2020	**2019**
Discount rate	**3.20%**	3.1%
Average expected remaining life of eligible participants	**12.8 years**	13.4 years

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation decreases by 0.5%, the defined benefit obligations would increase by RMB9.8 million (2019: increase by RMB11.0 million).

- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB5.2 million (2019: increase by RMB5.4 million).

40. DEFERRED INCOME

	2020 **RMB'000**	**2019** **RMB'000**
Government grants	**379,747**	407,646
Others	**109,044**	113,581
	488,791	521,227

41. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2019		14,524,815	27,459,940	9,916,057	25,684,109	77,584,921
Total comprehensive income for the year		–	155,052	–	5,388,540	5,543,592
Appropriation of statutory reserve funds	(ii)	–	–	537,682	(537,682)	–
Appropriation of discretionary reserve fund	(iii)	–	–	535,760	(535,760)	–
Dividends declared in respect of the previous year		–	–	–	(1,500,123)	(1,500,123)
As at 31 December 2019		14,524,815	27,614,992	10,989,499	28,499,084	81,628,390
Total comprehensive expense for the year		**–**	**(78,095)**	**–**	**(7,167,938)**	**(7,246,033)**
Appropriation of discretionary reserve fund	(iii)	**–**	**–**	**537,682**	**(537,682)**	**–**
Dividends declared in respect of the previous year		**–**	**–**	**–**	**(645,192)**	**(645,192)**
As at 31 December 2020		**14,524,815**	**27,536,897**	**11,527,181**	**20,148,272**	**73,737,165**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

Under the PRC Company Law and the Company's articles of association, profit after taxation as reported in the PRC statutory financial statements can only be distributed as dividends after allowances have been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory reserve fund of at least 10% of the after-tax profit, until the fund reaches 50% of the Company's registered capital (for the purpose of calculating transfers to reserves, profit after taxation would be the amount determined under CASs). The transfers to reserves should be made before any distribution of dividends to shareholders. The statutory reserve fund can be used to offset previous years' losses, if any, and part of the statutory reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company; and

(iii) allocations to the discretionary reserve fund approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. As at 31 December 2020, in accordance with the PRC Company Law, amount of approximately RMB11,527 million (2019: RMB10,989 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of future capitalisation issue. In addition, the Company had retained earnings of approximately RMB18,913 million available for distribution as at 31 December 2020 (2019: RMB27,270 million), as determined in accordance with CASs.

(b) Share capital

The number of shares of the Company and their nominal values as at 31 December 2020 and 31 December 2019 are as follows:

	Number of shares 2020	Nominal value 2020 RMB'000	Number of shares 2019	Nominal value 2019 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
– Tradable	**4,562,683,364**	**4,562,683**	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
– Tradable	**9,962,131,821**	**9,962,132**	9,448,653,003	9,448,653
– Trade-restricted	**–**	**–**	513,478,818	513,479
	14,524,815,185	**14,524,815**	14,524,815,185	14,524,815

A shares rank pari passu, in all material respects, with H shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

41. CAPITAL AND RESERVES (continued)

(c) Treasury shares

As at 31 December 2020, the Group owned 29.99% equity interest in Cathay Pacific (31 December 2019: 29.99%), which in turn owned 18.13% equity interest in the Company (31 December 2019: 18.13%). Accordingly, the 29.99% of Cathay Pacific's shareholding in the Company was recorded in the Group's consolidated financial statements as treasury shares through deduction from equity.

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital structure by reference to the gearing ratio, which represents total liabilities divided by total assets. The gearing ratio as at the end of the reporting periods was as follows:

	2020 RMB'000	2019 RMB'000
Total liabilities	**200,256,580**	192,876,910
Total assets	**284,029,616**	294,206,373
Gearing ratio	**70.51%**	65.56%

42. CONTINGENT LIABILITIES

As at 31 December 2020, the Group had the following contingent liabilities:

(a) Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

(b) Shenzhen Airlines provided guarantees to banks for certain employees in respect of their residential loans. As at 31 December 2020, Shenzhen Airlines had outstanding guarantees for employees' residential loans amounting to RMB952,000 (31 December 2019: RMB1,328,000). The Directors consider that the fair value of these guarantees are insignificant.

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43. COMMITMENTS

(a) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	**38,456,252**	47,297,426
– Buildings and others	**2,564,193**	2,709,622
Total capital commitments	**41,020,445**	50,007,048

(b) Investment commitments

The Group had the following amount of investment commitments as at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
– investment commitment to a joint venture	**22,837**	24,417

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44. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Amortised cost:		
Accounts receivable	**2,942,799**	5,997,690
Deposits and other receivables	**2,438,694**	1,864,845
Deposits for aircraft under leases	**615,537**	636,671
Bills receivable	**6,593**	362
Loans to related parties	**20,000**	722,400
Other current assets – others	**–**	500,000
Restricted bank deposits	**737,245**	728,385
Cash and cash equivalents	**5,837,998**	8,935,282
Subtotal	**12,598,866**	19,385,635
Equity instruments at FVTOCI	**233,180**	253,113
Debt instruments at FVTOCI (including debt instruments at FVTOCI included in other current assets)	**3,031,759**	1,688,451
Financial liabilities		
Amortised cost:		
Accounts payable	**12,510,582**	16,578,153
Bills payable	**62,570**	–
Other payables	**7,776,154**	7,451,614
Interest-bearing bank loans and other borrowings	**71,269,462**	39,328,956
Long-term payables	**–**	65,000
Dividends payable	**98,000**	–
	91,716,768	63,423,723
Lease liabilities	**89,659,540**	100,447,856

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44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies

The above table lists the Group's major financial instruments. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk which arises from fixed rate bank and other borrowings and lease liabilities (see Notes 35 and 36 for details).

In addition, the Group is exposed to cash flow interest rate risk which arises from floating rate bank and other borrowings, lease liabilities, restricted bank deposits and bank balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances, restricted bank deposits, floating rate bank and other borrowings and lease liabilities at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate are used which represent management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower with all other variables held constant, the Group's post-tax loss for the year ended 31 December 2020 would increase/decrease by approximately RMB207,744,000 (2019: post-tax profit decrease/increase by RMB144,535,000) taking into account the capitalisation of borrowing costs.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Several of the Group's LIBOR to bank and other borrowings will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

(ii) Currency risk

The Group's exposure to currency risk is attributable to cash and cash equivalents, accounts receivable, other receivables, accounts payable, other payables, lease liabilities and interest-bearing bank loans and other borrowings which are denominated in the currencies other than the functional currency of the relevant group entities. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk (continued)

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020	**2019**	**2020**	**2019**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
USD	**3,157,561**	2,320,624	**50,759,652**	61,576,439
EURO	**75,765**	191,324	**1,317,565**	1,859,968
HKD	**156,701**	164,800	**60,511**	180,328
JPY	**24,573**	75,270	**903,179**	1,495,403

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2019: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2019: 1%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% (2019: 1%) change in foreign currency rates. A positive number below indicates an increase/(decrease) in the Group's post-tax profit/(loss), where functional currency of respective group entities had strengthened 1% (2019:1%) against the relevant foreign currency. For a 1% (2019: 1%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit/(loss) for the year.

	Decrease/ (increase) in the Group's post-tax loss 2020 RMB'000	**Increase in the Group's post-tax profit 2019 RMB'000**
– if RMB strengthens against USD	**357,016**	444,419
– if RMB strengthens against EURO	**9,314**	12,515
– if RMB strengthens against HKD	**(721)**	116
– if RMB strengthens against JPY	**6,590**	10,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of financial guarantees provided by the Group disclosed in Note 42.

A significant portion of the Group's air tickets are sold by agents participating in the BSP, a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from the BSP agents amounted to approximately RMB221 million or 7% of accounts receivable as at 31 December 2020 (31 December 2019: RMB1,094 million or 18% of accounts receivable). The credit risk exposure to BSP and the remaining accounts receivable balance are monitored by the Group on an ongoing basis. In addition, the Group performs impairment assessment under ECL model on accounts receivable individually or based on provision matrix.

In the opinion of management, the Group has no significant credit risk with BSP as the Group maintains long-term and stable business relationships with BSP with healthy repayment history.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

Other than the above mentioned concentration of credit risk, the Group does not have any other significant concentration of credit risk associated with financial assets and financial guarantees contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	12m or lifetime ECL	2020 Gross carrying amount		2019 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTOCI							
Investments in listed bonds	26	AAA	12m ECL	**1,344,829**		1,291,250	
Negotiable certificates of deposits	26	AAA	12m ECL	**–**		397,201	
Other current assets- debt instruments	32	AAA	12m ECL	**1,686,930**	**3,031,759**	–	1,688,451
Financial assets at amortised costs							
Accounts receivable	29	N/A	Lifetime ECL (provision matrix)	**2,964,346**		6,033,921	
			Credit-impaired	**137,982**	**3,102,328**	208,320	6,242,241
Deposits and other receivables	30	N/A	12m ECL	**2,420,409**		1,845,384	
			Lifetime ECL (not credit-impaired)	**49,169**		49,169	
			Credit-impaired	**808,891**	**3,278,469**	808,891	2,703,444
Deposits for aircraft under leases		N/A	12m ECL	**615,537**	**615,537**	636,671	636,671
Bills receivable		N/A	12m ECL	**6,593**	**6,593**	362	362
Loans to related parties		N/A	12m ECL	**20,000**	**20,000**	740,224	740,224
Other current assets-others	32	N/A	12m ECL	**–**	**–**	512,628	512,628
Restricted bank deposits	31	N/A	12m ECL	**737,245**	**737,245**	728,385	728,385
Cash and cash equivalents	31	N/A	12m ECL	**5,837,998**	**5,837,998**	8,935,282	8,935,282

Note:

For accounts receivable, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the ECL on these items by using a provision matrix. The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2020. Debtors with credit-impaired with gross carrying amounts of RMB138 million as at 31 December 2020 (31 December 2019: RMB208 million) were assessed individually.

For deposits and other receivables, financial assets included in other current assets, the Group measures the loss allowance equal to 12m ECL, unless when these has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Gross carrying amount of accounts receivable using a provision matrix

	2020		2019	
Customer group	Loss rate	Accounts receivable RMB'000	Loss rate	Accounts receivable RMB'000
Ground service receivable	**1%**	**66,405**	1%	78,577
BSP international	**1%**	**1,282**	1%	116,605
Others	**0.1%-4%**	**2,896,659**	0.1%-4%	5,838,739
		2,964,346		6,033,921

The estimated loss rates are estimated based on historical loss rates of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The following table shows the movements in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	30,253	185,887	216,140
Changes due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired	(1,637)	1,637	–
– Impairment losses recognised	7,533	49,050	56,583
– Impairment losses reversed	–	(17,532)	(17,532)
– Write-offs	–	(10,722)	(10,722)
Exchange adjustments	82	–	82
As at 31 December 2019	36,231	208,320	244,551
Changes due to financial instruments recognised as at 1 January 2020:			
– Transfer to credit-impaired	**(968)**	**968**	**–**
– Impairment losses recognised	**–**	**19,667**	**19,667**
– Impairment losses reversed	**(13,528)**	**(80,021)**	**(93,549)**
– Write-offs	**–**	**(10,952)**	**(10,952)**
Exchange adjustments	**(188)**	**–**	**(188)**
As at 31 December 2020	**21,547**	**137,982**	**159,529**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows reconciliation of loss allowances that has been recognised for deposits and other receivables.

	12m ECL RMB'000	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL credit–impaired RMB'000	Total RMB'000
As at 1 January 2019	25,312	5,319	1,967,992	1,998,623
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer to credit-impaired	(700)	(53)	753	–
– Net impairment losses recognised/(reversed)	7	(197)	–	(190)
– Write-offs	–	–	(1,159,854)	(1,159,854)
Exchange adjustments	20	–	–	20
As at 31 December 2019	24,639	5,069	808,891	838,599
Changes due to financial instruments recognised as at 1 January 2020:				
– Transfer to credit-impaired	(1,303)	(16)	1,319	–
– Net impairment losses recognised	2,488	20	–	2,508
– Write-offs	–	–	(1,319)	(1,319)
Exchange adjustments	(13)	–	–	(13)
As at 31 December 2020	25,811	5,073	808,891	839,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings to ensure compliance with loan covenants.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its financial obligations as and when they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Company has already obtained banking facilities with several PRC banks of up to an aggregate amount of RMB174,669 million as at 31 December 2020 (31 December 2019: RMB137,148 million), of which an amount of approximately RMB52,427 million was utilised (31 December 2019: RMB27,711 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2020. Based on such forecast, the Directors had determined that adequate liquidity existed to finance the working capital and capital expenditure requirements of the Group. In preparing the cash flow forecast, the Directors had considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loans financing which may impact the operations of the Group. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020								
Accounts payable	**12,510,582**	**–**	**–**	**–**	**–**	**–**	**12,510,582**	**12,510,582**
Bills payable	**62,570**	**–**	**–**	**–**	**–**	**–**	**62,570**	**62,570**
Other payables	**7,776,154**	**–**	**–**	**–**	**–**	**–**	**7,776,154**	**7,776,154**
Lease liabilities	**16,632,893**	**15,824,712**	**14,776,804**	**14,401,389**	**12,809,262**	**27,801,689**	**102,246,749**	**89,659,540**
Interest-bearing bank loans and other borrowings	**40,964,343**	**4,853,865**	**28,247,879**	**200,638**	**133,016**	**240,666**	**74,640,407**	**71,269,462**
Dividends payables	**98,000**	**–**	**–**	**–**	**–**	**–**	**98,000**	**98,000**
	78,044,542	**20,678,577**	**43,024,683**	**14,602,027**	**12,942,278**	**28,042,355**	**197,334,462**	**181,376,308**

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019								
Accounts payable	16,578,153	–	–	–	–	–	16,578,153	16,578,153
Other payables	7,451,614	–	–	–	–	–	7,451,614	7,451,614
Lease liabilities	17,453,162	16,599,398	15,429,780	14,938,749	13,946,235	37,941,936	116,309,260	100,447,856
Interest-bearing bank loans and other borrowings	23,381,961	7,126,878	3,701,425	7,007,020	151,079	196,840	41,565,203	39,328,956
Long-term payables	–	68,554	–	–	–	–	68,554	65,000
	64,864,890	23,794,830	19,131,205	21,945,769	14,097,314	38,138,776	181,972,784	163,871,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments

Fair value measurements for financial instruments measured at fair value on a recurring basis

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique.

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Equity instruments at FVTOCI	**233,180**	–	–	**233,180**
Debt instruments at FVTOCI	**1,344,829**	–	**1,344,829**	–
Debt instruments at FVTOCI included in other current assets	**1,686,930**	–	**1,686,930**	–
Total financial assets at fair value	**3,264,939**	–	**3,031,759**	**233,180**

	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Equity instruments at FVTOCI	253,113	–	–	253,113
Debt instruments at FVTOCI	1,688,451	–	1,688,451	–
Total financial assets at fair value	1,941,564	–	1,688,451	253,113

During the year ended 31 December 2020, there were not transfers between Level 1 and Level 2, or transfers into or out of Level 3. During the year ended 31 December 2019, due to changes in market conditions for certain debt securities, the quoted prices in the market were no longer active and these securities were transferred from Level 1 to Level 2, and there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

44. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

Fair value measurements for financial instruments measured at fair value on a recurring basis (continued)

Valuation techniques and inputs used in Level 2 fair value measurements

All financial instruments classified within Level 2 of the fair value hierarchy are debt investments, the fair value of which were determined based upon the valuation conducted by the China Central Depository & Clearing Co., Ltd..

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of equity instruments at FVTOCI was mainly estimated by reference to the quoted prices in an active market with an adjustment of discount for lack of marketability.

Fair values of financial assets and liabilities carried at other than fair value

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in these consolidated financial statements approximate their fair values.

	Carrying amounts		Fair values	
	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	**18,375,007**	15,830,021	**18,123,860**	15,695,850

Fair value hierarchy as at 31 December 2020

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	–	**18,123,860**	–	**18,123,860**

Fair value hierarchy as at 31 December 2019

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	–	15,695,850	–	15,695,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details major changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings Note 36 RMB'000	Corporate bonds and short-term commercial papers Note 36 RMB'000	Lease liabilities Note 35 RMB'000	Total RMB'000
At 1 January 2019	22,518,724	20,261,658	93,548,961	136,329,343
Financing cash flows	(6,355,061)	2,900,000	(14,754,685)	(18,209,746)
Foreign exchange translation	(9,313)	–	935,143	925,830
New leases entered/lease modified	–	–	20,731,409	20,731,409
Reduction upon early termination of lease	–	–	(81,642)	(81,642)
(Decrease)/increase in accrued interest	(37,348)	50,296	68,670	81,618
At 31 December 2019	**16,117,002**	**23,211,954**	**100,447,856**	**139,776,812**
Financing cash flows	**36,259,348**	**(4,300,000)**	**(14,332,052)**	**17,627,296**
Foreign exchange translation	**(8,693)**	–	**(3,522,162)**	**(3,530,855)**
New leases entered/lease modified	–	–	**7,142,041**	**7,142,041**
Reduction upon early termination of lease	–	–	**(34,864)**	**(34,864)**
Increase/(decrease) in accrued interest	**15,988**	**(26,137)**	**(41,279)**	**(51,428)**
At 31 December 2020	**52,383,645**	**18,885,817**	**89,659,540**	**160,929,002**

46. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of aircraft and engines, land, buildings and others and recognised right-of-use assets of RMB7,857 million (2019: RMB23,399 million) and lease liabilities of RMB7,142 million (2019: RMB20,731 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates:

(i) Transactions with related parties

	2020 RMB'000	2019 RMB'000
Service provided to the CNAHC Group		
Sales commission income	**9,287**	10,716
Sale of cargo space	**7,688,836**	4,894,265
Government charter flights	**424,921**	487,151
Ground services income	**100,055**	72,666
Air catering income	**39,601**	77,869
Income from advertising media business	**13,105**	13,105
Aircraft maintenance income	**234,402**	347,596
Land and buildings rental income	**135,576**	142,852
Aviation communication expenses	**22,589**	22,187
Others	**131,966**	203,804
	8,800,338	6,272,211
Service provided by the CNAHC Group		
Sales commission expenses	**351,242**	381,596
Air catering charges	**660,396**	1,249,755
Airport ground services, take-off, landing and depot expenses	**1,085,708**	1,688,929
Repair and maintenance costs	**9,282**	31,045
Management fees	**170,809**	128,056
Expense relating to short-term leases and leases of low-value assets	**120,390**	174,708
Other procurement and maintenance	**213,675**	293,717
Aviation communication expenses	**408,374**	624,996
Interest expenses	**29,041**	45,512
Media advertisement expenses	**137,696**	220,736
Construction management expenses	**44,102**	12,589
Others	**23,252**	10,179
	3,253,967	4,861,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(i) Transactions with related parties (continued)

	2020 RMB'000	2019 RMB'000
Loans to the CNAHC Group by CNAF:		
Net repayment of loans	**510,000**	495,000
Interest income	**3,263**	24,513
Deposits from the CNAHC Group received by CNAF:		
Increase in deposits received	**1,090,264**	215,623
Interest expenses	**43,278**	41,984
As a lessee with CNAHC Group:		
Addition in right-of-use assets on new leases	**2,000,363**	5,612,307
Addition in lease liabilities on new leases	**2,000,363**	5,612,307
Lease payments paid	**1,526,060**	1,132,337
Interest on lease liabilities	**346,230**	301,975
Service provided to joint ventures and associates		
Sales commission income	**1,176**	3,423
Ground services income	**101,481**	155,046
Aircraft maintenance income	**103,315**	170,124
Air catering income	**2,947**	5,100
Frequent-flyer programme income	**31,294**	52,273
Land and buildings rental income	**6,596**	8,972
Others	**1,543**	3,684
	248,352	398,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(i) Transactions with related parties (continued)

	2020 RMB'000	2019 RMB'000
Service provided by joint ventures and associates		
Sales commission expenses	**655**	1,122
Air catering charges	**1,971**	23,586
Airport ground services, take-off, landing and depot expenses	**217,864**	395,892
Repair and maintenance costs	**1,506,834**	1,686,610
Expense relating to short-term leases and leases of low value assets	**1,160**	3,818
Other procurement and maintenance	**17,850**	27,990
Aviation communication expenses	**5,407**	6,072
Frequent-flyer programme expenses	**588**	4,729
Airline joint operation expenses	**10,482**	3,549
	1,762,811	2,153,368
Loans to joint ventures and associates by CNAF:		
Net repayment of loans	**192,400**	29,600
Interest income	**5,187**	8,216
Deposits from joint ventures and associates received by CNAF:		
(Decrease)/increase in deposits received	**(71,997)**	114,473
Interest expenses	**3,809**	1,071

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

Part of the related transactions above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(ii) Balances with related parties

	2020 RMB'000	2019 RMB'000
Outstanding balances with related parties*		
Amount due from the ultimate holding company	**591,909**	192,820
Amounts due from associates	**209,549**	179,927
Amounts due from joint ventures	**486**	86,210
Amounts due from other related companies	**1,895,852**	3,396,452
Amount due to the ultimate holding company	**43,703**	44,188
Amounts due to associates	**87,810**	144,975
Amounts due to joint ventures	**432,560**	306,176
Amounts due to other related companies	**12,985,411**	14,582,574

* Outstanding balances with related parties exclude borrowing balances with related parties and outstanding balances between CNAF and related parties.

The above outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

	2020 RMB'000	2019 RMB'000
Outstanding borrowing balances with related parties:		
Interest-bearing borrowings:		
– Due to the ultimate holding company	**–**	200,000
– Due to other related companies	**1,361,244**	775,856

47. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following significant transactions with (i) CNAHC, its subsidiaries (other than the Group), joint ventures and associates (collectively, the "CNAHC Group"); (ii) its joint ventures; and (iii) its associates: (continued)

(ii) Balances with related parties (continued)

	2020 RMB'000	2019 RMB'000
Outstanding balances between CNAF and related parties:		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	**20,000**	530,000
Deposits received	**4,359,469**	3,269,205
Interest payable to related parties	**11,488**	6,721
Interest receivable from related parties	**20**	313
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Loans granted	**–**	192,400
Deposits received	**89,498**	161,495
Interest payable to related parties	**158**	74
Interest receivable from related parties	**–**	240

The outstanding balances between CNAF and related parties represent loans to related parties or deposits received by CNAF from related parties. The applicable interest rates are determined in accordance with the prevailing borrowing rates/deposit saving rates published by The People's Bank of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS (continued)

(b) An analysis of the compensation of key management personnel of the Group is as follows:

	2020 RMB'000	2019 RMB'000
Short term employee benefits	**15,134**	17,230
Retirement benefits	**682**	1,639
Total emoluments for key management personnel	**15,816**	18,869

The breakdown of emoluments for key management personal are as follows:

	2020 RMB'000	2019 RMB'000
Directors and supervisors	**2,282**	2,482
Senior management	**13,534**	16,387
	15,816	18,869

Further details of the remuneration of the directors and supervisors are included in Note 13 to the consolidated financial statements.

47. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties

Amount of guaranty at 31 December 2020:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2020 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	**Air China Limited**	**5,000,000**	**18/01/2013**	**18/07/2023**
CNAHC	**Air China Limited**	**1,500,000**	**16/08/2013**	**16/02/2024**

Amount of guaranty at 31 December 2019:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2019 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

47. RELATED PARTY TRANSACTIONS (continued)

(d) Transactions with other government-related entities in the PRC

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

Apart from above transactions with CNAHC Group, the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

The transactions between the Group and other government-related entities are conducted in the ordinary course of the Group's business within normal business operations. The Group has established its approval process for providing of services, purchase of products, properties and services, purchase of lease service and its financing policy for borrowing. Such approval processes and financing policy do not depend on whether the counterparties are government-related entities or not.

48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period included:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets		
Property, plant and equipment	**74,974,274**	74,596,782
Right-of-use assets	**78,626,049**	82,336,388
Intangible assets	**11,312**	11,312
Interests in subsidiaries (Note 22)	**20,155,167**	20,155,167
Interests in associates	**1,130,610**	2,237,606
Interests in joint ventures	**1,481,943**	1,428,247
Advance payments for aircraft and flight equipment	**16,212,663**	13,424,966
Deposits for aircraft under leases	**481,531**	497,008
Equity instruments at fair value through other comprehensive income	**22,110**	22,110
Deferred tax assets	**5,679,491**	3,745,093
Other non-current assets	**671,414**	701,900
	199,446,564	199,156,579
Current assets		
Inventories	**88,664**	79,558
Accounts receivable	**2,259,952**	4,746,976
Prepayments, deposits and other receivables	**3,260,947**	2,883,989
Restricted bank deposits	**42,226**	30,418
Cash and cash equivalents	**4,609,130**	6,751,816
Other current assets	**2,327,892**	1,773,630
	12,588,811	16,266,387
Total assets	**212,035,375**	215,422,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2020 RMB'000	31 December 2019 RMB'000
Current liabilities		
Air traffic liabilities	**(1,652,124)**	(8,200,724)
Accounts payable	**(10,370,375)**	(13,550,793)
Other payables and accruals	**(5,873,289)**	(10,523,520)
Current taxation	**(32,658)**	(845,292)
Lease liabilities	**(9,300,338)**	(9,611,985)
Interest-bearing bank loans and other borrowings	**(27,764,649)**	(12,195,632)
Provision for return condition checks	**(5,990)**	(364,514)
Contract liabilities	**(1,006,813)**	(785,481)
	(56,006,236)	(56,077,941)
Net current liabilities	**(43,417,425)**	(39,811,554)
Total assets less current liabilities	**156,029,139**	159,345,025
Non-current liabilities		
Lease liabilities	**(51,955,400)**	(59,443,076)
Interest-bearing bank loans and other borrowings	**(22,967,910)**	(11,151,779)
Provision for return condition checks	**(5,022,067)**	(4,346,678)
Provision for early retirement benefit obligations	**(1,351)**	(1,989)
Long-term payables	**(8,650)**	(42,850)
Contract liabilities	**(1,981,139)**	(2,345,017)
Deferred income	**(355,457)**	(385,246)
	(82,291,974)	(77,716,635)
NET ASSETS	**73,737,165**	81,628,390
CAPITAL AND RESERVES		
Issued capital	**14,524,815**	14,524,815
Reserves	**59,212,350**	67,103,575
TOTAL EQUITY	**73,737,165**	81,628,390

SUPPLEMENTARY INFORMATION

EFFECTS OF DIFFERENCES BETWEEN IFRSs AND CASs

The effects of differences between the consolidated financial statements of the Group prepared under IFRSs and CASs are as follows:

	Notes	2020 RMB'000	2019 RMB'000
Net (loss)/profit attributable to shareholders of the Company under CASs		**(14,409,429)**	6,408,576
Deferred taxation	(i)	**(2,028)**	(3,906)
Differences in value of fixed assets and other non-current assets	(ii)	**8,114**	15,624
Net (loss)/profit attributable to shareholders of the Company under IFRSs		**(14,403,343)**	6,420,294

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Equity attributable to shareholders of the Company under CASs		**77,582,421**	93,505,857
Deferred taxation	(i)	**58,920**	60,948
Differences in value of fixed assets and other non-current assets	(ii)	**(239,933)**	(248,047)
Unrealised profit of the disposal of Hong Kong Dragon Airlines Limited	(iii)	**139,919**	139,919
Equity attributable to shareholders of the Company under IFRSs		**77,541,327**	93,458,677

Notes:

(i) The differences in deferred taxation were mainly caused by the differences under IFRSs and CASs as explained below.

(ii) The differences in the value of fixed assets and other non-current assets mainly consist of the following three types: (1) fixed assets acquired in foreign currencies prior to 1 January 1994 and translated at the equivalent amount of RMB at the then prevailing exchange rates prescribed by the government (i.e., the government-prescribed rates) under CASs. Under IFRSs, the costs of fixed assets acquired in currencies prior to 1 January 1994 should be translated at the then prevailing market rate (i.e., the swap rate) and therefore resulted in differences in the costs of fixed assets in the financial statements prepared under IFRSs and CASs; (2) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (3) the differences were caused by the adoption of component accounting in different years under IFRSs and CASs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.

(iii) The difference was caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

Glossary of Technical Terms

CAPACITY MEASUREMENTS

"available tonne kilometres" or "ATK(s)"	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
"available seat kilometres" or "ASK(s)"	the number of seats available for sale multiplied by the kilometres flown
"available freight tonne kilometres" or "AFTK(s)"	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown

TRAFFIC MEASUREMENTS

"passenger traffic"	measured in RPK, unless otherwise specified
"revenue passenger kilometres" or "RPK(s)"	the number of revenue passengers carried multiplied by the kilometres flown
"cargo and mail traffic"	measured in RFTK, unless otherwise specified
"revenue freight tonne kilometres" or "RFTK(s)"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
"revenue tonne kilometres" or "RTK(s)"	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

EFFICIENCY MEASUREMENTS

"overall load factor"	RTK expressed as a percentage of ATK
"passenger load factor"	RPK expressed as a percentage of ASK
"cargo and mail load factor"	RFTK expressed as a percentage of AFTK
"Block hours"	whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

YIELD MEASUREMENTS

"passenger yield"/"yield per RPK"	revenues from passenger operations divided by RPKs
"cargo yield"/"yield per RFTK"	revenues from cargo operations divided by RFTKs

Definitions

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Air China Cargo"	Air China Cargo Co., Ltd., a non-wholly owned subsidiary of CNAHC
"Air China Inner Mongolia"	Air China Inner Mongolia Co., Ltd., a non-wholly owned subsidiary of the Company
"Air Macau"	Air Macau Company Limited, a non-wholly owned subsidiary of the Company
"AMECO"	Aircraft Maintenance and Engineering Corporation, a non-wholly owned subsidiary of the Company
"Articles of Association"	the articles of association of the Company, as amended from time to time
"A Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
"Beijing Airlines"	Beijing Airlines Company Limited, a non-wholly owned subsidiary of the Company
"Board"	the board of directors of the Company
"CASs"	China Accounting Standards for Business Enterprises
"Capital Holding"	China National Aviation Capital Holding Co., Ltd., a wholly-owned subsidiary of CNAHC
"Cathay Dragon"	Hong Kong Dragon Airlines Limited, a subsidiary of Cathay Pacific
"Cathay Pacific"	Cathay Pacific Airways Limited, an associate of the Company
"Cathay Pacific Rights Issue"	the rights issue of Cathay Pacific Rights Shares on the basis of seven (7) Cathay Pacific Rights Shares for every eleven (11) existing Cathay Pacific Shares at the subscription price of HK$4.68 per Cathay Pacific Rights Share
"Cathay Pacific Rights Shares"	the new Cathay Pacific Shares to be allotted and issued pursuant to the Cathay Pacific Rights Issue
"Cathay Pacific Shares"	the ordinary shares of Cathay Pacific
"CNACD"	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC
"CNACG"	China National Aviation Corporation (Group) Limited, a wholly-owned subsidiary of CNAHC
"CNACG Group"	CNACG and its subsidiaries
"CNAF"	China National Aviation Finance Co., Ltd, a non-wholly owned subsidiary of the Company
"CNAHC"	China National Aviation Holding Corporation Limited
"CNAHC Group"	CNAHC and its subsidiaries
"COMAC"	Commercial Aircraft Corporation of China, Ltd.
"CNAMC"	China National Aviation Media Co., Ltd, a wholly-owned subsidiary of CNAHC
"Company, "We", or "Air China"	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Dalian Airlines"	Dalian Airlines Company Limited, a non-wholly owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries

Definitions

"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	overseas-listed foreign invested share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange as primary listing venue and have been admitted into the Official List of the UK Listing Authority as secondary listing venue
"International Financial Reporting Standards" or "IFRSs"	International Financial Reporting Standards
"Kunming Airlines"	Kunming Airlines Company Limited, a subsidiary of Shenzhen Airlines
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Reporting Period"	from 1 January 2020 to 31 December 2020
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Airlines"	Shandong Airlines Co., Ltd., a non-wholly owned subsidiary of Shandong Aviation Group Corporation
"Shandong Aviation Group Corporation"	Shandong Aviation Group Company Limited, an associate of the Company
"Shenzhen Airlines"	Shenzhen Airlines Company Limited, a non-wholly owned subsidiary of the Company
"Supervisor(s)"	The supervisor(s) of the Company
"Supervisory Committee"	The supervisory committee of the Company
"US dollars"	United States dollars, the lawful currency of the United States

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