



A STAR ALLIANCE MEMBER 

2022

ANNUAL REPORT

Air China Limited

Stock code: 00753 Hong Kong 601111 Shanghai AIRC London

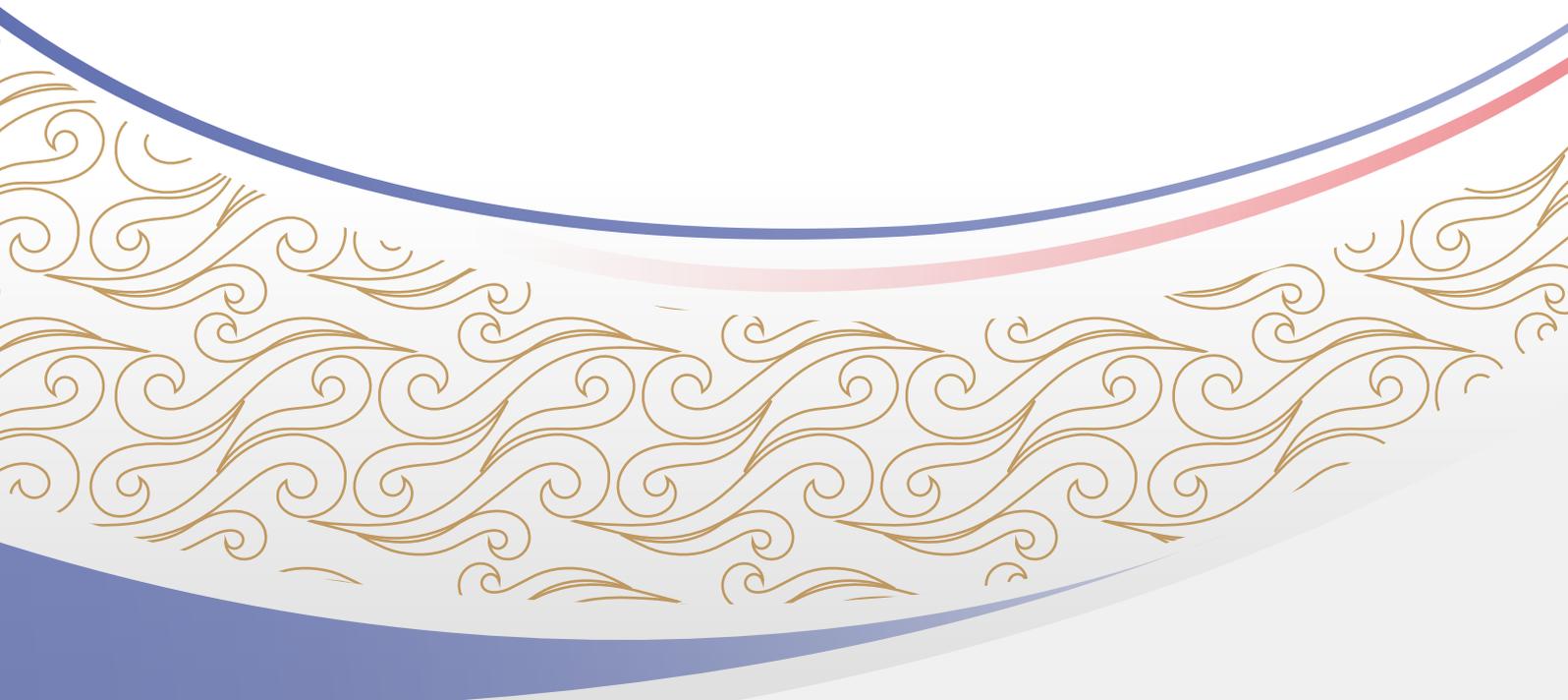
中國國際航空股份有限公司 (short name: 中國國航) (English name: Air China Limited, short name: Air China) is the only national flag carrier of China.

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

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

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

With the goal of becoming “the world’s leading airline”, Air China remains committed to the mission of “put safety first, serve passengers with credibility, convenience, comfort and choice, maintain stable development, help employees achieve success and fulfill corporate responsibilities”, advocates the values of “people-oriented, accountable, excelling efforts and enjoyable flights” and positions the brand as “professional and reliable with both international quality and Chinese temperament”. The “Air China Miles” programme of Air China is the oldest frequent flier programme in China, under which all members of the frequent flier programmes under various brands of its subsidiaries and associates have been consolidated into the brand of “Phoenix Miles”.





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CORPORATE INFORMATION

REGISTERED CHINESE NAME:

中國國際航空股份有限公司

ENGLISH NAME:

Air China Limited

REGISTERED OFFICE:

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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Hong Kong International Airport
Hong Kong

WEBSITE:

www.airchina.com.cn

DIRECTORS:¹

Ma Chongxian
Wang Mingyuan
Feng Gang
Patrick Healy
Xiao Peng
Li Fushen
He Yun
Xu Junxin
Winnie Tam Wan-chi

SUPERVISORS:²

Xiao Jian
Lyu Yanfang
Guo Lina
Wang Mingzhu
Li Shuxing

LEGAL REPRESENTATIVE OF THE COMPANY:

Ma Chongxian

JOINT COMPANY SECRETARIES:

Huang Bin
Huen Ho Yin

AUTHORISED REPRESENTATIVES:

Ma Chongxian
Huang Bin

LEGAL ADVISERS TO THE COMPANY:

DeHeng Law Offices (*as to PRC Law*)

DLA Piper Hong Kong (*as to Hong Kong SAR Law 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
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LISTING VENUES:

Hong Kong, London and Shanghai

- 1 For details of changes in Directors of the Company during the Reporting Period and up to the date of this annual report, please refer to page 53 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 54 of this annual report.

CHAIRMAN'S STATEMENT



2022 REVIEW

The year 2022 is an important year for the comprehensive implementation of the “14th Five-Year” Plan and the commencement of the new journey of building a modern socialist country in an all-round manner. Over the past year, the Group rose to challenges and fought hard to ensure safe operation with its best endeavors, exert itself to respond to operating difficulties, persistently improve its services, steadily deepen the reform, continue to push ahead with the in-depth development of the Board and comprehensively promote party building and sustained smooth and orderly development in all aspects of work.

Fulfilling its responsibilities by maintaining safe and stable development. The Group always regards safety as its primary political responsibility and top priority and adopts intense and solid measures in this regard. The concept of safe development has been applied comprehensively and the responsibilities of safe operation have been strictly implemented. In order to conscientiously implement the work requirements of the Work Safety Committee of the State Council and the Civil Aviation Administration, the Group further conducted major inspection for safety purpose and investigation and rectification of hidden safety hazards, thereby drawing a successful end to the Three-year Action Plan for Specific Safety Rectification. Based on the characteristics of its operation, the Group also carried out in-depth general survey of the technological conditions of all of its fleet, continued to strengthen the prevention and control of operation risks of flights and improved the security assessment of key routes, which have enhanced its safety security capability and ensured safe operation. Strenuous

efforts have been made to promote style development and enhance the awareness of safety issues as well as the relevant rules and regulations among the frontline staff to consolidate the foundation of security work. Important transportation safeguard missions for the Beijing Winter Olympics, the 20th National Congress of the CPC and other major events were completed with high quality during the period.

Stabilizing the fundamentals of operation with a tenacious spirit. Upholding the strong determination to control loss and bottom out, the Group coordinated work in relation to operation arrangement and safe operation and kept the fundamentals of its operation stable amidst the challenging and complicated operation conditions. The Group dynamically adjusted its transport capacity based on market demand, aiming to promote the optimization of both domestic and international fleet capacity structure, consolidate the market share of its main bases and maintain its operation scale on the basis of serving the large domestic market. It has also exercised refined control over marketing activities, actively maintained the order of the passenger transportation market, improved sales arrangement and revenue management and enriched the service and product mix in order to stabilize flight revenue. Furthermore, the Group further implemented the mechanism that covert passenger aircraft for cargo operations to consolidate the economies of scale of cargo flights by passenger aircraft with a view to actively broadening its revenue base. The Group exercised stringent cost control and strived to reduce costs and expenses by all means, and has therefore adjusted the phase-out plan of aircraft and exercised more precise

CHAIRMAN'S STATEMENT

management and control over major cost items. While resolutely guarding the bottom line for risk management, the Group actively adjusted the debt structure and enhanced its capital management and control to ensure the liquidity safety.

Enhancing the service level with unremitting tenacity. The Group was dedicated to the people-oriented development philosophy and made great efforts in improving its services. In order to further improve the service management system, the Group promoted in-depth development during the "Civil Aviation Service Planning and Implementation Year" with an aim to improve the standard service system and promote the professional development of its staff. Flight regularity was enhanced in an effort to optimize the air travel services process on a continuous basis. It also launched featured services and products of Air China's brand and upgraded a series of software and hardware, thereby creating a service brand with increased competitiveness and influence to offer better travel experience for the passengers. In addition, all the domestic terminals have realized the full coverage of "paperless" travel services and the global platform for ground service and flight support services has commenced operation at fully capacity, enhancing the level of service digitalization.

Reform and innovate in the spirit of striving for the success aggressively. The Group precisely grasped its responsibility and mission in building the new development paradigm, and promoted high-quality development in pursuit of the concept of the country's fundamental interests. Maintaining its strategic focus, the Group has accelerated the development of Beijing Capital International Airport as a world-class hub, and at the same time actively participated in the operation of Daxing Airport in a bid to create new drivers for national development. The Group further promoted the improvement of the corporate governance mechanism, achieved a full coverage of the tenure system and contractual management for members of the management, and successfully completed its primary tasks of the three-year action of reform. In addition, the Group accelerated digital transformation, enhanced data asset management capabilities, deepened data security management and completed the development of a data asset centre. By implementing the concept of green and low-carbon development, the Group formulated the "Dual-carbon" action plan, improved the management system of green development, and enhanced the capability and efficiency of environmental governance.

Enhancing the corporate governance capabilities with a focus on the development of the Board. Focusing on the promotion of the development of the Board that is characterized by "professional, dedicated, regulated and efficient" operation,

the Group has organized and completed the re-election and appointment of members of the Board with strong emphasis placed on ensuring the operation, decision-making and services of the Board, and to enhance the quality of both operation and decision-making of the Board in a systematic manner. The Group has also strengthened the supervisory role of the Board and enhance the Company's risk resistant ability, striving to contribute to the development of a world-class aviation transportation group through the high-quality development of the Board.

Pursuing high-quality party building to ensure high-quality development. The Group has effectively pushed forward the learning, promotion and implementation of the philosophy of the 20th National Congress of the CPC to further clarify the direction of our struggle for quality development in the future. Always adhering to political work as the priority, the Group has strengthened the leadership of the Party in improving the corporate governance, consolidated the development of the Party's internal rules and regulations, strengthened the team building of talented cadres, further promoted the full and strict self-governance of the Party, and continued to create an honourable and upright political ecology and development environment.

The year 2023 is the first year of the implementation of the spirit of the 20th National Congress of the CPC, which is also a crucial year for the implementation of the "14th Five-Year" Plan regarding its continuity. The Group will adhere to the underlying principle of pursuing progress while ensuring stability, fully, precisely and comprehensively implement the new development philosophy, contribute to and integrate with the new development paradigm, thereby focusing on promoting high-quality development. With solid actions to accelerate its development into a world-class aviation and transportation group, the Group will make new and greater contributions to building a modern socialist country in an all-round manner!



Ma Chongxian
Chairman

Beijing, China
30 March 2023

SUMMARY OF FINANCIAL INFORMATION

	2022	2021	2020	2019	(RMB'000) 2018
Revenue	52,897,584	74,531,670	69,503,749	136,180,690	136,774,403
(Loss)/profit from operations	(35,443,794)	(16,862,176)	(11,168,820)	14,641,918	14,346,331
(Loss)/profit before taxation	(45,876,891)	(21,825,530)	(18,466,406)	9,120,263	9,977,017
(Loss)/profit after taxation (including (loss)/profit attributable to non-controlling interests)	(45,173,910)	(18,822,238)	(15,816,131)	7,263,764	8,214,871
(Loss)/profit attributable to non-controlling interests	(6,556,415)	(2,187,060)	(1,412,788)	843,470	864,210
(Loss)/profit attributable to equity shareholders of the Company	(38,617,495)	(16,635,178)	(14,403,343)	6,420,294	7,350,661
EBITDA ⁽¹⁾	(14,210,120)	4,072,326	9,239,497	35,921,002	28,850,007
EBITDAR ⁽²⁾	(13,632,238)	4,981,874	9,925,796	37,452,389	37,133,039
(Loss)/earnings per share attributable to equity shareholders of the Company (RMB)	(2.81)	(1.21)	(1.05)	0.47	0.54
(Loss)/return on equity attributable to equity shareholders of the Company (%)	(163.79)	(27.11)	(18.58)	6.87	7.89

Notes:

- (1) EBITDA represents earnings before finance income and finance costs, exchange gains/losses, income tax credit/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.

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	(RMB'000) 31 December 2018
Total assets	294,979,377	298,381,190	284,029,616	294,206,373	243,657,108
Total liabilities	273,451,149	232,550,079	200,256,580	192,876,910	143,159,074
Non-controlling interests	(2,048,948)	4,462,554	6,231,709	7,870,786	7,340,693
Equity attributable to equity shareholders of the Company	23,577,176	61,368,557	77,541,327	93,458,677	93,157,341
Equity attributable to equity shareholders of the Company per share (RMB)	1.62	4.23	5.34	6.43	6.41

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 year	Previous year	Increase/ (decrease)
Capacity			
ASK (million)	96,212.39	152,444.53	(36.89%)
International	4,642.62	4,152.23	11.81%
Mainland China	89,945.02	145,939.38	(38.37%)
Hong Kong SAR, Macau SAR and Taiwan, China	1,624.75	2,352.93	(30.95%)
AFTK (million)	8,326.31	10,760.61	(22.62%)
International	5,897.32	6,715.58	(12.18%)
Mainland China	2,311.18	3,937.54	(41.30%)
Hong Kong SAR, Macau SAR and Taiwan, China	117.82	107.49	9.61%
ATK (million)	16,990.72	24,490.45	(30.62%)
Traffic			
RPK (million)	60,354.57	104,625.58	(42.31%)
International	2,046.88	1,880.33	8.86%
Mainland China	57,554.46	101,494.42	(43.29%)
Hong Kong SAR, Macau SAR and Taiwan, China	753.23	1,250.83	(39.78%)
RFTK (million)	3,401.93	4,302.83	(20.94%)
International	2,528.84	2,981.52	(15.18%)
Mainland China	836.22	1,281.20	(34.73%)
Hong Kong SAR, Macau SAR and Taiwan, China	36.85	40.13	(8.16%)
Passengers carried (thousand)	38,605.77	69,045.17	(44.09%)
International	356.31	301.31	18.26%
Mainland China	37,809.82	67,995.09	(44.39%)
Hong Kong SAR, Macau SAR and Taiwan, China	439.64	748.78	(41.29%)
Cargo and mail carried (tonnes)	844,070.47	1,186,701.55	(28.87%)
Kilometres flown (million)	664.31	994.20	(33.18%)
Block hours (thousand)	1,031.79	1,590.15	(35.11%)

SUMMARY OF OPERATING DATA

	Current year	Previous year	Increase/ (decrease)
Number of flights	363,886	572,264	(36.41%)
International	15,787	18,179	(13.16%)
Mainland China	342,004	545,724	(37.33%)
Hong Kong SAR, Macau SAR and Taiwan, China	6,095	8,361	(27.10%)
RTK (million)	8,739.54	13,598.95	(35.73%)
Load factor			
Passenger load factor (RPK/ASK)	62.73%	68.63%	(5.90 ppt)
International	44.09%	45.28%	(1.20 ppt)
Mainland China	63.99%	69.55%	(5.56 ppt)
Hong Kong SAR, Macau SAR and Taiwan, China	46.36%	53.16%	(6.80 ppt)
Cargo and mail load factor (RFTK/AFTK)	40.86%	39.99%	0.87 ppt
International	42.88%	44.40%	(1.52 ppt)
Mainland China	36.18%	32.54%	3.64 ppt
Hong Kong SAR, Macau SAR and Taiwan, China	31.28%	37.33%	(6.05 ppt)
Overall load factor (RTK/ATK)	51.44%	55.53%	(4.09 ppt)
Utilisation			
Daily utilisation of aircraft (block hours per day per aircraft)	3.95	6.28	(2.32 hours)
Yield			
Yield per RPK (RMB)	0.6345	0.5574	13.83%
International	2.3444	1.8523	26.57%
Mainland China	0.5688	0.5318	6.96%
Hong Kong SAR, Macau SAR and Taiwan, China	1.0105	0.6872	47.05%
Yield per RFTK (RMB)	2.9644	2.5828	14.77%
International	3.3614	3.0329	10.83%
Mainland China	1.4926	1.3722	8.77%
Hong Kong SAR, Macau SAR and Taiwan, China	9.1181	7.7885	17.07%
Unit cost			
Operating expense per ASK (RMB)	0.9533	0.6262	52.24%
Operating expense per ATK (RMB)	5.3980	3.8980	38.48%

FLEET INFORMATION

During the year of 2022, the Group introduced a total of 36 aircraft, including seven A350, nine A320NEO, twelve A321NEO and eight ARJ21-700, and phased out 20 aircraft, including four A330-200, eight B737-800, five B737-900 and three A319 aircraft.

As at the end of the Reporting Period, the Group had a total of 762 aircraft including business jets, with an average age of 8.59 years, of which the Company operated a fleet of 487 aircraft in total, with an average age of 8.61 years. The Company introduced 31 aircraft and phased out 11 aircraft.

Details of the fleet of the Group as at 31 December 2022 are set out in the table below:

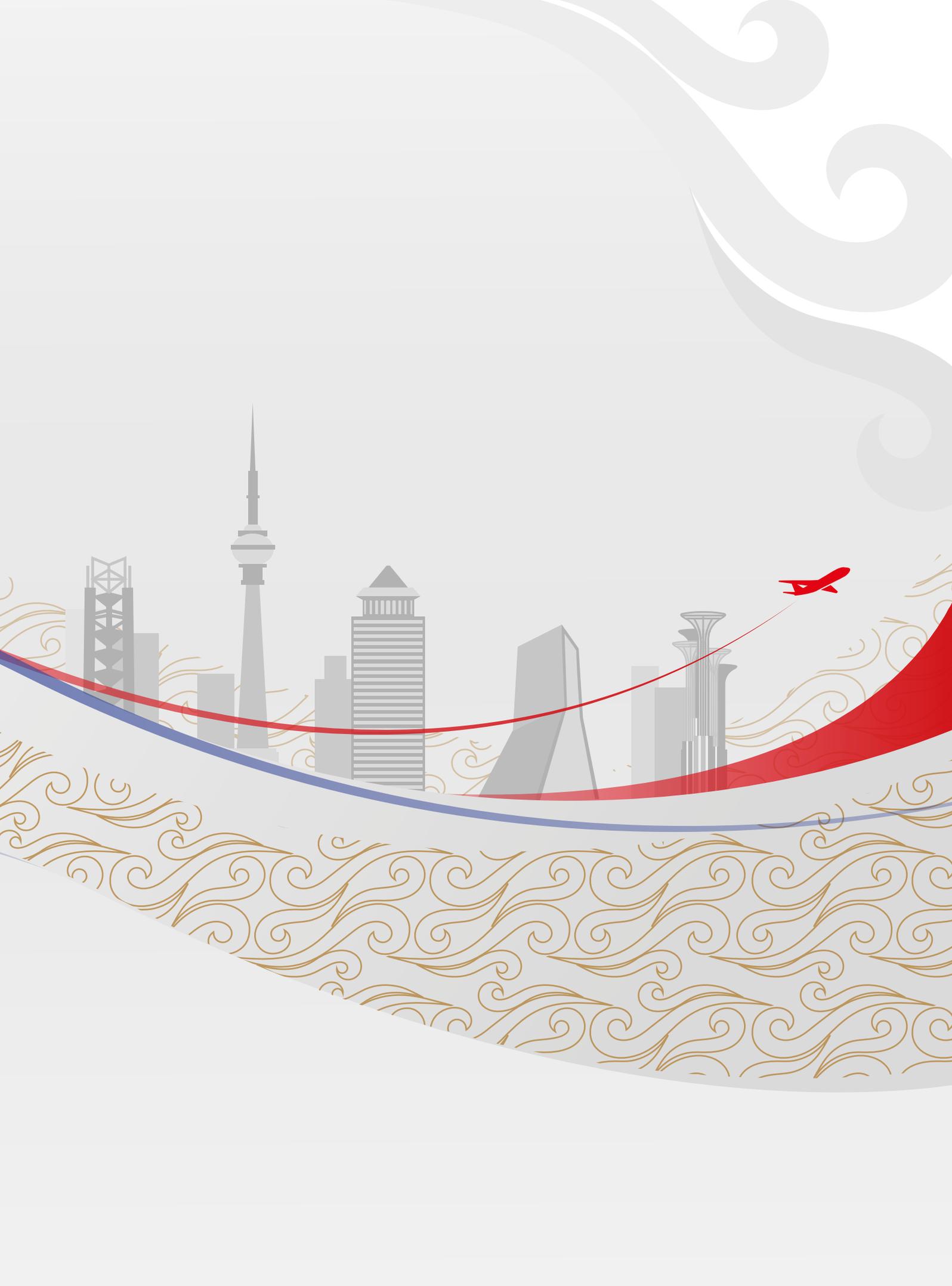
	Sub-total	Self-owned	Finance leases	Operating leases	Average age (year)
Airbus	429	167	142	120	8.26
A319	38	32	6	–	15.06
A320/A321	308	110	107	91	7.49
A330	60	23	8	29	10.20
A350	23	2	21	–	2.29
Boeing	313	141	93	79	9.38
B737	261	117	73	71	9.49
B747	10	8	2	–	13.47
B777	28	4	18	6	8.71
B787	14	12	–	2	5.86
COMAC	15	3	12	–	0.95
ARJ21	15	3	12	–	0.95
Business jets	5	1	–	4	9.52
Total	762	312	247	203	8.59

	Introduction Plan			Phase-out Plan		
	2023	2024	2025	2023	2024	2025
Airbus	17	32	34	12	8	6
A319	–	–	5	3	4	4
A320/A321	10	32	29	5	–	–
A330	–	–	–	4	4	2
A350	7	–	–	–	–	–
Boeing	–	–	–	8	–	–
B737	–	–	–	8	–	–
COMAC	11	9	–	–	–	–
ARJ21	11	9	–	–	–	–
Total	28	41	34	20	8	6

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



BUSINESS **OVERVIEW**



BUSINESS OVERVIEW



SAFE OPERATION

The Group firmly established the awareness that safety responsibility is political responsibility, conscientiously implemented the 15 measures of operation safety of the Work Safety Committee of the State Council, focused on the goal of creating a world-class model enterprise, enforced the responsibility of operation safety at all levels, constantly improved the operation safety system, and continuously enhanced the development of the “four systems”, namely safety management, flight training, aircraft maintenance, and operation management. Based on the characteristics of its operation, the Group continuously strengthened the operation safety process control and key risk control, and focused on improving the quality of flight technology. With flight data management and application system successfully put into use, the Group further promoted major inspection for safety purpose and investigation and rectification of hidden safety hazards.

The Group effectively ensured the proper implementation of preventing and eliminating major safety risks and special

improvement annual actions in “8 safety areas” such as aviation, air defense, cargoes and dangerous goods. It continued to improve the Company’s overall emergency response plan and enhance the Company’s emergency response capability. The Group promoted the style development and education of safety personnel, improved the quantitative assessment mechanism of safety style, and organized and carried out lecture activities on operation safety. It successfully accomplished a series of important transportation missions such as the 20th National Congress of the CPC, the Beijing Winter Olympics/Paralympics, the Spring Festival travel rush, the Two Sessions, evacuation of nationals, and China International Import Expo. Regarding the safeguard tasks for the Beijing Winter Olympics and Winter Paralympics, we achieved zero error in safety, zero infection in personnel and zero complaint in service.

During the Reporting Period, the Group recorded 1.0318 million safe flight hours, transported 38.6058 million passengers safely, continuously maintaining an overall stable and safe operation.

BUSINESS OVERVIEW

MAXIMISING OPERATING PERFORMANCE

Focusing on the core air traffic business, the Group made every effort to maximise operating performance. The Group was determined to control losses and extricate itself from difficulties, coordinated its safe operation and business operation, organized production and operation based on the principles of “maximizing revenue, marginal contribution, yield and profit”, effectively promoted quality improvement and efficiency enhancement and stabilized the operation fundamentals.

Relying on the domestic market, the Group strived to increase its investment in major domestic cities, and continuously built six high-quality express routes from Beijing to Shanghai, Hangzhou, Chengdu, Chongqing, Guangzhou and Shenzhen. By increasing flight density, stabilizing the input of wide-body aircraft and optimizing flight schedules, the Group further matched the travel demand of business passengers, and thus achieved improvement of service quality and revenue quality. The Group refined the adjustment of flight schedules, destinations, aircraft articulation and other elements, and reduced operating costs by optimizing the flight-, aircraft- and crew-related aspects to ensure simultaneous improvement of safety, operation management level and operational efficiency. It closely monitored market changes, balanced the relationship between volume and price, and enhanced the quality of income. The Group continued to push forward the integration mechanism of passenger aircraft for cargo operations and consolidated the advantages in economies of scale of cargo flights by passenger aircraft, operating 15,000 cargo flights by passenger aircraft during the reporting period.



Adhering to strict cost control, the Group adjusted the pace of aircraft introduction and retirement to ease cost rigidity. It improved the precision of major cost control and further explored the potential of operating cost reduction. The Group seized the opportunities arising from the interest rate window period to promote debt swaps, reduce the average borrowing rate and save financial costs. Sticking to safeguarding the bottom line of risks, the Group properly made medium and long-term funding arrangements and ensured the security and stability of funds.

ENHANCING SERVICES

Always staying committed to the people-centered development ideology, the Group insisted on the strategic goal of developing world-class services. The Group continued to upgrade services and products, optimize and improve various aspects of its services, accelerate the digital transformation of services, systematically enhance the quality of services, effectively enhance passenger satisfaction, and develop a more competitive and influential service brand.

To optimize all aspects of the full-process of air travel service, the Group supplemented and revised the “General Conditions for passenger and luggage transportation of Air China”, including the important provisions on transport services for people with disabilities, ticket refund and change rules as well as the standards for handling irregular tickets, and further improved the friendliness of ticket and passenger regulations. The Group strengthened the management and control of flight operations, resulting in a higher flight



BUSINESS OVERVIEW



regularity rate than the industry average. The Group has made good efforts in safeguarding services for passengers and protecting their health and safety during air travel, and has properly made ticket handling and passenger reminders. The Group issued 705 special handling plans for passenger tickets, sent travel reminders to 542,000 passengers who had purchased tickets, taking the lead in automatically verifying passengers' health information online. In addition, the Group launched the "Healthy Travel" service as the first-mover, covering 28 overseas terminals. It also offered the automatic seat protection function for specific passengers such as transit

passengers on irregular flights and unaccompanied children, optimized the service process of irregular flights, and increased the service efficiency for irregular flights.

To create a new visual and comfy experience with Air China's brand features, the Group promoted the implementation of the new design standards of the "Zixuan" and "Zichen" self-owned lounges to create more culturally appealing and interactive lounges. It also launched the new "Phoenix Dance in the Cloud" cabin visual package products, the operating interface of the in-flight entertainment system, and the



BUSINESS OVERVIEW

new IP images of “Air China Boabei – Long Xiaobao and Feng Xiaobei” with more Air China cultural characteristics, bringing passengers a refreshing visual enjoyment and a unique cultural experience with oriental aesthetics. The Group created the “Cloud China” in-flight catering concept, established the Airline Gourmet Research Institute, built an “Airline Wine Cellar”, created a new model of snack meals and breakfast for economy class, thereby promoting Air China’s reputation for catering and shaping the taste of Air China.

DIGITAL TRANSFORMATION

To accelerate the digital transformation and speed up the promotion of high-quality development, the Group set up a digital transformation integration team to complete the top-level structural design of the aircraft asset management system. With the project construction of Business Model Phase II officially commenced, the Group has completed the construction of the product centre and marketing centre and the redevelopment of the call centre. The Group also completed the development of the data asset centre and coordinated data management for material IT construction projects by enhancing data asset management capabilities and intensifying data security management. It put into full operation of Air China’s safeguarding platform of global ground flights, realizing the triangular closed-loop management of flight monitoring and command, smart resource allocation and mobile empowerment of the front-line, and comprehensively enhancing flight operation control capabilities. The Group optimized and upgraded the flight attendant qualification management system, achieving electronic operation of flight attendant training and qualification.



The Group expanded digital and smart service support, and steadily upgraded the level of digitalization. All the domestic terminals have realized full coverage of “paperless” travel services. The Air China App accomplished smart transit guidance at four airports, including the airports in Beijing and Chengdu, while 30 domestic terminals commenced full-process and real-time baggage tracking and inquiry. Ten types of special services, including unaccompanied children, realized automatic booking. Paying attention to the elderly passenger group, the Group introduced a check-in function specially designed for elderly passengers, fulfilling the barrier-free renovation of the domestic website. It also completed the retrofitting of in-cabin Wi-Fi LAN services on 354 aircraft and realized the capability of air-ground interconnection service on 23 A350 aircraft. It continued to optimize and improve the service knowledge base system, service quality management system and other service management information systems, thus promoting the level of service digitalization.

BUSINESS OVERVIEW

RISK PREVENTION AND CONTROL

Focusing on the prevention and elimination of major risks, the Group continued to further push forward the four-in-one collaboration mechanism of “emphasizing the rule of law, strengthening internal control, promoting compliance and preventing risks”, put great efforts to improve the development of risk control and compliance system and enhance foreign-related compliance capabilities, and organized and carried out the special action of “the year of strengthening compliance management”. Adhering to the problem-oriented and goal-oriented principle, the Group accelerated the implementation of the full-process, full-chain and full-coverage risk prevention and control.

The Group secured a stable operation mechanism of risk research and assessment. Following the governance decision-making procedures, the Group actively and steadily reviewed and assessed annual major risks through in-depth research and thematic diagnosis, and implemented measures comprehensively. Through increasing the precision degree of risk quantification, it further improved the graded and classified rolling monitoring of important risk issues and conducted closed-loop management. The Group implemented a regular mechanism for annual inspection on overseas legal

risks, which highlighted the focused areas on risk control over foreign-related compliance operation. It enhanced the quality of risk assessment for the purpose of decision-making. Based on the premise of ensuring compliance, the Group evaluated the risk of decision-making on the “three key and one major issues” as far as possible and took the initiative to prevent and eliminate risks. It promoted the in-depth integration of risk assessment into reform and development, central tasks and material project management. The Group soundly improved the coordinated mechanism of risk prevention and control. The management supervised the progress of key tasks, focused on research and assessment on the difficulties in risk control and management, and promoted the practical experience of risk control and management. It continued to strengthen the information sharing mechanism among risk control compliance and discipline inspection, patrol and audit, and jointly established three lines of defense for risk prevention in management coordination. The risk prevention and control responsibility mechanism was comprehensively consolidated. With strict risk classification and hierarchical management, the Group enforced the responsibilities of risk mitigation to the specific position and individual staff to enhance the ability to oversee the full-process of risk management.



BUSINESS OVERVIEW



CORE COMPETENCE ANALYSIS

Strong brand advantage

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

In 2022, Air China launched its Winter Olympics Games promotional activities and told the Winter Olympics stories of Air China with a focus on safeguarding the transportation services for the Winter Olympics Games and Paralympic Winter Games, thereby establishing the good brand image of the aviation company representing “both the Summer Olympic Games and the Winter Olympic Games”. Leveraging large-scale fairs such as China International Aerospace Expo, the China International Travel Mart and the China-Eurasia Expo as the platform, the Company actively carried out external brand collaboration and exchanges and demonstrated its operational strengths and brand image. It commenced

cooperation with industry leading enterprises such as China State Railway Group Co., Ltd., FAW Hongqi and China Quanjude (Group) Co., Ltd. with an aim to improve service quality, enhance brand values and brand competitiveness. According to the ranking list released by the World Brand Lab, Air China ranked no. 285 in the 2022 World’s 500 Most Valuable Brands and ranked no. 24 in the 2022 China’s 500 Most Valuable Brands with a brand value of RMB213.659 billion. Meanwhile, the Company was awarded the 2022 “No. 1 China Brand of the Year (Aviation Services Category)” (中國品牌年度大獎航空服務No.1) and 2022 “China Brand of the Year – Special Award: Culture Brand Award” (中國品牌年度特別大獎——文化品牌大獎).



BUSINESS OVERVIEW

Market leader of the Beijing hub

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

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

During the Reporting Period, leveraging the domestic market and focusing on the advantageous resources, the Group continued its efforts in building six high-quality express routes from Beijing to Shanghai, Hangzhou, Chengdu, Chongqing, Guangzhou and Shenzhen to further align with the travel demands of business customers and travellers, and to secure a core position in the principal Beijing market with high-frequency and high-quality flight routes. The Group also realized optimization and enhancement of "three aspects" in flight-, aircraft- and crew-related aspects and improved the efficiency of operation safeguard by making refined adjustment to flight schedules, destinations, aircraft articulation and other elements of Beijing Capital International Airport. The Group pragmatically pushed forward and implemented works in relation to the gradual resumption of certain international direct flights to Beijing and over 20 direct international flights to Beijing have resumed services successively.

Balanced and complementary route network

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

Based on the domestic macro-circulation, the Group made full use of the resources of its flight network and reasonably allocated the transport capacity of various bases to accelerate the development of the domestic market. Sparing no efforts in arranging as many international flights as possible, the Group has gradually recovered or increased the transport capacity for the relevant countries or regions to sustain flights in important international aviation markets, and hence strengthened the advantages of its market share in terms of long-haul flights. The Group actively pressed on with the development of the "Silk Road in the Sky" and further developed the six economic corridors under the "One Belt One Road" initiative and the flight routes to Europe, America and Africa with a view to establishing its new competitive edges under the international and domestic dual-circulation and increase the international discourse power of China's civil aviation industry.

During the Reporting Period, the Company launched new flight routes such as Chengdu Tianfu-Yangzhou, Chengdu Tianfu-Linyi, Chengdu Tianfu-Hengyang, Chongqing-Nantong, Hangzhou-Shiyan and Hohhot-Bayannur, and completed the first voyage of Chengdu Shuangliu-Lhasa-Shannan Longzi Airport and Chengdu Shuangliu-Lhasa-Shigatse Tingri Airport routes. In 2022, the Company resumed international and regional passenger flights in a steady and orderly manner, among which 43 international and regional passenger flights have resumed services with increased flights, including Beijing-Frankfurt, Shanghai Pudong-London, Hangzhou-Rome and Chengdu-Hong Kong.

BUSINESS OVERVIEW

High quality customer base

In line with the Company's strategy for hub network, the Group 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 75.1126 million. Revenue contributed by frequent fliers accounted for 51.9% of the Company's air passenger revenue. The number of new registered users of Air China APP reached 1.5653 million, which brought the total number of users to 15.987 million. The Company newly acquired 435 customers, which brought the total number of effective major customers to 2,839.

Leading cost control mechanism

To cope with the operation difficulties, the Group firmly established the "austerity" concept and implemented stringent cost control measures. Without prejudice to safe operation, the Group has controlled its asset-related costs at source through measures such as improve the integrity rate of existing equipment, increase resources sharing, optimize the pace of aircraft introduction and investment in infrastructure and increase centralized procurement. Meanwhile, the Group reduced operating costs during the process by reducing fuel consumption, securing preferential takeoff and landing charges, optimizing aircraft maintenance plans and strictly controlling non-safety and non-production-related expenses, on the premise that investment in safety operation is secured.

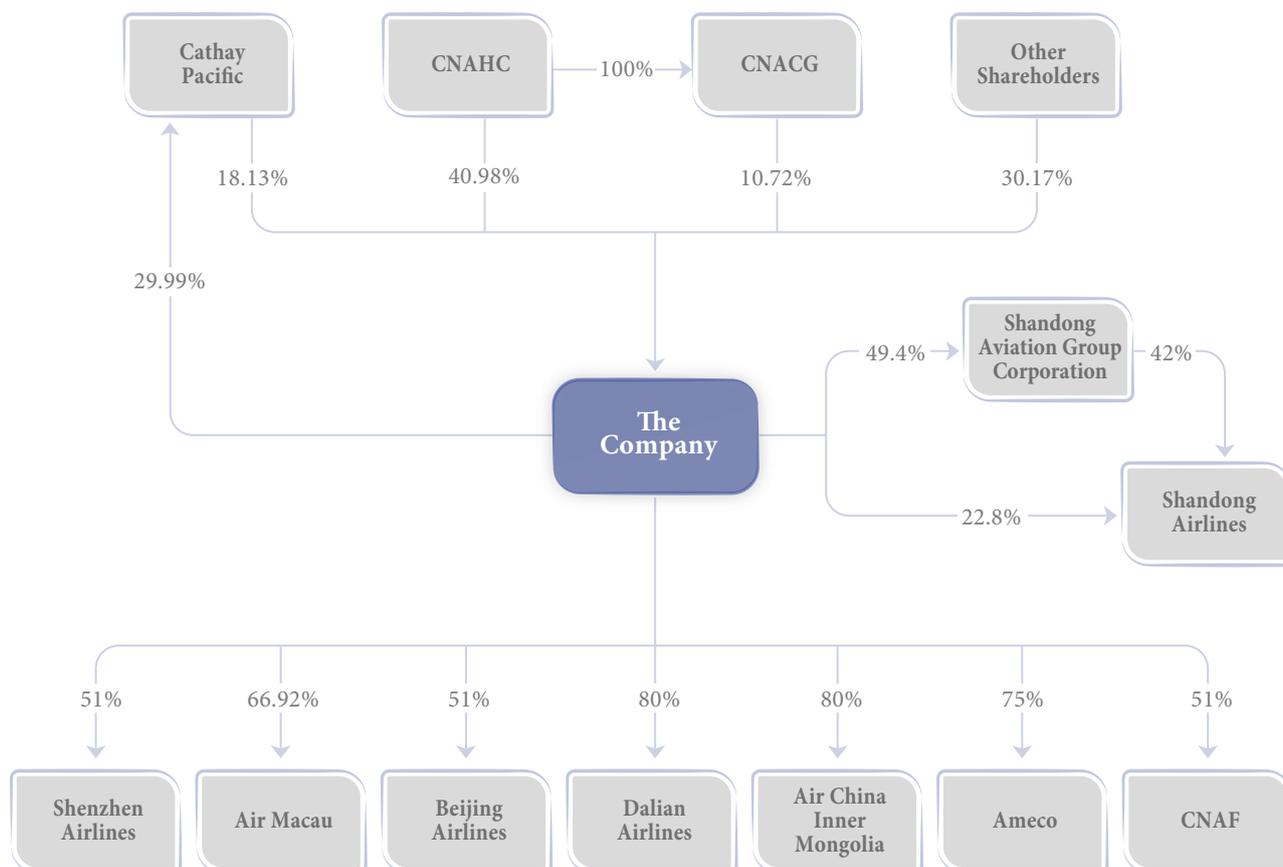
Continuous innovation of management mechanism

The Group persisted with innovation as the primary driving force for corporate development and solidly promoted the implementation of technological innovation and development plans under the "14th Five-year" plan. The Group also actively participated in collaboration for major technological breakthroughs and further accelerated digital transformation to enhance innovation capabilities and stimulate innovation vitality, thereby deeply integrating the concept of innovation into its journey of accelerated development of a world-class enterprise.

In a bid to promote the implementation of the technological innovation and development plans under the "14th Five-year" plan, the Group has strengthened the efforts in innovating the top-level design and enhanced its innovation management capability. It has independently developed and launched a working platform for innovation management, which covered three innovation channels (namely, the innovation laboratories/engineering technology centres and innovation bases) horizontally, and connected the management of projects throughout the entire lifecycle from solicitation of creative ideas to the conversion of innovation results vertically, thereby creating an effective carrier for improving its innovation management capability comprehensively. Efforts have also been made to further advance the development of the system comprising innovation laboratories/engineering technology centres and the establishment of aeronautical innovation laboratories. The "Aircraft-ground Crossfeed Fuel System Project" was awarded the Exemplary Technological Innovation Award by the China International Fair for Trade in Services, and the "Management Platform for Aircraft Condition Prediction and Maintenance Operation" won the second prize of 2021 Science and Technology Award granted by China Association for Quality, both signifying the accelerated accumulation of its innovation achievements.

BUSINESS OVERVIEW

MAJOR SUBSIDIARIES AND ASSOCIATES AND THEIR OPERATING RESULTS



- Notes: 1. As at the end of the Reporting Period, 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. As at the end of the Reporting Period, 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.

BUSINESS OVERVIEW

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
Year of establishment	1992	1994	2011	2011	2013	1989	1994	1946
Place of domicile	Shenzhen	Macau	Beijing	Dalian	Inner Mongolia	Beijing	Beijing	Hong Kong
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
Registered capital	RMB5,360,000,000	MOP842,042,000	RMB1,000,000,000	RMB3,000,000,000	RMB1,000,000,000	USD300,052,800	RMB1,127,961,864	6,437,200,203 shares in issue
Percentage of shareholding by the Company	51%	66.92%	51%	80%	80%	75%	51%	29.99%
Revenue (RMB100 million)	125.41	7.18	1.51	5.93	5.56	70.09	2.94	436.58
Year-on-year changes (%)	(32.21)	(23.04)	(52.37)	(41.69)	(51.36)	(14.18)	(28.38)	15.44
Total assets (RMB100 million)	643.10	61.23	9.46	37.61	21.50	64.95	184.45	1,616.05
Profit/(loss) attributable to parent company (RMB100 million)	(111.27)	(8.71)	(1.90)	(5.93)	(4.25)	(11.53)	0.47	(61.27)
Profit/(loss) attributable to parent company in the corresponding period of last year (RMB100 million)	(33.43)	(6.74)	(1.16)	(1.89)	(1.38)	(1.46)	0.46	(50.80)

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
Fleet size (unit)	226 (on a consolidated basis)	17	3	13	11	222 (on a consolidated basis)
Average age (year)	8.56	6.56	13.08	9.24	9.67	10.6
ASK (100 million)	346.36	12.89	1.14	16.50	14.26	200.56
Year-on-year changes (%)	(33.18)	(34.28)	(74.69)	(36.56)	(50.48)	51.6
RPK (100 million)	223.96	6.41	0.58	10.34	8.11	147.64
Year-on-year changes (%)	(37.55)	(45.48)	(80.98)	(41.64)	(58.57)	258.3
Passengers carried (10 thousand)	1,460.67	37.41	4.25	71.84	69.23	280.4
Year-on-year changes (%)	(39.97)	(46.44)	(86.58)	(51.82)	(60.28)	291.1
Average passenger load factor (%)	64.66	49.75	50.57	62.66	56.88	73.6
Year-on-year changes (ppt)	(4.52)	(10.21)	(16.74)	(5.45)	(11.11)	42.5

*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 9.52 years. During the Reporting Period, in terms of business charter service, Beijing Airlines completed 310 flights, representing a year-on-year increase of 5.44%; it completed 837.17 flying hours, representing a year-on-year decrease of 14.87%; it carried a total of 2,361 passengers, representing a year-on-year decrease of 6.61%.

BUSINESS OVERVIEW

OPERATIONAL PLAN

The Company has established its operational focuses for 2023, including (1) insisting on achieving safe operation with the highest standards and strictest requirements; (2) safeguarding the recovery of operation with more precise measures; (3) staying committed to win the hard battle to reduce losses and extricate itself from difficulties in a concerted effort; (4) focusing on key issues and continuing to promote in-depth reform and innovative development; (5) putting unremitting efforts to improve service and product standards; (6) continuing to strengthen the political assurance of high-quality development.

OUTLOOK FOR FUTURE

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

China's civil aviation industry will pursue the mission of giving full play to its role as a strategic industry during the process of high-quality development of China. Playing a supporting role in promoting the economic circulation and expanding traffic flows, it will further improve the modern airport system and route network mutually in line with national economic and social development, the spatial development pattern of the country and the layout of major productivity, contributing to the major national regional strategies and regional coordinated development strategies. Promoting the development of the "Silk Road in the Sky", the industry will further optimize its overseas market layout and expand the global coverage to facilitate China's further participation in the division of labor and cooperation among the industries globally. Playing the role of promoting the structural transformation and upgrade of the economy, the civil aviation industry will encourage manufacturers to continuously improve the quality and performance of their products, thereby promoting the development and robust growth of China's aviation industry. Playing the leading role of civil aviation industry in the upgrading of consumption, it will continue to innovate services and products to improve the people's quality of life. Giving play to its leading role in the comprehensive transportation system, the civil aviation industry will develop a modern comprehensive transportation hub and implement multiple-modal interlink operation to facilitate the rapid development of China into a strong nation in terms of transport.

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

There is no change in the fundamentals of the Chinese economy or in the basic trend of economic stability and long-term improvement, thereby the economy will achieve steady recovery. Although the world economy is undergoing profound adjustment, the overall trend of economic globalization will remain unchanged, while China's development still sees strategic opportunities. Leveraging the super large-scale domestic demand market formed with a population of 1.4 billion, including a middle-class group of more than 400 million, China is striving to build a new development paradigm which is based on domestic macro-circulation, along with the international and domestic dual-circulation under mutual promotion. Civil aviation demand in China will continue to rise and market potential will remain immense.

In 2023, China's civil aviation industry will embrace a turning point for recovery. Business travel and holiday tours will accordingly continue to be growth drivers of the aviation industry, and air travel demand will become increasingly diverse, customized and popular. During the "14th Five-Year Plan" period, construction of new airports and airport renovations and expansions are underway in various regions and the capability in air traffic management is steadily increased, which will better satisfy the demand of the industrial development.

Competition landscape of the domestic aviation market

It is expected that the competitive pressure will be mitigated in the domestic aviation market. Regarding the demand side, as the national economy remains stable and improved, the foundation of industrial recovery and development will be more solid, envisaging the domestic market demand will continue its revival. On the supply side, the major airlines will proactively adjust the pace of fleet retirement in accordance with market conditions, with the industry-wide fleet size (cumulative annual average number of aircraft registered) growing at a slower pace in 2022 than in 2021. The slowdown in growth of the industry's fleet size during the "14th Five-Year Plan" period is conducive to alleviating the operating pressure arising from the overall excess capacity in the short term and the competition in the industry during the recovery and growth period of post-"14th Five-Year Plan". In terms of policy, the reform of the civil aviation flight schedule management system and mechanism supports the tilting of core resources towards the main operators of hub airports, leading to the differentiated operation of various types of airlines in the market and reducing homogeneous competition.

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 RMB52,898 million, representing a decrease of RMB21,634 million or 29.03% as compared with last year. Among which, air traffic revenue was RMB48,381 million, representing a decrease of RMB21,049 million or 30.32% as compared with last year; other operating revenue was RMB4,517 million, representing a year-on-year decrease of RMB585 million or 11.47%.

REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

(in RMB'000)	2022		2021		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	38,501,365	72.79%	60,833,951	81.63%	(36.71%)
International	13,299,094	25.14%	12,525,607	16.80%	6.18%
Hong Kong SAR, Macau SAR and Taiwan, China	1,097,125	2.07%	1,172,112	1.57%	(6.40%)
Total	52,897,584	100.00%	74,531,670	100.00%	(29.03%)

AIR PASSENGER REVENUE

During the Reporting Period, the Group recorded an air passenger revenue of RMB38,296 million, representing a decrease of RMB20,021 million over the previous year. Among the air passenger revenue, the decrease of capacity contributed a decrease of RMB21,511 million in the revenue, and the decrease of passenger load factor led to a decrease of RMB3,165 million in the revenue, while the increase of passenger yield resulted in an increase in revenue of RMB4,655 million. The Group's capacity, passenger load factor and yield per RPK in 2022 are as follows:

	2022	2021	Change
ASK (million)	96,212.39	152,444.53	(36.89%)
Passenger load factor (%)	62.73	68.63	(5.90 ppt)
Yield per RPK (RMB)	0.6345	0.5574	13.83%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

AIR PASSENGER REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

(in RMB'000)	2022		2021		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	32,736,473	85.48%	53,974,171	92.56%	(39.35%)
International	4,798,616	12.53%	3,482,930	5.97%	37.78%
Hong Kong SAR, Macau SAR and Taiwan, China	761,101	1.99%	859,594	1.47%	(11.46%)
Total	38,296,190	100.00%	58,316,695	100.00%	(34.33%)

AIR CARGO AND MAIL REVENUE

During the Reporting Period, the Group's air cargo and mail revenue was RMB10,085 million, representing a decrease of RMB1,029 million as compared with last year. Among which, the decrease of capacity contributed a decrease of RMB2,514 million in the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB186 million, and the increase of yield of cargo and mail resulted in an increase of RMB1,299 million in the revenue. The capacity, cargo and mail load factor and yield per RFTK in 2022 are as follows:

	2022	2021	Change
Available freight tonne kilometres (million)	8,326.31	10,760.61	(22.62%)
Cargo and mail load factor (%)	40.86	39.99	0.87 ppt
Yield per RFTK (RMB)	2.9644	2.5828	14.77%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

AIR CARGO AND MAIL REVENUE CONTRIBUTED BY GEOGRAPHICAL SEGMENTS

(in RMB'000)	2022		2021		Change
	Amount	Percentage	Amount	Percentage	
Mainland China	1,248,132	12.38%	1,758,093	15.82%	(29.01%)
International	8,500,478	84.29%	9,042,677	81.37%	(6.00%)
Hong Kong SAR, Macau SAR and Taiwan, China	336,024	3.33%	312,518	2.81%	7.52%
Total	10,084,634	100.00%	11,113,288	100.00%	(9.26%)

OPERATING EXPENSES

During the Reporting Period, the Group's operating expenses were RMB91,716 million, representing a decrease of 3.93% from RMB95,465 million of last year. The breakdown of the operating expenses is set out below:

(in RMB'000)	2022		2021		Change
	Amount	Percentage	Amount	Percentage	
Jet fuel costs	22,762,814	24.82%	20,703,780	21.69%	9.95%
Take-off, landing and depot charges	6,499,775	7.09%	9,667,650	10.13%	(32.77%)
Depreciation and amortisation	21,233,674	23.15%	20,934,502	21.93%	1.43%
Aircraft maintenance, repair and overhaul costs	5,640,163	6.15%	6,910,741	7.24%	(18.39%)
Employee compensation costs	25,338,553	27.63%	24,230,071	25.38%	4.57%
Air catering charges	872,189	0.95%	1,650,028	1.73%	(47.14%)
Selling and marketing expenses	1,639,889	1.79%	2,576,346	2.70%	(36.35%)
General and administrative expenses	1,240,365	1.35%	1,263,044	1.32%	(1.80%)
Others	6,488,734	7.07%	7,528,446	7.88%	(13.81%)
Total	91,716,156	100.00%	95,464,608	100.00%	(3.93%)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

- Jet fuel costs increased by RMB2,059 million on a year-on-year basis, mainly due to the increase in the prices of jet fuel, net off by the decrease in the consumption of jet fuel.
- Take-off, landing and depot charges decreased by RMB3,168 million on a year-on-year basis, mainly due to the year-on-year decrease in the number of take-offs and landings.
- Aircraft maintenance, repair and overhaul costs decreased by RMB1,271 million on a year-on-year basis, mainly due to the year-on-year decrease in the investment in production and operation.
- Employee compensation costs increased by RMB1,108 million on a year-on-year basis, mainly due to the resumption of contribution to the Group's annuity scheme.
- Air catering charges decreased by RMB778 million on a year-on-year basis, mainly due to the year-on-year decrease in the number of passengers.
- Selling and marketing expenses decreased by RMB936 million on a year-on-year basis, mainly due to the decrease in handling fees for agency services resulting from the decrease in the sales volumes and the number of passengers.
- Other operating expenses mainly included aircraft and engine lease expenses, civil aviation development fund and non-above-mentioned ordinary expenses arising from the core air traffic business, which decreased by 13.81% on a year-on-year basis, mainly due to decrease in the investment in production and operation.

FINANCE INCOME, FINANCE COSTS AND NET EXCHANGE LOSSES

During the Reporting Period, the Group recorded a finance income of RMB229 million, representing a year-on-year increase of RMB117 million or 104.10%; and incurred finance costs (excluding the capitalised portion) of RMB6,473 million, representing a year-on-year increase of RMB978 million. During the Reporting Period, the Group recorded a net exchange losses of RMB4,089 million, as compared to a net exchange gains of RMB1,235 million of previous year.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the net loss from the Group's share of results of its associates and joint ventures was RMB101 million, representing a year-on-year decrease in loss of RMB715 million. Among which, during the Reporting Period, the Group recognised a gain on investment of Cathay Pacific of RMB252 million, as compared to a loss on investment of RMB865 million recognised in previous 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 RMB294,979 million, representing a decrease of 1.14% from that of 31 December 2021, among which current assets accounted for RMB22,245 million or 7.54% of the total assets, while non-current assets accounted for RMB272,734 million or 92.46% of the total assets.

Among the current assets, cash and cash equivalents were RMB10,608 million, accounting for 47.69% of the current assets and representing a decrease of 33.43% from that as at 31 December 2021.

Among the non-current assets, the aggregated book value of property, plant and equipment and right-of-use assets as at the end of the Reporting Period amounted to RMB225,393 million, accounting for 82.64% of the non-current assets and representing an increase of 2.26% from that of 31 December 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

ASSET MORTGAGE/PLEDGE

As at the end of the Reporting Period, the Group, pursuant to certain interest-bearing borrowings and finance leasing agreements, had secured certain aircraft and flight equipment, buildings and other equipment with an aggregated book value of approximately RMB95,499 million (RMB89,565 million as at 31 December 2021) and land use rights with book value of approximately RMB25 million (RMB26 million as at 31 December 2021). In addition, as at the end of the Reporting Period, the Group had restricted bank deposits of approximately RMB828 million (approximately RMB775 million as at 31 December 2021), which were mainly statutory reserves deposited in the People's Bank of China.

CAPITAL EXPENDITURE

In 2022, the Group's capital expenditure totalled RMB21,201 million, of which the total investment in aircraft was RMB17,479 million, mainly including procurement of aircraft and engines, aircraft modifications, flight simulators, etc. Other capital expenditure investment amounted to RMB3,722 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 RMB10,536 million, representing an increase of 1.40% from that of 31 December 2021. Among this, the balance of the equity investment of the Group in Cathay Pacific amounted to RMB10,364 million.

As at the end of the Reporting Period, the Group's equity investment in its joint ventures was RMB2,178 million, representing an increase of 19.02% from that as at 31 December 2021, mainly due to the impact of newly invested enterprise and the share of gains on investment of joint ventures during the Reporting Period.

DEBT STRUCTURE ANALYSIS

At the end of the Reporting Period, the Group's total liabilities were RMB273,451 million, representing an increase of 17.59% from that as at 31 December 2021. Among them, current liabilities amounted to RMB92,482 million, accounting for 33.82% of the total liabilities; and non-current liabilities amounted to RMB180,969 million, accounting for 66.18% of the total liabilities.

Among the current liabilities, interest-bearing debts (including interest-bearing borrowings, bills payable, and lease liabilities) amounted to RMB60,043 million, representing an increase of 9.30% from that as at 31 December 2021.

Among the non-current liabilities, interest-bearing debts (including interest-bearing borrowings, and lease liabilities) amounted to RMB169,744 million, representing an increase of 31.11% from that as at 31 December 2021.

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

(in RMB'000)	31 December 2022		31 December 2021		Change
	Amount	Percentage	Amount	Percentage	
RMB	187,990,038	81.81%	139,158,663	75.46%	35.09%
US dollars	39,999,600	17.41%	43,949,421	23.84%	(8.99%)
Others	1,797,824	0.78%	1,294,474	0.70%	38.88%
Total	229,787,462	100.00%	184,402,558	100.00%	24.61%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

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 flight equipment, buildings and other equipments, increased by 91.69% from RMB30,522 million as at 31 December 2021 to RMB58,509 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 RMB512 million as at the end of the Reporting Period, as compared to RMB22 million as at 31 December 2021.

GEARING RATIO

As at the end of the Reporting Period, the Group's gearing ratio (total liabilities divided by total assets) was 92.70%, representing an increase of 14.76 percentage points from that of 31 December 2021.

WORKING CAPITAL AND ITS SOURCES

At the end of the Reporting Period, the Group's net current liabilities (current liabilities minus current assets) were RMB70,237 million, representing an increase of RMB9,014 million from that as at 31 December 2021. 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 from 0.33 as at 31 December 2021.

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 used in operating activities was RMB23,341 million, as compared to the net cash inflow of RMB7,130 million for the corresponding period in 2021, which was mainly due to the decline in revenue on a year-on-year basis. Net cash outflow from investing activities was RMB6,871 million, representing an increase of 54.30% from RMB4,453 million for the corresponding period in 2021, mainly due to the year-on-year increase in advance payments for aircraft and flight equipment. Net cash inflow from financing activities amounted to RMB24,677 million, representing an increase of 230.39% from RMB7,469 million for the corresponding period in 2021, mainly due to the increase of its financing scale to ensure the liquidity.

The Company has obtained bank facilities of RMB196,101 million in aggregate granted by several banks in China, among which approximately RMB85,156 million has been utilised. The remaining amount is sufficient to meet the Group's demands on working capital and future capital commitments.

RISK FACTORS

Risks of External Environment

Market Fluctuation

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

Oil Price Fluctuation

Jet fuel is one of the main operating costs of the Group. The results of the Group is relatively more affected by the changes in jet fuel price. During the Reporting Period, with other variables remaining unchanged, if the average price of the jet fuel rises or falls by 5%, the Group's jet fuel costs will rise or fall by approximately RMB1,138 million.

Exchange Rate Fluctuation

The Group's certain lease liabilities, bank loans and other loans are mainly denominated in US dollar. Certain international income and expenses are denominated in currencies other than RMB. Assuming that the risk variables other than the exchange rate stay unchanged, the appreciation or depreciation of RMB against US dollar by 1% due to the changes in the exchange rate will result in the increase or decrease in the Group's net profit and shareholders' equity as at 31 December 2022 by RMB274 million.

Details of the financial risk management objectives and policies of the Group are set out in note 44 to the consolidated financial statements of the Group for 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

Risks of Competition

Industry competition

In 2022, as there was no significant reduction in the number of entities competing in the industry, the Group still faced relatively huge industry competition pressure. Adhering to its strategy for hub network, the Group spared no efforts in building Beijing Capital Airport into a world-class hub and Chengdu Tianfu Airport into an international hub. It also improved its route network in order to become a large network airline with international competitive edge and realise differentiated development with other competing entities in the market. The “Air China Express Routes” were launched centering on markets where the Company enjoyed competitive edges in terms of hubs and principal bases with a view to consolidating its competitive advantages in the core markets with its high-quality products.

Alternative competition

China has built up the world's largest high-speed railway network and it is extending its reach towards central and western China. Hence, there are risks relating to diversion of customers by railway in terms of short- and medium-distance transportation. In the long run, the high-speed railway will change China's geographic pattern of the economy and, as a result of its cooperation and competition with civil aviation, the air-rail interlink operation will provide strong support to the development of aviation hubs.

CORPORATE GOVERNANCE REPORT

MEMBERS OF THE SIXTH SESSION OF THE BOARD



Mr. Ma Chongxian



Mr. Wang Mingyuan



Mr. Feng Gang



Mr. Patrick Healy



Mr. Xiao Peng



Mr. Li Fushen



Mr. He Yun



Mr. Xu Junxin



Ms. Winnie Tam Wan-chi

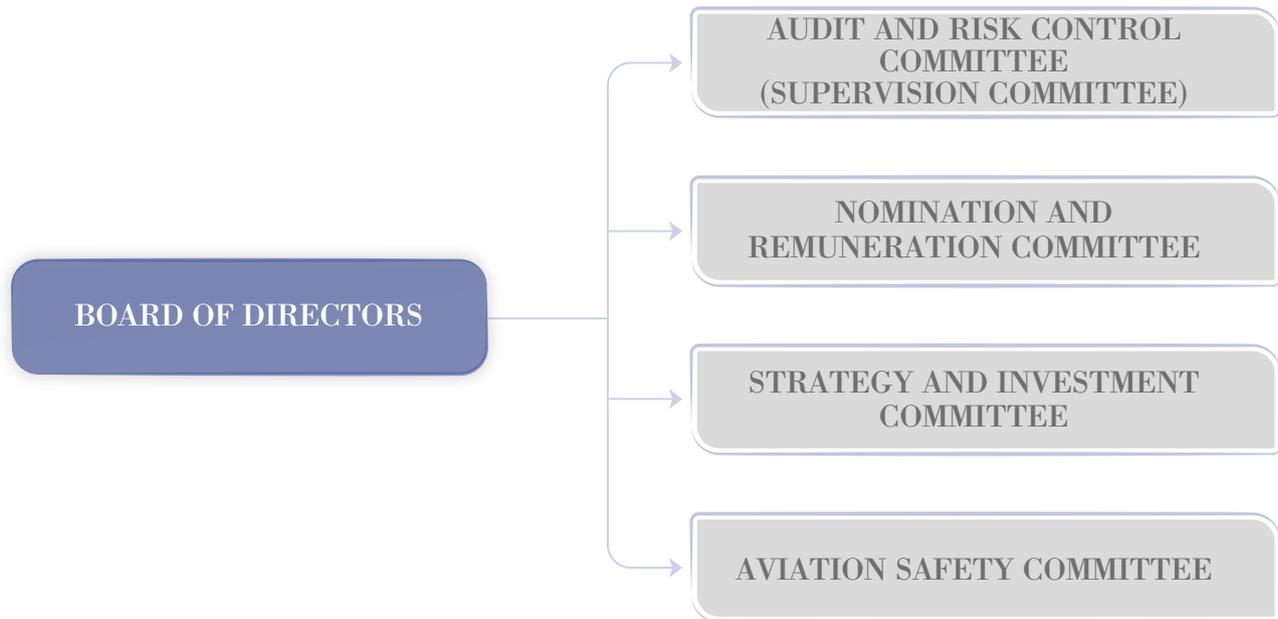
CORPORATE GOVERNANCE REPORT

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 B.2.2. The Company has established a Corporate Governance System in accordance with the requirements of the corporate governance policy stipulated in the Code. 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:

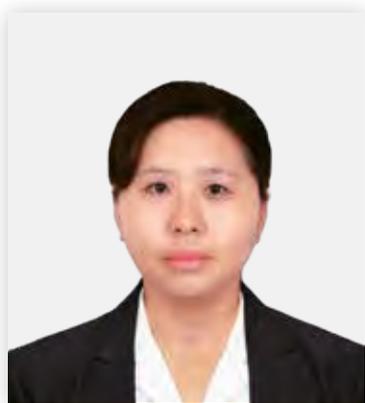


CORPORATE GOVERNANCE REPORT

MEMBERS OF THE SIXTH SESSION OF THE SUPERVISORY COMMITTEE



Mr. Xiao Jian



Ms. Lyu Yanfang



Ms. Guo Lina



Mr. Wang Mingzhu



Mr. Li Shuxing

CORPORATE GOVERNANCE REPORT

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

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

	Number of meetings attended in person/should be attended					
	General Meeting	Board Meeting	Audit and Risk Control Committee (Supervision Committee) Meeting	Nomination and Remuneration Committee Meeting	Strategy and Investment Committee Meeting	Aviation Safety Committee Meeting
Executive Directors						
Song Zhiyong	2/3	6/10	N/A	N/A	2/5	1/3
Ma Chongxian	3/4	16/16	N/A	N/A	6/6	1/2
Non-executive Directors						
Feng Gang	4/4	16/16	N/A	N/A	N/A	N/A
Patrick Healy	2/4	15/16	N/A	N/A	N/A	N/A
Xue Yasong	0/1	1/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Duan Hongyi	0/1	2/2	1/1	1/1	1/1	N/A
Stanley Hui Hon-chung	0/1	2/2	1/1	N/A	N/A	1/1
Li Dajin	0/1	2/2	1/1	1/1	N/A	N/A
Li Fushen	3/3	14/14	9/9	N/A	N/A	2/2
He Yun	2/3	12/14	7/9	7/8	N/A	N/A
Xu Junxin	3/3	14/14	N/A	8/8	6/6	N/A
Winnie Tam Wan-chi	1/3	10/14	5/9	N/A	N/A	N/A

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

The Responsibilities of the Board

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

CORPORATE GOVERNANCE REPORT

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

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

Procedure of Board Meeting

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

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

For the purpose of considering resolutions or matters during Board meetings, the Directors may arrange senior management, the persons-in-charge of the relevant departments of the Company and expertise to attend the meetings as necessary to interpret, answer queries or provide advisory opinions on the resolutions involved. The General Counsel shall attend any Board meeting that involves legal affairs to be considered and provide legal advice.

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.

CORPORATE GOVERNANCE REPORT

Code provision B.2.2 stipulates that, among others, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As disclosed in the announcement of the Company dated 23 October 2020, the terms of the fifth session of the Board and the Supervisory Committee expired on 26 October 2020. As the nomination process of candidates for Directors and Supervisors of the new session of the Board and the Supervisory Committee has not been fully completed during the Reporting Period, the re-election and appointment of members of the Board and the Supervisory Committee of the Company have been postponed. The terms of the special committees of the fifth session of the Board of the Company have also been extended accordingly. The Company completed the re-election and appointment of members of the Board and the Supervisory Committee on 25 February 2022 and fulfilled respective information disclosure obligations in a timely manner. When nominating candidates of Directors for the new session of the Board, the Nomination and Remuneration Committee has provided recommendations to the Board by taking into account the actual conditions of the Company and following the Board Diversity Policy. All members of the fifth session of the Board and the Supervisory Committee of the Company have continued to fulfill their respective duties and responsibilities of Directors and Supervisors in accordance with the requirements of the laws, administrative rules and the Articles of Association until the re-election work was completed. The postponed re-election of the members of the Board and the Supervisory Committee of the Company did not affect the normal operation of the Company.

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.

The Company has a President who shall be appointed or dismissed by the Board. The President is authorized to oversee the Group's business, implement various strategies and be responsible for the Company's daily operation to attain overall commercial goals.

During the Reporting Period and as of the date of this annual report, the Chairman and President of the Company are held by different persons. Details are set out in the section headed "Changes in shareholdings and remuneration of the existing and resigned Directors, Supervisors and senior management during the Reporting Period" of this annual report.

Obtaining Independent Opinions by the Board

The Company understands independent opinions for the Board is critical to good corporate governance and effective operation. The Board has established a mechanism to ensure the Board can obtain independent opinions when necessary so as to enhance the objectivity and effectiveness of decision making. Moreover, the Board reviews the implementation and effectiveness of the following mechanisms annually:

1. The composition of the Board shall comply with the requirements of the Listing Rules that the Board must comprise at least three Independent Non-executive Directors and the so appointed Independent Non-executive Directors must account for at least one-third of the Board;
2. Independent Non-executive Directors must receive appraisals on independence, qualifications and ability when appointed, and conduct regular assessments on the aforementioned matters after appointment. Each Independent Non-executive Director must promptly notify the Company regarding any changes in circumstances that may affect their independence;
3. The Board receives the performance report by Independent Non-executive Directors, and evaluates the time spent by Independent Non-executive Directors on the affairs of the Company and their independent opinions expressed during the year;

CORPORATE GOVERNANCE REPORT

4. All directors shall have the right to request further information from the management on the matters under discussion at the Board meetings. In order to facilitate their professional development, the directors may seek the assistance from the Company Secretary and external independent professional advice when necessary while the relevant expenses shall be borne by the Company;
5. Directors (including Independent Non-executive Directors) having material interest in any contract, transaction or arrangement shall abstain from voting and shall not be counted in a quorum for any Board meetings approving such matters; and
6. Chairman shall meet Independent Non-executive Directors annually without the presence of Executive Directors and Non-executive Directors.

Board Diversity Policy

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

- The Company takes into consideration a number of factors, including but not limited to professional experience and qualifications, cultural and educational background, skills, industry knowledge and reputation, knowledge of the laws and regulations applicable to the Company, gender, age, language skills and length of service, with a view to achieving construction of the diversified and inclusive Board. These factors shall be taken into account by the Nomination and Remuneration Committee in reviewing the structure and composition of the Board and making recommendations to the Board on the appointment, re-appointment and succession of Directors.
- The above factors should be balanced as appropriate in determining the optimal composition of the Board. For the appointment of Directors, the above factors shall be considered on a case-by-case basis in light of the actual circumstances of the Company and its business operations, development and strategies. Appointment by the Board should be made based on merits and the contributions that the individual is expected to bring to the Board with due regard for the benefits of diversity in the Board. The Board is structured to include more external Directors than internal Directors, and the members of the Board include one full-time deputy secretary of the Communist Party Committee as non-executive Director, one shareholder representative Director, one employee representative Director and four independent Directors. Among the four independent Directors, at least one shall possess extensive experience in accounting or relevant financial management areas with appropriate professional qualifications, and other Directors shall possess extensive experience in the aviation, legal and management areas to facilitate scientific decision-making of the Board. At least one female director shall be appointed to the Board of the Company. On 25 February 2022, the Company appointed Ms. Winnie Tam Wan-chi as an independent non-executive Director of the Company.
- The Nomination and Remuneration Committee shall monitor the implementation of the Board Diversity Policy on an ongoing basis, and review this policy as appropriate.

CORPORATE GOVERNANCE REPORT

Directors' Training and Continuous Professional Development

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

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

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

Training for Directors during the Reporting Period	Category ^{Notes}
Executive Directors	
Song Zhiyong (Chairman)	a
Ma Chongxian (President)	a,b
Non-executive Directors	
Feng Gang	a,b
Patrick Healy	a
Xue Yasong	a
Independent Non-executive Directors	
Duan Hongyi	b
Stanley Hui Hon-chung	b
Li Dajin	b
Li Fushen	a,b
He Yun	a,b
Xu Junxin	a,b
Winnie Tam Wan-chi	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.

CORPORATE GOVERNANCE REPORT

Biographical Details and Other Information of Directors

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

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

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

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

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

SPECIAL COMMITTEES OF THE BOARD

Audit and Risk Control Committee (Supervision Committee)

As at the end of the Reporting Period, the Audit and Risk Control Committee (Supervision Committee) comprised Mr. Li Fushen, Mr. He Yun and Ms. Winnie Tam Wan-chi, all being independent non-executive Directors, with Mr. Li Fushen serving as the chairman of the committee.

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

CORPORATE GOVERNANCE REPORT

The main work of the Audit and Risk Control Committee (Supervision Committee) during the Reporting Period includes reviewing the following documents:

(1) the 2021 annual report, the reports for the first and third quarters and the interim report of 2022; (2) the 2022 financial plan and investment plan; (3) the 2021 profit distribution plan; (4) the 2021 assessment report on internal control and the audit report on internal control; (5) the 2021 internal audit work report and 2022 internal audit work plan; (6) the 2021 performance report by the Audit and Risk Control Committee; (7) the re-appointment of international and domestic auditors and internal control auditors for 2022; (8) the proposal to the general meeting regarding the authorization to the Board on the issuance of debt financing instruments; (9) election of the chairman and members of the Audit and Risk Control Committee (Supervision Committee) of the sixth session of the Board; (10) the extension of framework agreements for continuing related (connected) transactions between Air China and Cathay Pacific and the application of the annual caps for 2023 to 2025; (11) the relevant matters on continuing related (connected) transactions between the Company and Air China Cargo Co. Ltd. and the application of the annual caps for 2022 to 2024; (12) the extension of framework agreements for continuing related (connected) transactions between the Company and China National Aviation Corporation (Group) Limited and the application of the annual caps for 2023 to 2025; (13) Continuous risk assessment report of China National Aviation Finance Co., Ltd. (annual report for 2021 and interim report for 2022); (14) the formulation of “Regulations on Liability Management of Air China Limited”; (15) the amendment of “Regulations on Guarantee Management of Air China Limited”; (16) the amendment of “Regulations on Internal Audit Work of Air China Limited”; (17) the amendment of “Regulations on Internal Control Management of Air China Limited”; (18) the amendment of “Utilization and Management System of Funds Raised by Air China Limited”; (19) the plan for 2022 non-public issuance of A shares by the Company; (20) the budget plan for 2022 non-public issuance of A shares; (21) the analysis report on the feasibility of the investment project on fund raising for 2022 non-public issuance of A shares; (22) the report on the utilization of previous fund raised; (23) the conditional share subscription agreement and related (connected) transactions signed by the Company; (24) the dividend return plan for the next three years (2022 to 2024); (25) implementation of the equity acquisition of Shandong Aviation Group Corporation; and (26) the retirement of five B737-800 aircraft.

In addition to the above, the Audit and Risk Control Committee (Supervision Committee) also received the following reports during the Reporting Period: (1) Announcement of profit warning for 2021; (2) Audit Plan of the 2021 financial statement; (3) Work summary on auditing of the 2021 financial report; (4) Review report on the 2022 interim financial statement; (5) Audit plan for the 2022 internal control; (6) Work plan on the 2022 internal control assessment; (7) Listed of related persons in A shares of the Company; (8) Report on treasury system construction enhancement; (9) Work plan on auditing of the 2022 annual financial report; (10) Work arrangement on the 2022 annual financial settlement; and (11) Report on audit work.

The annual results and annual report of the Company for the year of 2022 had been reviewed by the Audit and Risk Control Committee (Supervision Committee).

CORPORATE GOVERNANCE REPORT

Nomination and Remuneration Committee

As at the end of the Reporting Period, the Nomination and Remuneration Committee comprised Mr. He Yun and Mr. Xu Junxin, both are independent non-executive Directors, with Mr. He Yun serving as the chairman of the committee.

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

The main work of the Nomination and Remuneration Committee during the Reporting Period includes: approval of the re-election and appointment of members of the Board, the election of the chairman and members of the Nomination and Remuneration Committee of the sixth session of the Board, the 2021 annual gross salary settlement plan, the 2022 annual appraisal on the operational performance by the management, the 2021 appraisal result regarding the operational performance and remuneration plan of the management, the nomination of the Chairman of the sixth session of the Board, nomination and appointment of Mr. Ni Jiliang as Vice President of the Company, nomination and appointment of Mr. Shen Jianming as Chief Safety Officer of the Company, and nomination and appointment of Mr. Xiao Peng as Chief Engineer of the Company. Moreover, the Nomination and Remuneration Committee received the reports regarding remuneration and welfare during 2021-2022 and employee salary distribution in 2022.

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

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

CORPORATE GOVERNANCE REPORT

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

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Total remuneration payables received from the Company during the Reporting Period (RMB'000)	Whether received remuneration from the Company's related parties or not
Song Zhiyong	Executive Directors	Male	57	22 May 2014	27 September 2022	-	Yes
	Secretary of the Communist Party Committee			14 December 2020	27 September 2022	-	
	Chairman			29 December 2020	27 September 2022	-	
Ma Chongxian	Deputy Secretary of the Communist Party Committee	Male	57	11 May 2021	27 September 2022	-	Yes
	President			31 May 2021	27 September 2022	-	
	Executive Directors			20 July 2021	-	-	
	Vice Chairman			20 July 2021	27 September 2022	-	
	Secretary of the Communist Party Committee			27 September 2022	-	-	
Wang Mingyuan	Chairman	Male	57	27 September 2022	-	-	
	Vice President			22 February 2011	13 March 2023	-	Yes
	Deputy Secretary of the Communist Party Committee			13 February 2023	-	-	
	President			13 March 2023	-	-	
Feng Gang	Director, Vice Chairman	Male	59	30 March 2023	-	-	
	Deputy Secretary of the Communist Party Committee			19 November 2019	-	-	Yes
	Non-executive Directors			26 May 2020	-	-	
Patrick Healy (Patrick Healy)	Non-executive Directors	Male	57	19 December 2019	-	-	Yes
Xue Yasong	Employee Representative Director	Male	61	29 March 2018	25 February 2022	-	No
Xiao Peng	Chairman of the Labour Union	Male	57	15 November 2022	-	7.34	No
	Chief Engineer			28 November 2022	-	-	
	Employee Representative Director			2 March 2023	-	-	
Duan Hongyi	Independent Non-executive Directors	Male	59	26 May 2020	25 February 2022	-	No
Stanley Hui Hon-chung	Independent Non-executive Directors	Male	72	22 May 2015	25 February 2022	3.33	No
Li Dajin	Independent Non-executive Directors	Male	64	22 December 2015	25 February 2022	3.33	No
Li Fushen	Independent Non-executive Directors	Male	60	25 February 2022	-	-	No
He Yun	Independent Non-executive Directors	Male	61	25 February 2022	-	-	No
Xu Junxin	Independent Non-executive Directors	Male	58	25 February 2022	-	-	No
Winnie Tam Wan-chi	Independent Non-executive Directors	Female	61	25 February 2022	-	13.20	No
Zhao Xiaohang	Vice President	Male	61	22 February 2011	25 February 2022	-	Yes
	Shareholder Representative Supervisor, Chairman of the Supervisory Committee			19 December 2019	25 February 2022	-	

CORPORATE GOVERNANCE REPORT

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Total remuneration payables received from the Company during the Reporting Period (RMB'000)	Whether received remuneration from the Company's related parties or not
He Chaofan	Shareholder Representative Supervisor	Male	60	29 October 2013	13 January 2023	-	Yes
	Chairman of the Supervisory Committee			25 February 2022	13 January 2023	-	
Xiao Jian	Shareholder Representative Supervisor	Male	59	10 February 2023	-	-	Yes
	Chairman of the Supervisory Committee			10 March 2023	-	-	
Wang Jie	Employee Representative Supervisor	Male	57	25 September 2020	2 March 2023	79.22	No
Qin Hao	Employee Representative Supervisor	Male	54	25 September 2020	2 March 2023	74.07	No
Lyu Yanfang	Shareholder Representative Supervisor	Female	51	18 December 2020	-	69.36	No
Guo Lina	Shareholder Representative Supervisor	Female	52	25 February 2022	-	65.14	No
Wang Mingzhu	Employee Representative Supervisor	Male	55	2 March 2023	-	-	No
Li Shuxing	Employee Representative Supervisor	Male	55	2 March 2023	-	-	No
Tan Huanmin	Secretary of Committee for Discipline Inspection	Male	58	19 January 2019	-	-	Yes
Zhang Sheng	Vice President	Male	50	9 June 2020	-	-	Yes
Chen Zhiyong	Vice President	Male	59	17 December 2012	-	-	Yes
Sun Yuquan	Standing Committee Member of Communist Party Committee	Male	49	7 April 2022	-	-	Yes
	Chief Accountant			13 March 2023	-	-	
Ni Jiliang	Chief Engineer	Male	56	21 January 2020	28 November 2022	26.45	No
	Vice President			12 May 2022	-	-	Yes
Chai Weixi	Vice President	Male	60	14 March 2012	1 August 2022	84.86	No
Xu Chuanyu	Chief Safety Officer	Male	58	17 December 2012	2 June 2022	71.14	No
Zhang Hua	General Counsel	Male	57	9 August 2017	-	119.67	No
Xiao Feng	Chief Accountant	Male	54	28 July 2014	13 March 2023	118.98	No
	Chief Economist			13 March 2023	-	-	
Wang Yingnian	Chief Pilot	Male	59	27 November 2014	10 February 2023	186.19	No
Yan Simeng	Chief Information Officer	Male	40	7 September 2021	-	145.29	No
Shen Jianming	Chief Safety Officer	Male	55	19 October 2022	-	30.72	No
Huang Bin	Secretary to the Board	Male	59	30 September 2021	-	80.61	No
	Assistant to the President			10 December 2021	-	-	
Zhao Yang	Assistant to the President	Male	55	27 October 2017	30 June 2022	77.38	No
Total	/	/	/	/	/	1,256.28	/

Notes: 1. The remuneration of Mr. Duan Hongyi, Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi, being independent Directors, will be determined pursuant to relevant national policies.

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

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

CORPORATE GOVERNANCE REPORT

Strategy and Investment Committee

As at the end of the Reporting Period, the Strategy and Investment Committee comprised Mr. Ma Chongxian, an executive Director, and Mr. Xu Junxin, an independent non-executive Director, with Mr. Ma Chongxian serving as the chairman of the Committee.

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

The main work of the Strategy and Investment Committee during the Reporting Period includes: consideration and approval of the retirement of five B737-800 aircraft, the investment plan for 2022, the designation of the chairman and members of the Strategy and Investment Committee of the sixth session of the Board, the 2021 Corporate Social Responsibility Report, the procurement of 96 A320NEO aircraft by Air China and Shenzhen Airlines, the fulfilment of conditions in respect of the non-public issue of A shares of the Company, the plan for 2022 non-public issuance of A shares, the budget plan for 2022 non-public issuance of A shares, analysis report on the feasibility of the investment project on fund raising for 2022 non-public issuance of A shares, report on the utilization of previous fund raised, conditional share subscription agreement and related transactions signed by the Company and specified target, proposal to general meeting regarding the authorization of the Board and its authorized personnel to handle matters related to non-public offering, and proposal on the implementation of the equity acquisition of Shandong Aviation Group Corporation by the Company. Moreover, the Strategy and Investment Committee received the special work report regarding carbon peak and carbon neutrality, and six special reports on strengthening the building of the Party and accelerating digital transformation.

Aviation Safety Committee

As at the end of the Reporting Period, the Aviation Safety Committee comprised Mr. Ma Chongxian, an executive Director, and Mr. Li Fushen, an independent non-executive Director.

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

The Aviation Safety Committee received the special report on aviation safety of the Company twice, considered and approved the resolution in respect of election of committee chairman and members during the Reporting Period.

MANAGEMENT

Duties of the Management

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

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

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

According to the risk assessment in 2022, the main risks that the Group is facing are set out in the section headed "Management's Discussion and Analysis of Financial Position and Operating Results – Risk Factors" of this annual report.

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

CORPORATE GOVERNANCE REPORT

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

COMPANY SECRETARY

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

AUDITORS AND THEIR REMUNERATION

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

RMB9,522,000 (including value-added tax) was charged in aggregate for the review of the Group's condensed consolidated financial statements for the six months ended 30 June 2022 and for the audit of the Group's consolidated financial statements for the year ended 31 December 2022; an aggregate amount of RMB7,295,000 (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 2022; 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 RMB4,443,000 (including value-added tax) was charged for the rendering of other non-audit services, such as tax advisory services, to the Group.

SHAREHOLDER'S COMMUNICATION POLICY

The Company attaches great importance to the communication with shareholders and has formulated "Measures for Investor Relation Management" to regulate and strengthen its communication with shareholders and investors. The Company has reviewed the implementation and effectiveness of the shareholder's communication policy. During the reporting period, the Company continued to establish 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, results presentations, roadshows, briefings on dividend distribution, etc, thus maintaining active, effective and transparent communication with shareholders.

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

CORPORATE GOVERNANCE REPORT

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

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

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

Address: Air China Headquarter, 30 Tian Zhu Road, Airport Industrial Zone, Beijing, 101312

Email: ir@airchina.com

Telephone number: 86-10-61462560

Fax number: 86-10-61462805

REPORT OF THE DIRECTORS

STRATEGIC OBJECTIVES

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

GROUP ACTIVITIES AND RESULTS

The Group is a provider of air passenger, air cargo and airline-related services. The results of the Group for the year ended 31 December 2022 and the financial position of the Group and the Company as at the same date are set out in the audited financial statements of this annual report.

REVIEW OF BUSINESS

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

The Group's results and balance sheet prepared in accordance with IFRSs for the five years ended 31 December 2022 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%

The Company completed the non-public issuance of A Shares after the Reporting Period. For the share capital structure of the Company as at the date of this report, please refer to the section headed "SUBSEQUENT EVENT" in this annual report.

REPORT OF THE DIRECTORS

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 59.78% equity interest and 67.64% 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.

REPORT OF THE DIRECTORS

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)	121,452 accounts, of which 2,983 accounts are registered holders of H Shares
Total number of holders of ordinary shares as at the end of the month preceding to the disclosing date of the annual report (account)	122,035 accounts, of which 2,968 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

Name of shareholder (full name)	Shareholdings of the top 10 shareholders					Status	Shares pledged, marked or frozen		Nature of shareholder
	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	Number				
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	495,980	1,688,630,345	11.63	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 Securities Finance Corporation Limited	0	311,302,365	2.14	0	Nil	0		State-owned legal person	
Hong Kong Securities Clearing Company Limited	115,230,339	191,217,381	1.32	0	Nil	0		Foreign legal person	
China National Aviation Fuel Group Corporation	-344,271,574	81,401,493	0.56	0	Nil	0		State-owned legal person	
Industrial Bank Co., Ltd. – GF Ruiyi Leading Hybrid Securities Investment Fund (興業銀行股份有限公司—廣發睿毅領先混合型證券投資基金)	33,275,366	49,380,766	0.34	0	Nil	0		Domestic non-State-owned legal person	
Agricultural Bank of China Limited – Guangfa Balanced Preferred Hybrid Securities Investment Fund (中國農業銀行股份有限公司—廣發均衡優選混合型證券投資基金)	-28,208,730	39,055,099	0.27	0	Nil	0		Domestic non-State-owned legal person	
Basic Pension Fund 15022 Portfolio (基本養老保險基金—五零二二組合)	35,746,002	35,746,002	0.25	0	Nil	0		Domestic non-State-owned legal person	

REPORT OF THE DIRECTORS

Shareholdings of the top 10 shareholders not subject to selling restrictions

Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares	
		Class	Number
China National Aviation Holding Corporation Limited	5,952,236,697	RMB ordinary shares	5,952,236,697
Cathay Pacific Airways Limited	2,633,725,455	Overseas listed foreign shares	2,633,725,455
HKSCC NOMINEES LIMITED	1,688,630,345	Overseas listed foreign shares	1,688,630,345
China National Aviation Corporation (Group) Limited	1,556,334,920	RMB ordinary shares	1,332,482,920
		Overseas listed foreign shares	223,852,000
China Securities Finance Corporation Limited	311,302,365	RMB ordinary shares	311,302,365
Hong Kong Securities Clearing Company Limited	191,217,381	RMB ordinary shares	191,217,381
China National Aviation Fuel Group Corporation	81,401,493	RMB ordinary shares	81,401,493
Industrial Bank Co., Ltd. – GF Ruiyi Leading Hybrid Securities Investment Fund (興業銀行股份有限公司－廣發睿毅領先混合型證券投資基金)	49,380,766	RMB ordinary shares	49,380,766
Agricultural Bank of China Limited – Guangfa Balanced Preferred Hybrid Securities Investment Fund (中國農業銀行股份有限公司－廣發均衡優選混合型證券投資基金)	39,055,099	RMB ordinary shares	39,055,099
Basic Pension Fund 15022 Portfolio (基本養老保險基金一五零二二組合)	35,746,002	RMB ordinary shares	35,746,002
Explanation on the repurchase special accounts among the top 10 shareholders	Nil		
Explanation on the right to vote by proxy, proxy and abstention from voting among the above shareholders	Nil		
Explanation on connected relationship or action in concert among the above shareholders		CNACG is a wholly-owned subsidiary of CNAHC. Accordingly, CNAHC is directly and indirectly interested in 51.70% of the shares of the Company.	
Explanation on preference shareholders whose voting rights have been restored and the number of shares held	Nil		

- HKSCC NOMINEES LIMITED is a subsidiary of The Stock Exchange of Hong Kong Limited and its principal business is acting as nominee for and on behalf of other corporate shareholders or individual shareholders. The 1,688,630,345 H shares held by it in the Company do not include the 166,852,000 shares held by it as nominee of CNACG.
- According to the “Implementation Measures on Partial Transfer of State-owned Shares to the National Social Security Fund in the Domestic Securities Market” (Cai Qi [2009] No. 94) (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》(財企[2009]94號)) and the Notice ([2009] No. 63) jointly issued by the Ministry of Finance, the SASAC, China Securities Regulatory Commission and the National Council for Social Security Fund, 127,445,536 and 36,454,464 shares held by CNAHC, the controlling shareholder of the Company, and CNACG respectively are frozen at present.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

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

DIVIDEND POLICY

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

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

DIVIDENDS

According to the audited financial statements of the Company prepared in accordance with the CASs and the IFRSs, the Company recorded negative profits available for distribution to Shareholders in 2022. As considered and approved by the 18th meeting of the sixth session of the Board of the Company, the Company proposed not to make profit distribution for the year of 2022.

ANNUAL GENERAL MEETING

The Company proposed to hold the AGM on 25 May 2023. The register of members of H Shares will be closed from Thursday, 18 May 2023 to Thursday, 25 May 2023 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attendance and voting at the AGM, the holders of H Shares must return all the transfer documents to the Company’s H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong by 4:30 p.m. on Wednesday, 17 May 2023. The holders of H Shares whose names appear on the register of members of the Company on Thursday, 18 May 2023 are entitled to attend and vote at the AGM.

REPORT OF THE DIRECTORS

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND SUPERVISORS OF THE COMPANY

Directors

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

Name	Date of election and if applicable, leaving office as Director
Song Zhiyong (Then 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, resigned on 27 September 2022.
Ma Chongxian (Chairman and executive Director)	Elected as executive Director on 20 July 2021, elected as Vice Chairman on 25 February 2022, elected as Chairman and resigned as Vice Chairman on 27 September 2022.
Wang Mingyuan (Vice Chairman and executive Director)	Elected on 30 March 2023
Feng Gang (Non-executive Director)	Elected on 26 May 2020
Patrick Healy (Non-executive Director)	Elected on 19 December 2019
Xue Yasong (Then non-executive Director and employee representative Director)	Elected on 29 March 2018, retired on 25 February 2022
Xiao Peng (Employee representative director)	Elected on 2 March 2023
Duan Hongyi (Then independent non-executive Director)	Elected on 26 May 2020, retired on 25 February 2022
Stanley Hui Hon-chung (Then independent non-executive Director)	Elected on 22 May 2015, retired on 25 February 2022
Li Dajin (Then independent non-executive Director)	Elected on 22 December 2015, retired on 25 February 2022
Li Fushen (Independent non-executive Director)	Elected on 25 February 2022
He Yun (Independent non-executive Director)	Elected on 25 February 2022
Xu Junxin (Independent non-executive Director)	Elected on 25 February 2022
Winnie Tam Wan-chi (Independent non-executive Director)	Elected on 25 February 2022

REPORT OF THE DIRECTORS

Supervisors

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

Name	Date of election and if applicable, leaving office as Supervisor
Zhao Xiaohang (Then Chairman of the Supervisory Committee and supervisor)	Elected on 19 December 2019, retired on 25 February 2022
He Chaofan (Then Chairman of the Supervisory Committee and supervisor)	Elected as supervisor on 29 October 2013, elected as Chairman of the Supervisory Committee on 25 February 2022, retired on 13 January 2023
Xiao Jian (Chairman of the Supervisory Committee and shareholder representative supervisor)	Elected as shareholder representative supervisor on 10 February 2023, elected as Chairman of the Supervisory Committee on 10 March 2023
Wang Jie (Then employee representative Supervisor)	Elected on 25 September 2020, retired on 2 March 2023
Qin Hao (Then employee representative Supervisor)	Elected on 25 September 2020, retired on 2 March 2023
Lyu Yanfang (Shareholder representative supervisor)	Elected on 18 December 2020
Guo Lina (Shareholder representative supervisor)	Elected on 25 February 2022
Wang Mingzhu (Employee representative supervisor)	Elected on 2 March 2023
Li Shuxing (Employee representative supervisor)	Elected on 2 March 2023

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.

REPORT OF THE DIRECTORS

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

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

PERMITTED INDEMNITY PROVISION

Appropriate directors' liability insurance coverage has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities. These directors' liability insurance was valid throughout the financial year ended 31 December 2022 and remains in effect as at the date of this report.

EMPLOYEES

The Company implements an open, fair and equal employment policy, insists on equal pay for equal work and is committed to avoiding any discrimination in respect of gender, race, nationality, physical condition, religion and marital status of employees. The Company continues to promote the diversity of employees and protect employees' legitimate rights and interests.

As at the end of the Reporting Period, the Group had a total of 87,190 employees (including 52,469 male employees and 34,721 female employees, accounting for 60.18% and 39.82% of the total employees of the Group respectively), among which, the Company had 46,465 employees and the subsidiaries of the Company had 40,725 employees. The differences in employee background and job requirements are the main factors affecting the gender diversity of employees. The categories of employees of the Group are as follows:

Professional Categories	As at 31 December 2022	As at 31 December 2021	Increase/(Decrease)
Management	10,943	10,856	87
Marketing and Sales	4,954	5,337	(383)
Operation	4,625	4,531	94
Ground Handling	11,838	11,698	140
Cabin Service	22,961	23,382	(421)
Logistics and Support	5,872	6,964	(1,092)
Flight Crew	10,789	10,644	145
Engineering and Maintenance	13,372	13,146	226
Information Technology	910	809	101
Others	926	1,028	(102)
Total	87,190	88,395	(1,205)

REPORT OF THE DIRECTORS

REMUNERATION POLICY

Upholding the concept of “paying salary with reference to the job value, personal ability as well as performance appraisal” and centering on enhancing enterprises vitality and improving benefit and efficiency, the Company advances high-quality development. During the Reporting Period, the Company continued to deepen the reform of the distribution system and sought a breakthrough in the increase and decrease of salary. It optimized the management and control mechanism of gross payroll and accelerated the enhancement of labor productivity, thereby vitalizing its corporate intrinsic momentum. In addition, the Company improved the appraisal and distribution mechanism of responsible persons of enterprise to reasonably widen the salary gap, while dynamically adjusted the remuneration policy of front-line staff to ensure the overall stability of key workforce. The Company also perfected the salary benchmarking and analysis mechanism, promoted differentiated and precise incentives, and pushed forward the implementation of medium- and long-term incentives in an orderly manner, so as to strengthen the positive incentives for core talents.

TRAINING PROGRAMME

In 2022, the Company closely focused on strategic work priorities and fostered team building of high-calibre and professional cadres who are loyal to the Communist Party, dedicated to innovation, honest and upright while effectively managing the enterprise and promoting corporate development. In terms of online training, the Company organized three special online training sessions for middle to senior management, leaders and cadres. The Company continuously optimized the WeChat learning platform “CNAHC Leadership” by innovating the operating model and improving the functions of the platform, and launched a total of 11 new special online training programs. In addition, the Company continued to carry out off-the-job training programs, and organized a basic rotation training program for young cadres and two online off-the-job training sessions for interviewers of recruitment of pilots, flight attendants and safety officers. 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, which recorded a total of 858,000 hours of online training, 129,547 hours of flight simulator training and 48,446 hours of face-to-face and live-streaming training. Through continuously optimising the training content, actively developing course resources and flexibly using a variety of teaching methods to improve the quality and effectiveness of training, the relevance, practicality and effectiveness of training is constantly improved, providing a solid guarantee for the Company to achieve high-quality training.

In 2023, the Company will continue to push forward the cadre and employee education and training plan and further carry out effective training on professional capabilities of key areas by perfecting whole process training management continuously. The Company will devote great efforts in organizing various online off-the-job training for all level of employees and continue to provide offline targeted training based on the category and level of employees. The Company will enhance the relevance and effectiveness of training, cultivate the roots and cast the spirit of our cadre to empower them, and provide talent and intellectual support for the development of a world-class aviation and transportation group with global competitiveness.

SUPPLIER MANAGEMENT

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

REPORT OF THE DIRECTORS

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 2022 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 2022 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 RMB45.88 million.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the purchases of the Group from the largest supplier accounted for 26.99% of the total purchases of the Group, while the purchases of the Group from the five largest suppliers accounted for 47.76% 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 largest customer accounted for 21% of the total sales of the Group, while the sales of the Group to the five largest customers accounted for 37% of the total sales of the Group. The largest customer of the Group was CNAHC and its subsidiaries (other than the Group). Save as disclosed above, 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 customers of the Company.

PROPERTY TITLE CERTIFICATE

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

ENVIRONMENTAL POLICY AND PERFORMANCE OF THE GROUP

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

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

REPORT OF THE DIRECTORS

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.

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).

REPORT OF THE DIRECTORS

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 29 October 2021 with a term from 1 January 2022 to 31 December 2024 The details are set out in the announcement of the Company dated 29 October 2021	The Group agreed to lease from and to CNAHC Group a number of properties.	The rent payable will be consulted and determined based on the price for leasing services available from independent third parties for the same type of properties in close proximity to the properties with reference to other factors including property service quality, location, district of properties and specific needs of the parties.
2 Sales Agency Services Framework Agreement	The same as above	The same as above	Certain subsidiaries of CNAHC Group will (i) solicit customers and act as the Group's sales agents for the Group's air tickets and cargo spaces on a commission basis; or (ii) purchase air tickets (other than domestic air tickets) and cargo spaces from the Group and resell such air tickets and cargo spaces to end customers.	The air passenger agency services: agency service fee shall be consulted and determined on a fair and voluntary basis; specific sales targets and the corresponding incentive plans for achieving such targets may be agreed to the extent permitted by law and in accordance with the industry practice. The air cargo agency services: the transportation prices shall be not less favourable than the prices offered by independent third parties in China's air cargo transportation market for transporting such products, with reference to prices charged by air cargo agencies of the same scale and type as well as the specific product types and required transportation time; specific sales targets and the corresponding price discounts on cargo transportation for achieving such sales targets may be agreed in accordance with the industry practice.
3 Comprehensive Services Framework Agreement	The same as above	The same as above	(i) The subsidiaries of CNAHC engaged in ancillary services in relation to air transportation business will be appointed as suppliers of ancillary services in relation to production or supply services business to the Company. (ii) The Company is commissioned by CNAHC to provide welfare logistics services for CNAHC's retired employees.	Ancillary services in relation to air transportation business: (i) the prices of airline catering services will be consulted and determined based on the price for the same type of catering services available from independent third parties with reference to relevant factors; (ii) the prices of property management services will be consulted and determined based on the price for the same type of property management services available from independent third parties with reference to relevant factors; (iii) the prices of hotel accommodation and staff recuperation services shall be no less favourable than the price for the same type of guest room products or services available to the Group from independent third parties with equivalent level in the same location of the hotel and determined with reference to relevant factors; and (iv) catering supplies, publications and other services are provided in accordance with the bidding management requirements of the Group, and the prices shall be no less favourable than the price of similar products or services available from independent third parties to the Group. Welfare-logistics services for CNAHC's retired employees: management fee charged by the Company at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.
4 Government Charter Flight Service Framework Agreement	The same as above	The same as above	CNAHC agreed to resort to the Company's charter flight services so as to fulfill the government charter flight assignment.	Hourly rate of the charter flight services = Total cost per flight hour * (1 + 6.5%). Total cost per flight hour includes direct costs and indirect costs.

REPORT OF THE DIRECTORS

Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
5 Media Services Framework Agreement	The Company and CNAMC (CNAMC is a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNAMC provided the Group with media services. Among them, the Company grants CNAMC an exclusive right to distribute the in-flight reading materials of the Company.	For the entrusted media services provided by CNAMC to the Company, the Company should pay the relevant service fee at market price to CNAMC. For the media resources of the Company used in the course of the Company's media business by CNAMC, CNAMC should pay the Company RMB13.8915 million as media usage fee for each year within the term of the agreement.
6 Construction Project Management Framework Agreement	The Company and CNACD (a wholly-owned subsidiary of CNAHC and therefore a connected person of the Company)	The same as above	CNACD was commissioned by the Company to serve as the manager of the construction projects and establish project headquarters. It shall provide management services for the Company's projects based on its project characteristics using its industry expertise and professional skills.	CNACD receives service fees based on the audited amounts in the financial settlement of specific commissioned projects in accordance with the commissioned management contract. The service fees shall be calculated at 3% of the audited amount in the financial settlement of the investment relating to the management contents provided by CNACD as commissioned by the Company, with the rewards and penalties agreed by both parties based on the project management progress and the balance. Alternatively, CNACD may receive service fees from the Company as per the commissioned management contents based on the size of or investment in the projects to be commissioned, and the service fees shall be calculated as per the full-labour cost (including management fee) based on the human resources and materials invested by CNACD, with the rewards and penalties agreed by both parties based on the project management progress and the balance.
7 Financial Services Agreement	The Company and CNAF (CNAF is a non-wholly owned subsidiary of the Company that CNAHC holds 49% of its equity interest and therefore a connected subsidiary of the Company)	Renewed on 28 August 2020 with a term from 1 January 2021 to 31 December 2023, and subsequently renewed and revised with a term from 1 January 2024 to 31 December 2026 The details are set out in the announcement of the Company dated 28 August 2020 and 30 March 2023	CNAF agreed to provide the Group with a range of financial services including deposit services, credit services and other financial services.	Interest rates applicable to deposits: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of deposit; (ii) not be lower than the interest rates for the same type of services charged by State-owned commercial banks to the Group under the same conditions; and (iii) not be lower than the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions. Interest rates applicable to credit services: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of loan; (ii) not be higher than the interest rates for the same type of services offered by State-owned commercial banks to the Group under the same conditions; and (iii) not be higher than the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions. Fees for other paid financial services: should (i) comply with the relevant charging standards (if any) prescribed by the People's Bank of China, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) not be higher than those for the same type of services charged by State-owned commercial banks to the Group under the same conditions; and (iii) not be higher than those for the same type of services charged by CNAF to other CNAHC member companies under the same conditions.

REPORT OF THE DIRECTORS

Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
8 Financial Services Framework 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.	<p>Interest rates applicable to deposits: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of deposit; (ii) not be higher than the interest rates for the same type of services charged by State-owned commercial banks to CNAHC Group under the same conditions; and (iii) not be higher than the interest rates for the same type of services charged by CNAF to other CNAHC member companies under the same conditions.</p> <p>Interest rates applicable to credit services: should (i) comply with the requirements prescribed by the People's Bank of China on the interest rates for such type of loan; (ii) not be lower than the interest rates for the same type of services offered by State-owned commercial banks to the CNAHC Group under the same conditions; and (iii) not be lower than the interest rates for the same type of services offered by CNAF to other CNAHC member companies under the same conditions.</p> <p>Fees for other paid financial services: should (i) comply with the relevant charging standards (if any) prescribed by the People's Bank of China, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) not be lower than those for the same type of services charged by State-owned commercial banks to the CNAHC Group under the same conditions; and (iii) not be lower than those for the same type of services charged by CNAF to other CNAHC member companies under the same conditions.</p>

REPORT OF THE DIRECTORS

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)	<p>Renewed and revised on 30 October 2019 with a term from 1 January 2020 to 31 December 2022, and subsequently renewed with a term from 1 January 2023 to 31 December 2025</p> <p>The details are set out in the announcement of the Company dated 30 October 2019 and 20 September 2022 and the circular of the Company dated 28 September 2022</p>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>Ground support services and other services:</p> <ol style="list-style-type: none"> (1) Follow the government pricing or guidance price if it is available; (2) If no government pricing or guidance price is available, the final transaction price will be determined on arm's length negotiations between the parties, with reference to the market prices offered by at least two independent third parties on the market for the same type of service, and after taking into account certain factors such as the service standard, service scope, business volume and specific needs of the parties. If any service needs of the service recipient changes, appropriate adjustment will be made to the transaction price after negotiation between both parties based on the extent of variation in the relevant costs, service quality or other factors; (3) If neither of the above cases is applicable, the price will be determined on the basis of costs plus reasonable profit. The costs are mainly based on the costs and expenses of the service provider, including costs of human resources, facility, equipment and materials. Reasonable profit margin will be determined with mainly making reference to the historical average prices of similar products or services (where possible) published in the relevant industry, and/or the profit margin of the comparable products and services disclosed by other listed companies. The profit margin of CNACG Group shall not exceed 10%. The final transaction prices shall be determined on terms that, to the Group, are no less favorable to those provided by independent third parties to the Group or those provided by CNACG Group to independent third parties (with regards to the receipt of services by the Group), or no more favorable than those provided by the Group to the independent third parties (with regards to the rendering of services by the Group).

REPORT OF THE DIRECTORS

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, and subsequently renewed with a term from 1 January 2023 to 31 December 2025 The details are set out in the announcement of the Company dated 28 August 2019 and 30 August 2022	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.	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>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.</p> <p>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.</p>

REPORT OF THE DIRECTORS

Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
11 Framework Agreement	The Company and Air China Cargo (a 51%-owned subsidiary of CNAHC and therefore a connected person of the Company)	<p>Renewed on 30 October 2019 and revised during the Reporting Period with the latest term expiring on 31 December 2024</p> <p>The details are set out in the announcement of the Company dated 30 October 2019 and 20 September 2022</p>	<p>Exclusive operation of the Passenger Aircraft Cargo Business: The Group and the ACC Group have determined to carry out a long-term collaboration for the Passenger Aircraft Cargo Business under an exclusive operating model. The entire Passenger Aircraft Cargo Business of the Group will be operated exclusively by the ACC Group, and the ACC Group shall undertake the overall responsibilities for transporting the cargos to the consignors with respect to the cargos which are transported through the passenger aircraft.</p> <p>Ground support services and other services: The ground support services and other services provided by the Group to the ACC Group include but are not limited to operation support services, IT sharing services, comprehensive support services, engine and aircraft-related materials sharing services, retiree management services, training services, human resources services (including general, servicing and information services in respect of personnel employment, archival information, salaries and benefits, social insurance and employee services), and procurement and maintenance services. The ground support services and other services provided by the ACC Group to the Group include but are not limited to ground support services (cargo terminal services and airport apron services), container and pallet management services, engine and aircraft-related materials sharing services.</p>	<p>Exclusive operation of the Passenger Aircraft Cargo Business:</p> <p>During the exclusive operation term, the Group shall charge the ACC Group the transportation service fee regularly in each year. Such transportation service fee shall be determined based on the ACC Group's actual cargo revenue generated from the exclusive operation of the Group's Passenger Aircraft Cargo Business after deducting certain operating fee rate.</p> <p>Ground support services and other services:</p> <ol style="list-style-type: none"> (1) Follow the government pricing or guidance price if it is available; (2) If no government pricing or guidance price is available, the final transaction price will be determined on arm's length negotiations between the parties, with reference to the market prices offered by at least two independent third parties on the market for the same type of service, and after taking certain factors into account such as the service standard, service scope, business volume and specific need of parties. If any service needs of the service recipient changes, appropriate adjustment will be made to the transaction price after negotiation between both parties based on the extent of variation in relevant costs, service quality or other factors; (3) If neither of the above cases is applicable, the price will be determined on the basis of costs plus reasonable profit. The costs are mainly based on the costs and expenses of the service provider, including costs of human resources and costs of facility, equipment and materials. Reasonable profit margin will be determined with mainly making reference to the historical average prices of similar products or services (where possible) published in the relevant industry, and/or the profit margin of the comparable products and services disclosed by other listed companies. The profit margin of ACC Group shall not exceed 10%. The final transaction prices shall be determined on terms that, to the Group, are no less favorable to those provided by independent third parties to the Group or those provided by ACC Group to independent third parties.

REPORT OF THE DIRECTORS

Agreement	Parties and Connected Relationship	Execution Date and Term of Agreement	Contents of Agreement	Pricing Policy
			<p>Property leasing: The Group may rent out its own properties or land with legal use rights to ACC Group for its production and operation, office and storage use, and the Group may lease ACC Group's self-owned properties and land from the ACC Group in the event that its own properties could not be able to meet its business needs such as production and operation, office and storage.</p>	<p>Property leasing services:</p> <ol style="list-style-type: none"> <li data-bbox="887 556 1422 821">(1) The Group as lessor: First, the Group shall provide quotation of the leased properties or land to ACC Group after taking into account the factors including the relevant costs, tax and reasonable profit margin relating to the properties or land. Then, the rental prices for the leased properties or land shall be determined through arm's length negotiations between the Group and ACC Group after ACC Group takes into account the factors such as the location of the leased properties or land and the service quality. Such rental prices shall not be lower than the rent offered by the Group to an independent third party (if any) in comparable circumstances. <li data-bbox="887 864 1422 1591">(2) The Group as lessee: First, the Group shall conduct market research and collect, consolidate and analyze information in respect of provision of leasing services by independent third parties for the same type of properties or land (if any) in close proximity to the properties or land to be leased. Then, (a) if there is comparable market of the same type identified through market research, the parties shall determine the rental prices for the leased properties or land through arm's length negotiations with reference to the market price for the same type of services available from at least two independent third parties after taking into account the relevant factors. The relevant factors include the geographical location, function and layout, furnishing, ancillary facilities and property services of the property or land as well as the specific needs of the lessee; and (b) if there is no comparable market of the same type found in the neighboring areas through market research, the price shall be determined by adopting the cost-plus approach: the rental price of the leased properties or land shall be determined through arm's length negotiations between the parties based on the relevant costs, tax and reasonable profit margin of the properties or land offered by ACC Group. The relevant costs include construction costs, depreciation costs, funding costs and maintenance costs. Reasonable profit margin will be determined with mainly making reference to the historical average prices on similar services (where possible) published regarding the property leasing industry, and/or the profit margin of the comparable services disclosed by other listed companies, and the reasonable profit margin of ACC Group shall not exceed 10%. The abovementioned rental prices shall not be higher than those offered by ACC Group to the independent third parties (if any) in comparable circumstances. <li data-bbox="887 1634 1422 1785">(3) The Group as lessee and lessor: When leasing each other's properties or land, as a separate matter, the parties may determine the quotation for the rental prices of their respective properties or land based on the above pricing principles, and then exchange the properties and land use right in accordance with the principle of equivalent exchange. <li data-bbox="887 1817 1422 1841">(4) The payment method of rental fee shall be subject to specific agreement.

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.

REPORT OF THE DIRECTORS

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:

	Currency	Total amount for the Reporting Period	
		Annual cap (in millions)	Actual amount (in millions)
Transactions with CNAHC Group:			
Revenue from charter flight services	RMB	900	252
Revenue from comprehensive services	RMB	100	25
Expenditure on comprehensive services	RMB	2,650	825
Revenue from property leasing	RMB	150	4
Total value of right-of-use assets involved in property leasing	RMB	350	111
Expenditure on media and advertising services	RMB	400	115
Expenditure on construction project management services	RMB	90	42
Financial services			
Maximum daily balance of loans and other credit services granted by CNAF to CNAHC Group	RMB	6,500	120
Transactions with CNACG Group:			
Expenditure on ground handling and other services	RMB	807	127
Total value of right-of-use assets involved in financing and operating leasing	RMB	16,500	4,931
Transactions with Cathay Pacific Group:			
Aggregate amount payable/paid by the Group to Cathay Pacific Group	HKD	900	25
Aggregate amount payable/paid by Cathay Pacific Group to the Group	HKD	900	36
Transactions with ACC Group ⁽¹⁾:			
Transportation service fee of the Passenger Aircraft Cargo Business paid by ACC Group to the Group	RMB	15,500	9,666
Aggregate amount of ground handling and other services paid by ACC Group to the Group	RMB	1,500	1,046
Aggregate amount of ground handling and other services paid by the Group to ACC Group	RMB	1,400	598
Revenue from property leasing services	RMB	250	137
Transactions with CNAF:			
Maximum daily balance of deposits placed by the Group with CNAF	RMB	15,000	13,588

Note: (1) As the Passenger Aircraft Cargo Business was adjusted to follow the one-way settlement model, the Company has revised the relevant annual caps.

REPORT OF THE DIRECTORS

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONFIRMATION FROM THE AUDITOR

Pursuant to Rule 14A.56 of the Listing Rules, the listed issuer must engage its auditors to report on the continuing connected transactions every year. The auditor 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 for transactions involving 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 agreements governing the transactions; and
- (4) have exceeded the annual 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 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unmodified letter containing their conclusion in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Reporting Period are set out in note 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.

REPORT OF THE DIRECTORS

CORPORATE BONDS

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

Unit: RMB billion, Currency: RMB										
Name of Corporate Bond	Abbreviation	Code	Issue Date	Value Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest	Investor suitability arrangement (if any)	Trading Mechanism
Air China Limited 2012 Corporate Bond (First Tranche)	12AC01	122218	18 January 2013	18 January 2013	18 January 2023	5.243	5.10	Interest on annual basis Repayment of principal on maturity	Issued to public and institutional investors	Listed and traded on the Auction Trading System and Fixed Income Platform of SSE
Air China Limited 2012 Corporate Bond (Second Tranche)	12AC03	122269	16 August 2013	16 August 2013	16 August 2023	1.530	5.30	Interest on annual basis Repayment of principal on maturity	Issued to public and institutional investors	Listed and traded on the Auction Trading System and Fixed Income Platform of SSE
Shenzhen Airlines Company Limited 2022 Non-public Offering of Corporate Bond for Professional Investors (First Tranche)	22SA01	133201	23 February 2022	25 February 2022	25 February 2025	1.540	3.18	Interest on annual basis Repayment of principal on maturity	For not more than 200 institutional investors among professional investors only	Listed and Transferred on the Integrated Agreement Trading Platform of SZSE
Shenzhen Airlines Company Limited 2022 Non-public Offering of Corporate Bond for Professional Investors (Second Tranche)	22SA02	133215	17 March 2022	21 March 2022	21 March 2025	1.026	3.43	Interest on annual basis Repayment of principal on maturity	For not more than 200 institutional investors among professional investors only	Listed and Transferred on the Integrated Agreement Trading Platform of SZSE
Shenzhen Airlines Company Limited 2022 Non-public Offering of Corporate Bond for Professional Investors (Third Tranche)	22SA03	133229	1 April 2022	7 April 2022	7 April 2025	1.537	3.4	Interest on annual basis Repayment of principal on maturity	For not more than 200 institutional investors among professional investors only	Listed and Transferred on the Integrated Agreement Trading Platform of SZSE
Shenzhen Airlines Company Limited 2022 Non-public Offering of Corporate Bond for Professional Investors (Fourth Tranche)	22SA04	133240	25 April 2022	26 April 2022	26 April 2025	0.716	3.4	Interest on annual basis Repayment of principal on maturity	For not more than 200 institutional investors among professional investors only	Listed and Transferred on the Integrated Agreement Trading Platform of SZSE

“12AC01” and “12AC03” are traded on the Shanghai Stock Exchange (SSE), while “22SA01”, “22SA02”, “22SA03” and “22SA04” are traded on the Shenzhen Stock Exchange (SZSE). No bond in the table is subject to the risk of termination of listing and trading.

REPORT OF THE DIRECTORS

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

Name of Corporate Bond	Payment of Principal and Interest
Air China Limited 2012 Corporate Bond (First Tranche)	On 18 January 2022, the Company completed the interest payment on “12AC01” Corporate Bond.
Air China Limited 2012 Corporate Bond (Second Tranche)	On 16 August 2022, the Company completed the interest payment on “12AC03” Corporate Bond.
Shenzhen Airlines Company Limited 2019 Public Offering Corporate Bond (First Tranche)	On 26 April 2022, the Company completed the payment of principal and interest on “19SA01” Corporate Bond.
Shenzhen Airlines Company Limited 2021 Public Offering of Short-term Corporate Bond for Professional Investors (First Tranche)	On 5 February 2022, the Company completed the payment of principal and interest on “21SAD1” Short-term Corporate Bond.
Shenzhen Airlines Company Limited 2021 Non-public Offering Short-term Corporate Bond (First Tranche)	On 4 June 2022, the Company completed the payment of principal and interest on “21SAD2” Short-term Corporate Bond (private bond).

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

Unit: RMB billion, Currency: RMB								
Name of Bond	Abbreviation	Code	Issue Date	Value Date	Expiry Date	Balance of the Bond	Interest Rate (%)	Payment of principal and interest
Air China Limited 2022 Super Short-term Commercial Paper (Fourth Tranche)	22ACSCP004	012283731	31 October 2022	31 October 2022	28 July 2023	2.006	1.81	One-off payment of principal and interest on maturity
Air China Limited 2022 Medium Term Note (First Tranche)	22ACMTN001	102282150	22 September 2022	23 September 2022	23 September 2025	3.021	2.54	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2020 Medium Term Note (First Tranche)	20SAMTN001	102000224	3 March 2020	5 March 2020	5 March 2023	1.025	3.00	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2021 Medium Term Note (First Tranche)	21SAMTN001	102101631	19 August 2021	23 August 2021	23 August 2024	2.021	3.20	Interest on annual basis Repayment of principal on maturity
Shenzhen Airlines Company Limited 2022 Medium Term Note (First Tranche)	22SAMTN001	102280281	16 February 2022	18 February 2022	18 February 2025	1.537	2.99	Interest on annual basis Repayment of principal on maturity

The bonds set out in the table, namely “22ACSCP004”, “22ACMTN001”, “20SAMTN001”, “21SAMTN001” and “22SAMTN001”, are all traded on the interbank bond market, issued to institutional investors in the national interbank bond market, performed in accordance with the trading rules of the National Interbank Funding Centre (全國銀行間同業拆借中心), and are not subject to the risk of termination of listing and trading.

REPORT OF THE DIRECTORS

Payment of principal and interest for bonds during the Reporting Period

Name of Bond	Payment of Principal and Interest
Air China Limited 2021 Super Short-term Commercial Paper (First Tranche)	On 8 April 2022, the Company completed the payment of principal and interest on “21ACSCP001” Super Short-term Commercial Paper.
Air China Limited 2021 Super Short-term Commercial Paper (Second Tranche)	On 8 July 2022, the Company completed the payment of principal and interest on “21ACSCP002” Super Short-term Commercial Paper.
Air China Limited 2021 Super Short-term Commercial Paper (Third Tranche)	On 19 January 2022, the Company completed the payment of principal and interest on “21ACSCP003” Super Short-term Commercial Paper.
Air China Limited 2021 Super Short-term Commercial Paper (Fourth Tranche)	On 22 July 2022, the Company completed the payment of principal and interest on “21ACSCP004” Super Short-term Commercial Paper.
Air China Limited 2021 Super Short-term Commercial Paper (Fifth Tranche)	On 14 June 2022, the Company completed the payment of principal and interest on “21ACSCP005” Super Short-term Commercial Paper.
Air China Limited 2021 Super Short-term Commercial Paper (Sixth Tranche)	On 16 September 2022, the Company completed the payment of principal and interest on “21ACSCP006” Super Short-term Commercial Paper.
Air China Limited 2022 Super Short-term Commercial Paper (First Tranche)	On 24 April 2022, the Company completed the payment of principal and interest on “22ACSCP001” Super Short-term Commercial Paper.
Air China Limited 2022 Super Short-term Commercial Paper (Second Tranche)	On 24 November 2022, the Company completed the payment of principal and interest on “22ACSCP002” Super Short-term Commercial Paper.
Air China Limited 2022 Super Short-term Commercial Paper (Third Tranche)	On 18 October 2022, the Company completed the payment of principal and interest on “22ACSCP003” Super Short-term Commercial Paper.
Shenzhen Airlines Company Limited 2019 Medium Term Note (First Tranche)	On 18 March 2022, the Company completed the payment of principal and interest on “19SAMTN001” Medium Term Note.
Shenzhen Airlines Company Limited 2019 Medium Term Note (Second Tranche)	On 23 May 2022, the Company completed the payment of principal and interest on “19SAMTN002” Medium Term Note.
Shenzhen Airlines Company Limited 2020 Medium Term Note (First Tranche)	On 5 March 2022, the Company completed the interest payment on “20SAMTN001” Medium Term Note.
Shenzhen Airlines Company Limited 2021 Medium Term Note (First Tranche)	On 23 August 2022, the Company completed the interest payment on “21SAMTN001” Medium Term Note.

REPORT OF THE DIRECTORS

SUBSEQUENT EVENT

1. Non-public issuance of A Shares

On 16 January 2023, the Company completed the non-public issuance of a total of 1,675,977,653 A shares to 22 investors at an issue price of RMB8.95 per share. These investors include CNAHC, UBS AG, China National Aviation Fuel Group Corporation (中國航空油料集團有限公司), China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司), Caitong Fund Management Co., Ltd. (財通基金管理有限公司), E Fund Management Co., Ltd. (易方達基金管理有限公司), GF Fund Management Co., Ltd. (廣發基金管理有限公司), Greatwall Wealth Insurance Asset Management Co., Ltd. – Greatwall Wealth Zhuque Hongying No. 1 Asset Management Product (長城財富保險資產管理股份有限公司-長城財富朱雀鴻盈一號資產管理產品), Sichuan Capital Market Bailout Development Securities Investment Fund Partnership (Limited Partnership) (四川資本市場紓困發展證券投資基金合夥企業(有限合夥)), China Merchants Securities Co., Ltd. (招商證券股份有限公司), Guotai Junan Asset Management (Asia) Limited (國泰君安資產管理(亞洲)有限公司), Bosera Asset Management Co., Limited (博時基金管理有限公司), Ningbo Cinda Huajian Investment Co., Ltd. (寧波信達華建投資有限公司), Huashang Fund Management Limited (華商基金管理有限公司), WT Asset Management Limited (WT資產管理有限公司), Beijing Chengtong Financial Control Investment Co., Ltd. (北京誠通金控投資有限公司), Zhuhai Xuyuan Nuocheng Equity Investment Partnership (Limited Partnership) (珠海煦遠諾成股權投資合夥企業(有限合夥)), Taikang Life Insurance Co., Ltd. – Dividends – Individual Dividend Products (泰康人壽保險有限責任公司-分紅-個人分紅產品), Taikang Life Insurance Co., Ltd. Investment-Linked Innovation Dynamic Investment Account (泰康人壽保險有限責任公司投連創新動力型投資賬戶), Ping An Annuity Insurance Company of China, Ltd. – Ping An Anying Share-based Pension Products (平安養老保險股份有限公司-平安安贏股票型養老金產品), Ping An Annuity Insurance Company of China, Ltd. – Universal Insurance – Group Universal Insurance (平安養老保險股份有限公司-萬能-團險萬能) and Jinan Jiangshan Investment Partnership (Limited Partnership) (濟南江山投資合夥企業(有限合夥)). Among which, the 614,525,150 A Shares subscribed by CNAHC shall not be transferred within eighteen months from the date of completion of the issuance of A Shares, and the 11,061,452,503 A Shares subscribed by other subscribers shall not be transferred within 6 months from the date of completion of the issuance of A Shares. Upon the completion of this non-public issuance of A Shares, CNAHC will hold directly and indirectly 8,123,096,767 Shares of the Company, representing a shareholding of 50.14%, and will remain the controlling shareholder of the Company. For details, please refer to the announcement published by the Company on the website of the Hong Kong Stock Exchange on 17 January 2023.

Upon completion of this non-public issuance of A Shares and as at the date of this report, the total number of issued shares of the Company was 16,200,792,838, including 11,638,109,474 A Shares and 4,562,683,364 H Shares.

2. Acquired the control of Shandong Aviation Group Corporation

On 30 December 2022, the Company entered into the equity transfer agreements with Shansteel Financial Holdings Asset Management (Shenzhen) Company Limited (山鋼金控資產管理(深圳)有限公司) and Qingdao Qifa Trading Co., Ltd. (青島市企發商貿有限公司), respectively, pursuant to which the Company shall acquire the 1.4067% and 0.9043% equity interest in Shandong Aviation Group Corporation held by each of the above companies at the consideration of RMB20,064,883.27 and RMB12,898,394.49, respectively; the Company, Shandong Province Finance Investment Group Co., Ltd. (山東省財金投資集團有限公司), Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司) (Shandong Province Finance Investment Group Co., Ltd. and Shandong Hi-Speed Group Co., Ltd., individually or collectively, the “Shandong Shareholder(s)”) and Shandong Aviation Group Corporation entered into the capital increase agreement, pursuant to which the Company and the Shandong Shareholder shall make capital increase of RMB6,600,000,000 and RMB3,400,000,000 to Shandong Aviation Group Corporation, respectively.

REPORT OF THE DIRECTORS

As at the date of this report, the registration procedures for industrial and commercial changes in respect of the transactions under the abovementioned equity transfer agreements and capital increase agreement was completed, and the closing thereof was also completed. The Company has acquired the control of Shandong Aviation Group Corporation and the percentage of the equity interest of Shandong Aviation Group Corporation held by the Company will increase from 49.4067% to 66%. Besides, the Company directly holds 22.8% of the equity interest of Shandong Airlines and indirectly holds, through Shandong Aviation Group Corporation, 42% of the equity interest of Shandong Airlines. Shandong Aviation Group Corporation, Shandong Airlines and their subsidiaries within the scope of consolidated financial statements have been consolidated into the financial statements of the Company. As the Company has direct and indirect aggregate interests in more than 30% in the shares of Shandong Airlines, in accordance with the requirements of the Regulations on the Takeover of Listed Companies《上市公司收購管理辦法》, the Company has made a general offer to the shareholders of Shandong Airlines other than the Company and Shandong Aviation Group Corporation. For details, please refer to the announcements published by the Company on the website of the Hong Kong Stock Exchange on 21 March 2023 and 7 April 2023.

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 2022. The auditor of the Company has been changed to Deloitte since 2017.

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

By Order of the Board

Ma Chongxian

Chairman

30 March 2023

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Ma Chongxian, aged 57, graduated from the department of economics of Inner Mongolia University majoring in planning and statistics and holds a degree of EMBA in Tsinghua University. Mr. Ma started his career in the civil aviation industry in July 1988. Mr. Ma has been serving as the Vice President and a member of the Standing Committee of the Communist Party Committee of Air China from April 2010 to May 2021. From December 2016 to April 2021, he served as Deputy General Manager and a member of the Communist Party Group of CNAHC. He was the Deputy Secretary of the Communist Party Group of CNAHC from April 2021 to September 2022, as well as the director of CNAHC from May 2021. He was the General Manager of CNAHC, and concurrently the President and Deputy Secretary of the Communist Party Committee of the Company from May 2021 to September 2022. He has served as non-executive director of Cathay Pacific since June 2021 and an executive Director of the Company since July 2021. He was the Vice Chairman of the Company from July 2021 to September 2022. He has been serving as the Chairman and Secretary of the Communist Party Group of CNAHC, and the Chairman and Secretary of the Communist Party Committee of the Company since September 2022.

Mr. Wang Mingyuan, aged 57, graduated from Xiamen University majoring in planning and statistics. Mr. Wang started his career in the civil aviation industry in July 1988. Mr. Wang was appointed as a member of the Standing Committee of the Communist Party Committee of the Company in February 2011, and served as the vice president of the Company from February 2011 to March 2023. Since April 2011, he has concurrently served as chairman of Air China Development Corporation (Hong Kong) Limited. He was appointed as a member of the Communist Party Group of CNAHC in April 2020, and served as the deputy general manager of CNAHC from April 2020 to January 2023. He has also served as the vice chairman of Tibet Airlines Co., Ltd. since June 2020 and the chairman of Air Macau Company Limited since March 2022. He was appointed as a director, the general manager and deputy secretary of the Communist Party Group of CNAHC in January 2023, and was appointed as the deputy secretary of the Communist Party Committee of the Company in February 2023. He has been serving as the President, Director and Vice Chairman of the Company since March 2023.

Mr. Feng Gang, aged 59, graduated from Sichuan University majoring in semiconductor. He started his career in July 1984. From April 2014 to November 2019, he served as the Deputy General Manager of CNAHC. He served as non-executive Director of the Company between August 2014 and October 2017. From May 2017 to November 2019, he served as Deputy President of the Company. Since November 2019, he has served as the director and the Deputy Secretary of the Communist Party Group of CNAHC and the Deputy Secretary of the Communist Party Committee of the Company. From May 2020, he has been the non-executive Director of the Company.

Mr. Patrick Healy, aged 57, graduated from the University of Cambridge with a Bachelor of Arts (Honours) degree in Modern Languages. He has acted as an executive director of the beverages division of Swire Pacific Limited since January 2013, a director of John Swire & Sons (H.K.) Limited since December 2014. He has been serving as the chairman of Swire Coca-Cola Limited since October 2019 and the executive Director and chairman of Cathay Pacific Airways Limited since November 2019. He has been serving as a non-executive Director of the Company since December 2019, and a director of Swire Pacific Limited since August 2021.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xiao Peng, aged 57, graduated from Civil Aviation College of China majoring in maintenance of aircraft engine under the department of aviation machinery. He started his career in the civil aviation industry in August 1988. He has been serving as the chairman of the labor union of CNAHC and the chairman of the labor union and chief engineer of the Company since November 2022, and the employee representative director of the Company since March 2023.

Mr. Li Fushen, aged 60, is a senior accountant with a bachelor's degree in engineering. He has been a professional external director for State-owned enterprises since June 2021, and has been an external director of China Energy Conservation and Environmental Protection Group and COFCO Corporation since July 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Mr. He Yun, aged 61, holds a postgraduate diploma in software engineering from Beijing Institute of Technology. He served as the head of the fourth corporate audit office of the National Audit Office from April 2018 to March 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Mr. Xu Junxin, aged 58, is a senior economist and holds a doctorate's degree in technical economics and management. He has been a professional external director for State-owned enterprises since September 2021. He has been an external director of China Anneng Construction Group Corporation Limited since December 2021. He has been serving as an independent non-executive Director of the Company since February 2022.

Ms. Winnie Tam Wan-chi, aged 61, graduated from the Faculty of Law of The University of Hong Kong, a barrister, international arbitrator and mediator. She was appointed as a "Senior Counsel" in 2006, and was awarded the Justice of the Peace and the Silver Bauhinia Star for her contributions to public service. She is currently the Head of Chambers of Des Voeux Chambers and a recorder of the Court of First Instance of the High Court of Hong Kong. She is the Chairman of the Hong Kong Communications Authority, the Chairman of the Board of Hong Kong Palace Museum Limited, the Chairman of the Committee on Sports Law of the Hong Kong Bar Association, a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development, a member of the Law Reform Commission, a member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature and Officials under the Political Appointment System of the Hong Kong Special Administrative Region, a member of the Board of the West Kowloon Cultural District Authority, a member of the board of governors of Hong Kong Philharmonic Society Limited and a member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. She has been serving as an independent non-executive Director of the Company since February 2022.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Xiao Jian, aged 59, graduated from the Graduate School of the Party School of the Central Committee of Communist Party of China majoring in economics and holds a postgraduate diploma. Mr. Xiao started his career in the civil aviation industry in 1983. He has been serving as a director and a member of the Communist Party Committee of CNACG since March 2016. From March 2016 to October 2022, he was the secretary of the Communist Party Committee, vice president and secretary of the Committee for Discipline Inspection of CNACG. In October 2022, he was appointed as the president of CNACG. He has been serving as a supervisor of the Company since February 2023 and the Chairman of the Supervisory Committee of the Company since March 2023.

Mr. Wang Jie, aged 57, graduated from China Europe International Business School with a master's degree in Business Administration. He joined Air China in August 1989. He served as the deputy director and secretary of the Communist Party Committee of the commercial committee of the Company from November 2014 to November 2022, as well as an employee representative Supervisor of the Company from September 2020 to March 2023. He has been serving as the secretary of the Communist Party Committee, director, vice president and the secretary of Committee for Discipline Inspection of CNACG since October 2022.

Mr. Qin Hao, aged 54, graduated from Party School of the Central Committee of the Communist Party of China with a master's degree in Political Economics. He joined Air China in August 1989. He served as an employee representative Supervisor of the Company from September 2020 to March 2023. He has been the secretary of the Communist Party Committee of Air China Inner Mongolia Co., Ltd. since April 2021 and the deputy general manager of Air China Inner Mongolia Co., Ltd. since May 2021.

Ms. Lyu Yanfang, aged 51, graduated from Northwest Institute of Politics and Law majoring in law and holds a bachelor's degree in law. She joined Air China in 1996 and served as the general manager of the legal department of CNAHC (Air China) since August 2017. From April 2018, she has been serving as the supervisor of China National Aviation Capital Holding Co., Ltd. From August 2018, she has served as the chairwoman of the supervisory committee of China National Aviation Finance Co., Ltd. She has been serving as the Supervisor of the Company since December 2020. She has been a supervisor of Shenzhen Airlines Company Limited since June 2021 and was appointed as the chairwoman of the supervisory committee since October 2021.

Ms. Guo Lina, aged 52, graduated from Chinese Academy of Fiscal Sciences of the Ministry of Finance majoring in finance and obtained a master degree in economics. She also graduated from the School of Economics and Management of Tsinghua University majoring in executive business administration and obtained a master's degree in business administration, and is a senior accountant. She started her career in the civil aviation industry in October 2001. From April 2017, she has served as the supervisor of Air China Inner Mongolia Co., Ltd. She has also served as a supervisor of Dalian Airlines Company Limited since July 2020 and was appointed as the chairwoman of the supervisory committee since September 2020. Since February 2022, she has been serving as a Supervisor of the Company, and general manager of the audit department of CNAHC. She was appointed the general manager of the audit department of the Company in March 2022.

Mr. Wang Mingzhu, aged 55, graduated from Hebei University majoring in philosophy. He is a senior political work specialist. He started his career in the civil aviation industry in July 1991. He has been serving as the secretary of the Communist Party Committee and deputy general manager of the Company's general fleet since December 2022, and the employee representative Supervisor of the Company since March 2023.

Mr. Li Shuxing, aged 55, holds a bachelor's degree in agronomy from Inner Mongolia Agricultural College. He started his career in the civil aviation industry in July 1991. He has been serving as the secretary of the Communist Party Committee, deputy director and chairman of the labor union of the Company's commercial committee since October 2022, and the employee representative Supervisor of the Company since March 2023.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wang Mingyuan: Please refer to “Directors” for his biographies.

Mr. Tan Huanmin, aged 58, graduated from Jilin University School of Law majoring in constitutional law. From December 2016 to January 2019, Mr. Tan was a member of the Communist Party Group and team leader of the Discipline Inspection Group of Communist Party Group of China Aerospace Science & Technology Corporation. Since January 2019, Mr. Tan has been serving as team leader of the Discipline Inspection and Supervision Group and a member of the Communist Party Group of CNAHC, and in January 2019, he was appointed as a standing member of the Communist Party Committee and the Secretary of Committee for Discipline Inspection of the Company.

Mr. Zhang Sheng, aged 50, graduated from the Renmin University of China/American City University with a bachelor’s degree in business administration and a master’s degree in business administration. Mr. Zhang started his career in the civil aviation industry in July 1992. 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 59, graduated from Civil Aviation Flight University of China majoring in flight technology. Mr. Chen is a first-class pilot. Mr. Chen started his career in the civil aviation industry in October 1982. Mr. Chen has been serving as Vice President and a member of the Standing Committee of the Communist Party Committee of the Company since December 2012. He was appointed as the director of Shenzhen Airlines in May 2014. Between May 2014 and September 2020, he was also the president and deputy secretary of the Community Party Committee of Shenzhen Airlines. He was appointed as the Chairman of Shenzhen Airlines in March 2020. Since July 2020, he served as the deputy general manager and a member of the Communist Party Group of CNAHC.

Mr. Sun Yuquan, aged 49, graduated from Nanjing University of Science & Technology majoring in accounting. He is a professional senior engineer and a senior accountant. He served as the general manager of the finance department of China Rong Tong Asset Management Group Corporation Limited from July 2019 to February 2022. He has been serving as the chief accountant and a member of the Communist Party Group of CNAHC since February 2022. Since March 2022, he has been serving as a member of the Standing Committee of the Communist Party Committee of the Company, and concurrently as the chairman of China National Aviation Capital Holding Co., Ltd. and the chairman of China National Aviation Media Co., Ltd. He became the chief accountant of the Company in March 2023.

Mr. Ni Jiliang, aged 56, graduated from Civil Aviation College of China majoring in maintenance of aircraft, engines and equipment under the department of aviation machinery. He joined Air China in July 1988. He has been the chief executive officer and the deputy secretary of the Communist Party Committee of Aircraft Maintenance and Engineering Corporation between September 2017 and April 2020, and the chief engineer of the Company from January 2020 to November 2022. Since April 2020, he has served as the chairman and secretary to the Communist Party Committee of Aircraft Maintenance and Engineering Corporation. Since November 2021, he has been serving as a director of China Aircraft Services Limited (中國飛機服務有限公司). He has been serving as the deputy general manager and a member of the Communist Party Group of CNAHC since April 2022, and the vice president and a member of the Standing Committee of the Communist Party Committee of the Company since May 2022.

Mr. Zhang Hua, aged 57, graduated from Zhongnan University of Finance and Economics majoring in industrial economics and is an on-job postgraduate of the Party School of the Central Committee of the Communist Party of China majoring in economics and management. He was appointed as the general legal counsel of CNAHC and of the Company in August 2016 and August 2017, respectively. He has been a supervisor of Zhongyi Aviation Investment Co., Ltd. since April 2018, chairman of Dalian Airlines Company Limited since March 2020, chairman of Beijing Airlines Company Limited since September 2022, and director of Air China Cargo Co., Ltd. since June 2022. Since December 2022, he has concurrently served as the chief compliance officer of CNAHC and the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xiao Peng: Please refer to “Directors” for his biographies.

Mr. Xiao Feng, aged 54, graduated from Harbin Civil Engineering & Architectural Institute majoring in management engineering. Mr. Xiao holds an undergraduate degree and is a senior accountant. He joined Air China in July 1990. He has been serving as a director of Ameco since September 2012. He also served as the chief accountant of the Company from July 2014 to March 2023. In October 2015, he became a director of Air China Overseas Holding Company (國航海外控股公司). Since November 2015, he has been serving as the chairman of the board of directors of China National Aviation Company Limited, and in February 2016, he became the chairman of CNAF. He has served as a non-executive director of Cathay Pacific since January 2017, and a director of Air China Cargo Co., Ltd. since June 2022. He became the chief economist of the Company in March 2023.

Mr. Wang Yingnian, aged 59, graduated from Sichuan Guanghan Aviation College majoring in airplane piloting and is a first class pilot. Mr. Wang started his career in the civil aviation industry in August 1984. He has been serving as a director of Beijing Airlines Company Limited since February 2011, and was the Chief Pilot of the Company from November 2014 to February 2023. He has been serving concurrently as the chairman of Air China Inner Mongolia Co., Ltd. since November 2017.

Mr. Yan Simeng, aged 40, graduated from the Department of Physics of Peking University and obtained his doctorate in theoretical and computational physics from the University of California, Irvine. Mr. Yan has been serving as Chief Information Officer of the Company since September 2021.

Mr. Shen Jianming, aged 55, graduated from the First Flying Academy of China Air Force with a bachelor’s degree in airplane piloting. Mr. Shen is a first-class pilot. He started his career in the civil aviation industry in 1987. He has been serving as the chief safety officer of the Company since October 2022.

Mr. Huang Bin, aged 59, graduated from the Civil Aviation Institute of China, majoring in Planning and Finance, is a senior accountant. He joined Air China in 1983. He was appointed as a secretary to the Board of the Company in September 2021 and an assistant to the President of the Company in December 2021.

JOINT COMPANY SECRETARIES

Mr. Huang Bin, aged 59, graduated from the Civil Aviation Institute of China, majoring in Planning and Finance, is a senior accountant. He joined Air China in 1983. He was appointed as a secretary to the Board of the Company in September 2021 and an assistant to the President of the Company in December 2021.

Mr. Huen Ho Yin, aged 61, holds a Bachelor of Laws (Hons) Degree from the University of Leicester in the United Kingdom and a Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Huen has been practicing as a solicitor of the High Court of Hong Kong. He is currently a partner of Huen & Partners Solicitors. From August 1994 to April 2003, he served as a partner of Richard Tai & Co., Solicitors. Since April 2003, he has been serving as a partner of Huen & Partners Solicitors. From June 2018 to February 2020, he served as an independent non-executive director of Grand Peace Group Holdings Limited. From April 2020 to August 2020, Mr. Huen served as joint company secretary of the Company. Mr. Huen has been serving as joint company secretary of the Company since September 2021.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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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 85 to 188 which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 (“HKSA”) 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
<i>Provision for major overhauls</i>	
<p>As at 31 December 2022, the provision for major overhauls of RMB6,421 million was recorded in the consolidated statement of financial position.</p> <p>The Group held certain aircraft under leases at 31 December 2022. 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.</p> <p>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.</p> <p>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.</p> <p>Details of the related estimation uncertainty are set out in Notes 4, 5 and 37 to the consolidated financial statements.</p>	<p>Our procedures in relation to provision for major overhauls to fulfil the return condition of aircraft under leases included:</p> <ul style="list-style-type: none"> • 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Estimation of the stand-alone selling price of miles in the frequent-flyer programme</i>	
<p>As at 31 December 2022, the contract liabilities related to frequent-flyer programme was RMB2,028 million.</p> <p>The Group operates frequent-flyer programme and 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 earned by the frequent-flyer programme members is deferred and included in contract liabilities in the consolidated statement of financial position. The Group maintains information technology ("IT") systems to track the service provision time of each sale related to miles award, and also the issuance, subsequent redemption, utilisation and expiry of the miles awards.</p> <p>We identified the estimation of the stand-alone selling price of miles in the frequent-flyer programme as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant estimation associated with the estimation of the expected redemption rate.</p> <p>Details of the related estimation uncertainty are set out in Notes 4, 5, 6 and 38 to the consolidated financial statements.</p>	<p>Our procedures in relation to the estimation of the stand-alone selling price of miles in the frequent-flyer programme included:</p> <ul style="list-style-type: none"> • Testing and evaluating the design and operating effectiveness of the key internal controls relevant to the estimation of the stand-alone selling price of miles in the frequent-flyer programme, including IT controls; • Evaluating the reasonableness of methodology used by management on the estimation of the stand-alone selling price; • Comparing the estimated stand-alone selling price with the actual selling price in the external settlement evidence with third parties on a sample basis; • Assessing the appropriateness of the assumptions adopted by management in estimating the stand-alone selling price of miles in the frequent-flyer programme by making comparison with historical experience and planned changes to the programme that may impact future redemption activities; • Assessing the appropriateness of assumptions adopted by management in estimating the expected redemption with reference to the historical expected redemption rate together with actual redemption activities; and • Performing sensitivity analysis on the impact of the expected redemption rate over revenue recognised related to mile awards during the year.

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 HKSAAs 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 HKSA's, 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 Ng Kwok Ho.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	6	52,897,584	74,531,670
Other income and gains	8	3,374,778	4,070,762
		56,272,362	78,602,432
Operating expenses			
Jet fuel costs		(22,762,814)	(20,703,780)
Employee compensation costs	9	(25,338,553)	(24,230,071)
Depreciation and amortisation	11	(21,233,674)	(20,934,502)
Take-off, landing and depot charges		(6,499,775)	(9,667,650)
Aircraft maintenance, repair and overhaul costs		(5,640,163)	(6,910,741)
Air catering charges		(872,189)	(1,650,028)
Aircraft and engine lease expense		(135,767)	(236,287)
Other lease expenses		(442,115)	(673,261)
Other flight operation expenses		(5,869,052)	(6,488,734)
Selling and marketing expenses		(1,639,889)	(2,576,346)
General and administrative expenses		(1,240,365)	(1,263,044)
Impairment loss recognised on property, plant and equipment	17	(62,584)	(292,562)
Impairment loss recognised on intangible assets	20	-	(750)
Net impairment loss reversed under expected credit loss model	10	20,784	163,148
		(91,716,156)	(95,464,608)
Loss from operations	11	(35,443,794)	(16,862,176)
Finance income		228,720	112,062
Finance costs	12	(6,472,620)	(5,495,052)
Share of results of associates		(477,414)	(1,088,759)
Share of results of joint ventures		376,872	272,965
Exchange (losses)/gains, net		(4,088,655)	1,235,430
Loss before taxation		(45,876,891)	(21,825,530)
Income tax credit	14	702,981	3,003,292
Loss for the year		(45,173,910)	(18,822,238)
Attributable to:			
– Equity shareholders of the Company		(38,617,495)	(16,635,178)
– Non-controlling interests		(6,556,415)	(2,187,060)
		(45,173,910)	(18,822,238)
Loss per share			
– Basic and diluted	15	RMB(281.16) cents	RMB(121.12) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Loss for the year	(45,173,910)	(18,822,238)
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss:		
– Fair value gains/(losses) on investments in equity instruments at fair value through other comprehensive income	65,394	(56,457)
– Remeasurement of net defined benefit liability	(952)	(5,787)
– Share of other comprehensive income of associates and joint ventures	26,901	121,787
– Income tax (expense)/credit relating to items that will not be reclassified to profit or loss	(16,348)	14,114
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	(9,101)	3,234
– Impairment loss recognised on investments in debt instruments at fair value through other comprehensive income	(3,275)	(10,647)
– Share of other comprehensive (expense)/income of associates and joint ventures	(550,580)	813,808
– Exchange differences on translation of foreign operations	1,356,971	(464,804)
– Income tax relating to items that may be reclassified subsequently to profit or loss	3,094	1,854
Other comprehensive income for the year (net of tax)	872,104	417,102
Total comprehensive expense for the year	(44,301,806)	(18,405,136)
Attributable to:		
– Equity shareholders of the Company	(37,791,121)	(16,172,537)
– Non-controlling interests	(6,510,685)	(2,232,599)
	(44,301,806)	(18,405,136)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	17	99,574,059	98,804,707
Right-of-use assets	18	125,818,601	121,610,254
Investment properties	19	530,510	571,798
Intangible assets	20	35,031	35,430
Goodwill	21	1,099,975	1,099,975
Interests in associates	23	10,536,483	10,390,940
Interests in joint ventures	24	2,177,809	1,830,070
Advance payments for aircraft and flight equipment		20,094,732	21,510,230
Deposits for aircraft under leases		539,624	566,684
Equity instruments at fair value through other comprehensive income	25	241,717	176,323
Debt instruments at fair value through other comprehensive income	26	1,360,982	1,373,634
Deferred tax assets	27	10,473,327	9,757,097
Other non-current assets		251,396	257,320
		272,734,246	267,984,462
Current assets			
Inventories	28	2,557,823	2,050,282
Accounts receivable	29	1,649,356	2,991,037
Bills receivable		7,483	3,591
Prepayments, deposits and other receivables	30	3,176,418	3,631,521
Financial assets at fair value through profit or loss		3,398	4,157
Restricted bank deposits	31	828,166	774,951
Cash and cash equivalents	31	10,607,711	15,934,713
Assets held for sale		1,302	333,884
Other current assets	32	3,413,474	4,672,592
		22,245,131	30,396,728
Total assets		294,979,377	298,381,190
Current liabilities			
Air traffic liabilities		(2,757,601)	(2,116,028)
Accounts payable	33	(10,935,546)	(12,590,775)
Bills payable		-	(199,276)
Dividends payable		(98,000)	(98,000)
Other payables and accruals	34	(16,548,144)	(19,593,940)
Advance		(58,970)	-
Current taxation		(9,359)	(4,572)
Lease liabilities	35	(17,085,829)	(14,534,309)
Interest-bearing borrowings	36	(42,957,170)	(40,201,875)
Provision for return condition checks	37	(936,804)	(801,235)
Contract liabilities	38	(1,095,185)	(1,479,717)
		(92,482,608)	(91,619,727)
Net current liabilities		(70,237,477)	(61,222,999)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	31 December 2022 RMB'000	31 December 2021 RMB'000
Total assets less current liabilities		202,496,769	206,761,463
Non-current liabilities			
Lease liabilities	35	(76,897,347)	(76,347,051)
Interest-bearing borrowings	36	(92,847,116)	(53,120,047)
Provision for return condition checks	37	(8,605,418)	(8,583,611)
Provision for early retirement benefit obligations		(807)	(1,006)
Long-term payables		(251,497)	(15,646)
Contract liabilities	38	(1,422,843)	(1,772,209)
Defined benefit obligations	39	(202,016)	(218,336)
Deferred income	40	(418,200)	(544,383)
Deferred tax liabilities	27	(323,297)	(328,063)
		(180,968,541)	(140,930,352)
NET ASSETS		21,528,228	65,831,111
CAPITAL AND RESERVES			
Issued capital	41	14,524,815	14,524,815
Treasury shares	41	(3,047,564)	(3,047,564)
Reserves		12,099,925	49,891,306
Total equity attributable to equity shareholders of the Company		23,577,176	61,368,557
Non-controlling interests		(2,048,948)	4,462,554
TOTAL EQUITY		21,528,228	65,831,111

The consolidated financial statements on pages 85 to 188 were approved and authorised for issue by the board of directors on 30 March 2023 and signed on its behalf by:

Ma Chongxian
DIRECTOR

Feng Gang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2022

	Attributable to equity shareholders of the Company									
	Issued capital	Treasury shares	Capital reserve	Reserve funds	General reserve	Foreign exchange translation reserve	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2021	14,524,815	(3,047,564)	30,146,498	11,564,287	110,628	(2,311,036)	26,553,699	77,541,327	6,231,709	83,773,036
Changes in equity for 2021										
Loss for the year	-	-	-	-	-	-	(16,635,178)	(16,635,178)	(2,187,060)	(18,822,238)
Other comprehensive income/(expense)	-	-	906,826	-	-	(444,185)	-	462,641	(45,539)	417,102
Total comprehensive income/(expense)	-	-	906,826	-	-	(444,185)	(16,635,178)	(16,172,537)	(2,232,599)	(18,405,136)
Capital contribution from non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	490,148	490,148
Appropriation of discretionary reserve funds and others	-	-	-	-	-	-	(233)	(233)	(155)	(388)
Appropriation of general reserve	-	-	-	-	21,288	-	(21,288)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(26,549)	(26,549)
Others	-	-	3,637	-	-	-	(3,637)	-	-	-
As at 31 December 2021 and 1 January 2022	14,524,815	(3,047,564)	31,056,961	11,564,287	131,916	(2,755,221)	9,893,363	61,368,557	4,462,554	65,831,111
Changes in equity for 2022										
Loss for the year	-	-	-	-	-	-	(38,617,495)	(38,617,495)	(6,556,415)	(45,173,910)
Other comprehensive (expense)/income	-	-	(504,113)	-	-	1,330,487	-	826,374	45,730	872,104
Total comprehensive (expense)/income	-	-	(504,113)	-	-	1,330,487	(38,617,495)	(37,791,121)	(6,510,685)	(44,301,806)
Appropriation of discretionary reserve funds and others	-	-	-	-	-	-	(260)	(260)	(174)	(434)
Appropriation of general reserve	-	-	-	-	5,222	-	(5,222)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(643)	(643)
Others	-	-	10	-	-	-	(10)	-	-	-
As at 31 December 2022	14,524,815	(3,047,564)	30,552,858	11,564,287	137,138	(1,424,734)	(28,729,624)	23,577,176	(2,048,948)	21,528,228

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Operating activities		
Loss before taxation	(45,876,891)	(21,825,530)
Adjustments for:		
Share of results of associates and joint ventures	100,542	815,794
Exchange loss/(gain), net	4,088,655	(1,235,430)
Finance income	(228,720)	(112,062)
Finance costs	6,472,620	5,495,052
Fair value changes of financial assets at fair value through profit or loss	(168)	404
Gain on disposal of property, plant and equipment	(24,281)	(21,112)
Loss on disposal of assets held for sale	6,774	-
Depreciation of property, plant and equipment	8,784,570	9,259,782
Depreciation of right-of-use assets	12,425,265	11,649,695
Depreciation of investment properties	23,839	24,961
Amortisation of intangible assets	-	64
Impairment loss recognised on property, plant and equipment	62,584	292,562
Impairment losses recognised on inventories	3,168	44,122
Impairment loss recognised on intangible assets	-	750
Impairment losses reversed on deposits and other receivables, net	(5,854)	(170,783)
Impairment loss (reversed)/recognised on accounts receivable, net	(3,705)	5,915
Impairment loss reversed on debt instruments at fair value through other comprehensive income, net	(3,275)	(10,647)
Impairment losses reversed/(recognised) in financial assets include in other current assets, net	(1,322)	6,812
Impairment losses recognised on others, net	(6,628)	5,555
Dividend income	(9,368)	(4,904)
Operating cash flows before movements in working capital	(14,192,195)	4,221,000
Decrease in deposits for aircraft under leases	27,060	48,853
Decrease/(increase) in other non-current assets	5,924	(128,970)
Increase in inventories	(468,187)	(294,893)
Decrease/(increase) in accounts receivable	1,326,380	(63,057)
(Increase)/decrease increase in bills receivable	(3,892)	3,002
Decrease in prepayments, deposits and other receivables	723,036	182,212
Decrease/(increase) in other current assets	1,260,440	(234,598)
Increase in air traffic liabilities	641,573	113,379
(Decrease)/increase in accounts payable	(1,803,203)	713,192
(Decrease)/increase in bills payable	(199,276)	136,706
(Decrease)/increase in other payables and accruals	(3,425,293)	8,043,213
(Decrease)/increase in provision for return condition checks	(161,850)	419,460
Decrease in provision for early retirement benefit obligations	(199)	(345)
Decrease in defined benefit obligations	(24,621)	(25,548)
(Decrease)/increase in deferred income	(4,419)	55,592
Decrease in contract liabilities	(733,898)	(293,019)
Increase in advance	58,970	-
Increase/(decrease) in long-term payables	235,851	(5,376)
Cash generated from operations	(16,737,799)	12,890,803
Income tax paid	(24,258)	(3,031)
Interest paid	(6,579,396)	(5,757,299)
Net cash (used in)/from operating activities	(23,341,453)	7,130,473

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2022

	2022	2021
	RMB'000	RMB'000
Investing activities		
Payments for the purchase of property, plant and equipment	(988,906)	(1,824,030)
Advance payments for aircraft and flight equipment	(6,649,088)	(4,250,608)
Proceeds from disposal of property, plant and equipment, and assets held for sale	673,202	213,252
(Purchase)/proceeds from disposal of debt instruments at fair value through other comprehensive income, net	(279,905)	1,649,011
Interest received	228,720	112,062
Dividends received from associates and joint ventures	221,138	30,831
Investment in a joint venture	(177,755)	–
Interests received from debt instruments at fair value through other comprehensive income	49,149	82,696
Proceeds from disposal of investment in an associate	33,882	–
Decrease in restricted bank deposits against aircraft leases and others	13,324	31,279
Dividends received from equity instruments at fair value through other comprehensive income	5,531	1,916
Proceeds from disposal of equity instruments at fair value through other comprehensive income	–	808
Purchase of debt instruments at amortised cost	–	(500,000)
Net cash used in investing activities	(6,870,708)	(4,452,783)
Financing activities		
Capital contribution from a non-controlling shareholder of a subsidiary	–	490,148
New bank loans and other loans	109,555,661	54,273,008
Proceeds from issuance of corporate bonds and short-term commercial papers	15,950,000	16,050,000
Repayments of bank loans and other loans	(63,266,576)	(38,535,887)
Repayments of corporate bonds and short-term commercial papers	(20,000,000)	(9,700,000)
Repayments of lease liabilities	(17,561,884)	(15,082,110)
Dividends paid	(643)	(26,549)
Net cash from financing activities	24,676,558	7,468,610
Net (decrease)/increase in cash and cash equivalents	(5,535,603)	10,146,300
Cash and cash equivalents at 1 January	31	15,934,713
Effect of foreign exchange rate changes		208,601
Cash and cash equivalents at 31 December	31	10,607,711
		5,837,998
		(49,585)
		15,934,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

1. CORPORATE INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

As at 31 December 2022, the Group’s current liabilities exceeded its current assets by approximately RMB70,237 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 RMB110,945 million as at 31 December 2022, the Directors believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements to continue in operational existence for the foreseeable future when preparing the consolidated financial statements for the year ended 31 December 2022. 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 2022

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 following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2018-2020</i>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. APPLICATION OF AMENDMENTS TO IFRSs (continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback³</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants³</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies¹</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹</i>

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or 1 January 2024.

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 2022

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 it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

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

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

Goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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 2022

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.

Changes in the Group's interests in associates and joint ventures

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Acquisition of additional interests in associates or joint ventures

When the Group increases its ownership interest in an associate or a joint venture but the Group continues to use the equity method, goodwill is recognised at acquisition date if there is excess of the consideration paid over the share of carrying amount of net assets attributable to the additional interests in associates or joint ventures acquired. Any excess of share of carrying amount of net assets attributable to the additional interests in associates or joint ventures acquired over the consideration paid are recognised in the profit or loss in the period in which the additional interest is acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 assets as a replacement if the recognition criteria are satisfied. Overhaul components subject to replacement during major overhauls are depreciated over the expected life between major overhauls.

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

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

Leases

Definition of a lease

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

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

The Group as a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use assets includes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

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

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

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

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

Lease liabilities

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

The lease payments include:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

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

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

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

Lease modifications

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 by making corresponding adjustments to the relevant right-of-use assets.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor (continued)

Lease modification

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

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

Sale and leaseback transactions

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

The Group acts as a seller-lessee

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

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

Government grants

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

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. In determining the present value of the Group's defined benefit obligations and the related current service cost and, where applicable, past service cost, the Group attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Group attributes the benefit on a straight-line basis from:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit costs (continued)

- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Termination benefits

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

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

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

Taxation

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

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 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

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

Investment properties

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

Investment properties are initially measured at 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 investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, including costs of testing whether the related assets are functioning properly, 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.

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.

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

Non-current assets held for sale

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

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

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that these 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 testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of cash flows include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in Note 31.

Inventories

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

Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

When assessing whether a contract is onerous or loss-making, the Group includes costs that relate directly to the contract, consisting of both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 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 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(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 allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amount of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

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

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including accounts receivable, bills receivable, deposits and other receivables, restricted bank deposits, cash and cash equivalents, financial assets included in other current assets and other non-current assets and debt instruments at FVTOCI) 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 is 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.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk

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

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

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

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

Despite the foregoing, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 and 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 and forward-looking information that is available without undue cost or effort.

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

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

For collective assessment, 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.

Except for investments in debt instruments that are measured at FVTOCI, 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 2022

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/(accumulated losses).

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition/modification 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.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Offsetting a financial asset and a financial liability

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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 2022

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 2022, the carrying amount of goodwill was RMB1,100 million (2021: 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 RMB63 million (2021: RMB293 million) for certain aircraft included in property, plant and equipment that will be retired. As at 31 December 2022, the aggregate carrying amount of property, plant and equipment, right-of-use assets, investment properties, intangible assets, interests in associates and interests in joint ventures was RMB238,672 million (2021: RMB233,243 million). Details of these items are set out in Notes 17, 18, 19, 20, 23 and 24.

Overhaul provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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

Overhaul provisions (continued)

As at 31 December 2022, provision for major overhauls of the Group amounted to RMB6,421 million (2021: RMB6,373 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 based on expected redemption rate. The expected redemption rate was estimated considering expected future redemption activities, including 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 2022, the contract liabilities related to frequent-flyer programme was RMB2,028 million (2021: RMB2,706 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 the 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 2022, deferred tax assets of RMB10,473 million (2021: RMB9,757 million) in relation to deductible temporary differences and tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the deductible tax losses of RMB47,281 million (2021: RMB7,919 million) and other deductible temporary differences of RMB0.5 million (2021: RMB0.5 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 2022

6. REVENUE

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	52,612,867	74,244,919
Rental income (included in revenue of airline operations segment)	284,717	286,751
Total revenue	52,897,584	74,531,670

Disaggregation of revenue from contracts with customers

Segments	2022		2021	
	Airline operations RMB'000	Other operations RMB'000	Airline operations RMB'000	Other operations RMB'000
Type of goods or services				
Airline operations				
Passenger	38,296,190	-	58,316,695	-
Cargo and mail	10,084,634	-	11,113,288	-
Ground service income	101,885	-	202,812	-
Others	1,519,717	-	1,364,285	-
	50,002,426	-	70,997,080	-
Other operations				
Aircraft engineering income	-	2,505,219	-	2,901,247
Others	-	105,222	-	346,592
	-	2,610,441	-	3,247,839
Total	50,002,426	2,610,441	70,997,080	3,247,839
Geographical markets				
Mainland China	35,606,207	2,610,441	57,299,361	3,247,839
Hong Kong Special Administrative Region ("SAR"), Macau SAR and Taiwan, China	1,097,125	-	1,172,112	-
International	13,299,094	-	12,525,607	-
Total	50,002,426	2,610,441	70,997,080	3,247,839

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

6. REVENUE (continued)

Performance obligations for contracts with customers (continued)

The Group operates frequent-flyer programme and provides free services or products to the customers according to the miles they earn. The Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The amount allocated to the miles earned by the frequent-flyer programme members is recorded in contract liabilities and deferred until the miles are redeemed when the Group fulfils its obligations to supply services or products or when the miles expire. During the year, the Group recognised revenue of RMB1,483 million (2021: RMB1,486 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 contract 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.

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

Operating segments

The following tables present the Group's consolidated revenue and loss before taxation regarding the Group's operating segments in accordance with the Accounting Standards for Business Enterprises of the PRC ("CASs") for the years ended 31 December 2022 and 2021, and the reconciliations of reportable segment revenue and loss before taxation to the Group's consolidated amounts under IFRSs:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2022

	Airline operations RMB'000	Other operations RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
Sales to external customers	50,287,143	2,610,441	–	52,897,584
Inter-segment sales	211,473	5,134,296	(5,345,769)	–
Revenue for reportable segments under CASs and IFRSs	50,498,616	7,744,737	(5,345,769)	52,897,584
Segment loss before taxation				
Loss before taxation for reportable segments under CASs	(44,354,029)	(1,418,775)	(106,759)	(45,879,563)
Effect of differences between IFRSs and CASs				2,672
Loss before taxation for the year under IFRSs				(45,876,891)

Year ended 31 December 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

The following tables presents the assets, liabilities and other information of the Group's operating segments under CASs as at 31 December 2022 and 2021 and the reconciliations of reportable segment assets, segment liabilities and other segment 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 2022 under CASs	284,165,518	26,473,501	(15,627,684)	295,011,335
Effect of differences between IFRSs and CASs				(31,958)
Total assets under IFRSs				294,979,377
Total assets for reportable segments as at 31 December 2021 under CASs	283,966,030	30,399,066	(15,949,944)	298,415,152
Effect of differences between IFRSs and CASs				(33,962)
Total assets under IFRSs				298,381,190
	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 2022 under CASs and IFRSs	268,114,481	20,560,734	(15,224,066)	273,451,149
Total liabilities for reportable segments as at 31 December 2021 under CASs and IFRSs	224,449,461	23,710,137	(15,609,519)	232,550,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

7. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2022

	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 (loss)/profit of associates and joint ventures	(484,499)	383,957	-	(100,542)	-	(100,542)
Impairment losses reversed/ (recognised) on financial assets	7,239	(4,760)	18,305	20,784	-	20,784
Impairment losses (recognised)/ reversed on non-financial assets	(66,278)	526	-	(65,752)	-	(65,752)
Depreciation and amortisation	20,902,720	475,483	(132,746)	21,245,457	(11,783)	21,233,674
Income tax (credit)/expense	(336,326)	(337,427)	(29,896)	(703,649)	668	(702,981)
Interests in associates and joint ventures	10,257,014	2,389,058	(71,699)	12,574,373	139,919	12,714,292
Additions to non-current assets	26,238,224	367,171	(39,835)	26,565,560	-	26,565,560

Year ended 31 December 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 2022 and 2021, respectively:

Year ended 31 December 2022

	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	38,501,365	1,097,125	13,299,094	52,897,584

Year ended 31 December 2021

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

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

Revenue from transactions with CNAHC and its subsidiaries (other than the Group) amounted to 21% of the Group's revenue during the year ended 31 December 2022 (2021: 16%), which is the only single customer with revenue from transactions of 10% or more of the Group's revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

8. OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Co-operation routes income and subsidy income	2,899,943	3,840,535
Dividend income	9,368	4,904
Gains/(losses) on disposal of		
– Property, plant and equipment	64,922	37,593
– Investment in an associate	4,599	–
– Asset held for sale	(6,774)	–
– Equity instruments at fair value through other comprehensive income	–	408
Gain/(loss) arising on financial assets at fair value through profit or loss	168	(404)
Others	402,552	187,726
	3,374,778	4,070,762

9. EMPLOYEE COMPENSATION COSTS

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

	2022 RMB'000	2021 RMB'000
Wages, salaries and other benefits	21,637,625	21,396,711
Retirement benefit costs:		
– Contributions to defined contribution retirement scheme	3,700,390	2,833,298
– Early retirement benefits	538	62
	25,338,553	24,230,071

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

10. NET IMPAIRMENT LOSS REVERSED UNDER EXPECTED CREDIT LOSS MODEL

	2022 RMB'000	2021 RMB'000
Impairment losses (reversed)/recognised on financial assets:		
– Deposits and other receivables	(5,854)	(170,783)
– Accounts receivable	(3,705)	5,915
– Debt instruments at FVTOCI	(3,275)	(10,647)
– Financial assets included in other current assets	(1,322)	6,812
– Others	(6,628)	5,555
	(20,784)	(163,148)

Details of impairment assessment are set out in Note 44.

11. LOSS FROM OPERATIONS

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

	2022 RMB'000	2021 RMB'000
Depreciation of property, plant and equipment	8,784,570	9,259,782
Depreciation of right-of-use assets	12,425,265	11,649,695
Depreciation of investment properties	23,839	24,961
Amortisation of intangible assets	–	64
Total depreciation and amortisation	21,233,674	20,934,502
Impairment losses recognised on property, plant and equipment (Note 17)	62,584	292,562
Impairment losses recognised on intangible assets	–	750
Impairment losses recognised on inventories	3,168	44,122
Auditors' remuneration:		
– Audit related services	17,817	18,017
– Other services	4,443	1,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

12. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on interest-bearing borrowings	3,383,021	2,464,834
Interest on lease liabilities	3,363,993	3,302,207
Imputed interest expenses on defined benefit obligations	6,573	7,749
	6,753,587	5,774,790
Less: Interest capitalised	(280,967)	(279,738)
	6,472,620	5,495,052

The interest capitalisation rates during the year ranged from 2.73% to 5.80% per annum (2021: 1.75% to 4.41% per annum) relating to the costs of related borrowings during the year.

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

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

	2022 RMB'000	2021 RMB'000
Directors' fee	198	410
Salaries and other allowances	1,502	2,113
Discretionary bonus	851	806
Retirement benefit scheme contributions	523	203
	3,074	3,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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

2022

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Song Zhiyong (Note (a)) (Resigned on 27 September 2022)	-	-	-	-	-
Ma Chongxian (Notes (a) and (e))	-	-	-	-	-
Non-executive directors					
Feng Gang (Note (a))	-	-	-	-	-
Patrick Healy (Note (b))	-	-	-	-	-
Xue Yasong (Resigned on 25 February 2022)	-	-	-	-	-
	-	-	-	-	-
Independent non-executive directors					
Duan Hongyi (Resigned on 25 February 2022)	-	-	-	-	-
Stanley Hui Hon-chung (Resigned on 25 February 2022)	33	-	-	-	33
Li Dajin (Resigned on 25 February 2022)	33	-	-	-	33
Li Fushen (Appointed on 25 February 2022)	-	-	-	-	-
He Yun (Appointed on 25 February 2022)	-	-	-	-	-
Xu Junxin (Appointed on 25 February 2022)	-	-	-	-	-
Winnie Tam Wan-chi (Appointed on 25 February 2022)	132	-	-	-	132
	198	-	-	-	198
Supervisors					
Zhao Xiaohang (Note (a)) (Resigned on 25 February 2022)	-	-	-	-	-
He Chaofan (Note (a))	-	-	-	-	-
Wang Jie	-	387	260	145	792
Qin Hao	-	363	241	136	740
Lyu Yanfang	-	392	177	124	693
Guo Lina (Appointed on 25 February 2022)	-	360	173	118	651
	-	1,502	851	523	2,876
	198	1,502	851	523	3,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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

2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 their remuneration 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 their remuneration were borne by Cathay Pacific.
- (c) None of the directors, supervisors and chief executive has waived any emoluments during the years ended 31 December 2022 and 2021.
- (d) For the year ended 31 December 2022, the Group received cash consideration from Cathay Pacific of Hong Kong Dollar ("HKD") 2,579,000 (2021: HKD2,418,000) for making available directors' services to Cathay Pacific.
- (e) Being the Chief executive of the Company.

Five highest paid individuals

For both 2022 and 2021, 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:

	2022 RMB'000	2021 RMB'000
Salaries and other allowances	10,507	10,054
Discretionary bonuses	81	133
Retirement benefit scheme contributions	193	182
	10,781	10,369

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

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

	2022	2021
HKD2,000,001 to HKD2,500,000	2	2
HKD2,500,001 to HKD3,000,000	3	3
	5	5

During both years, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

14. INCOME TAX CREDIT

	2022 RMB'000	2021 RMB'000
Current income tax:		
– Mainland China	26,148	28,344
– Hong Kong SAR and Macau SAR, China	1,587	1,644
Under/(over) provision in respect of prior years	1,310	(35,341)
Deferred tax (Note 27)	(732,026)	(2,997,939)
	(702,981)	(3,003,292)

Under the relevant Corporate Income Tax Law and regulations in the PRC, except for three (2021: two) branches and three (2021: three) subsidiaries of the Company, and some branches of a subsidiary of the Company which are taxed at a preferential rate of 15% (2021: 15%), all group companies located in Mainland China are subject to a corporate income tax rate of 25% during the year (2021: 25%). Subsidiaries in Hong Kong SAR, China are taxed at corporate income tax rates of 16.5% (2021: 16.5%) and subsidiaries in Macau SAR, China are taxed at corporate income tax rate of 12% (2021: 12%).

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

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

	2022 RMB'000	2021 RMB'000
Loss before taxation	(45,876,891)	(21,825,530)
Tax at the applicable tax rate of 25%	(11,469,223)	(5,456,383)
Preferential tax rates on income of group entities	676,241	383,349
Tax effect of share of results of associates and joint ventures	98,907	247,210
Tax effect of non-deductible expenses	259,889	97,000
Tax effect of non-taxable income	(8,112)	(4,812)
Tax effect of deductible temporary differences and tax losses not recognised	9,734,551	1,808,606
Tax effect of utilisation of tax losses and deductible temporary differences not recognised in prior years	(1,188)	(42,921)
Under/(over) provision in respect of prior years	1,310	(35,341)
Others	4,644	–
Income tax credit for the year	(702,981)	(3,003,292)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

15. LOSS PER SHARE

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

	2022 RMB'000	2021 RMB'000
Loss		
Loss for the purpose of basic and diluted loss per share	(38,617,495)	(16,635,178)

	2022 '000	2021 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	13,734,961	13,734,961

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

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

16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2021 and 2022, nor has any dividend been proposed since the end of both reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 2021	156,443,577	12,650,031	11,920,009	13,231,004	194,244,621
Additions	1,187,483	4,058	420,054	17,134,135	18,745,730
Transfer from construction in progress	2,924,342	1,828,768	608,004	(5,361,114)	-
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	1,010,679	-	-	-	1,010,679
Transfer from investment properties	-	4,699	-	-	4,699
Transfer to right-of-use assets	-	-	-	(11,651,605)	(11,651,605)
Transfer to assets held for sale	(3,477,249)	-	-	-	(3,477,249)
Disposals	(2,667,061)	(38,679)	(181,882)	-	(2,887,622)
Exchange realignment	(48,711)	-	(4,692)	-	(53,403)
At 31 December 2021	155,373,060	14,448,877	12,761,493	13,352,420	195,935,850
Additions	644,635	18,908	261,489	19,861,821	20,786,853
Transfer from construction in progress	5,978,392	1,359,998	519,664	(7,858,054)	-
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	3,045,004	-	-	-	3,045,004
Transfer from investment properties	-	28,459	-	-	28,459
Transfer to right-of-use assets	-	-	-	(12,542,369)	(12,542,369)
Transfer to assets held for sale	-	(4,381)	-	-	(4,381)
Disposals	(3,590,275)	(41,473)	(327,060)	-	(3,958,808)
Exchange realignment	189,148	-	15,260	-	204,408
At 31 December 2022	161,639,964	15,810,388	13,230,846	12,813,818	203,495,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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
Accumulated depreciation					
At 1 January 2021	(78,354,374)	(5,565,031)	(7,983,828)	-	(91,903,233)
Depreciation charge for the year	(8,106,372)	(448,018)	(705,392)	-	(9,259,782)
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	(545,076)	-	-	-	(545,076)
Transfer from investment properties	-	(1,170)	-	-	(1,170)
Transfer to assets held for sale	2,593,812	-	-	-	2,593,812
Eliminated on disposals	2,406,583	10,917	121,158	-	2,538,658
Exchange realignment	17,089	-	3,891	-	20,980
At 31 December 2021	(81,988,338)	(6,003,302)	(8,564,171)	-	(96,555,811)
Depreciation charge for the year	(7,529,353)	(487,866)	(767,351)	-	(8,784,570)
Transfer from right-of-use assets upon obtaining ownership of the underlying leased assets	(1,473,724)	-	-	-	(1,473,724)
Transfer from investment properties	-	(16,853)	-	-	(16,853)
Transfer to assets held for sale	-	3,079	-	-	3,079
Eliminated on disposals	3,272,966	28,508	267,863	-	3,569,337
Exchange realignment	(89,959)	-	(12,940)	-	(102,899)
At 31 December 2022	(87,808,408)	(6,476,434)	(9,076,599)	-	(103,361,441)
Impairment					
At 1 January 2021	(994,898)	-	-	-	(994,898)
Recognised for the year (Note)	(292,467)	-	(95)	-	(292,562)
Transfer to assets held for sale	549,553	-	-	-	549,553
Eliminated on disposals	162,480	-	95	-	162,575
At 31 December 2021	(575,332)	-	-	-	(575,332)
Recognised for the year (Note)	(62,584)	-	-	-	(62,584)
Eliminated on disposals	78,400	-	-	-	78,400
At 31 December 2022	(559,516)	-	-	-	(559,516)
Net book value					
At 31 December 2022	73,272,040	9,333,954	4,154,247	12,813,818	99,574,059
At 31 December 2021	72,809,390	8,445,575	4,197,322	13,352,420	98,804,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: During the year, the Group recognised impairment loss amounting to approximately RMB63 million (2021: RMB293 million) for certain aircraft that will unlikely return to service before they retire from service.

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

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

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

As at 31 December 2022, the Group's aircraft and flight equipment, buildings and other equipment with an aggregate net book value of approximately RMB1,996 million (2021: RMB2,230 million) were pledged to secure certain bank loans of the Group (Note 36).

As at 31 December 2022, the Group was in the process of applying for the title certificates of certain buildings with an aggregate net book value of approximately RMB4,854 million (2021: RMB4,617 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Group's consolidated financial position as at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 2021	170,327,987	3,197,675	1,840,833	183,199	175,549,694
Additions	6,522,528	-	913,925	207,804	7,644,257
Transfer from property, plant and equipment	11,651,605	-	-	-	11,651,605
Transfer from investment properties	-	62	-	-	62
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(1,010,679)	-	-	-	(1,010,679)
Reduction upon completion/early termination of leases	(987,558)	-	(364,984)	(19,299)	(1,371,841)
Exchange adjustments	(118,007)	-	(4,095)	-	(122,102)
At 31 December 2021	186,385,876	3,197,737	2,385,679	371,704	192,340,996
Additions	3,331,617	906,430	1,072,921	109,472	5,420,440
Transfer from property, plant and equipment	12,540,646	-	-	1,723	12,542,369
Transfer from investment properties	-	9,018	-	-	9,018
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	(3,045,004)	-	-	-	(3,045,004)
Reduction upon completion/early termination of leases	(1,981,336)	(7,051)	(179,541)	(6,895)	(2,174,823)
Exchange adjustments	404,495	-	12,482	-	416,977
At 31 December 2022	197,636,294	4,106,134	3,291,541	476,004	205,509,973
Accumulated depreciation					
At 1 January 2021	(59,113,041)	(732,143)	(1,123,773)	(41,057)	(61,010,014)
Depreciation charged for the year	(11,066,632)	(68,854)	(480,147)	(34,062)	(11,649,695)
Transfer from investment properties	-	(21)	-	-	(21)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	545,076	-	-	-	545,076
Reduction upon completion/early termination of leases	952,224	-	360,018	19,299	1,331,541
Exchange adjustments	50,595	-	1,776	-	52,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

18. RIGHT-OF-USE ASSETS

	Aircraft and engines RMB'000	Land RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
At 31 December 2021	(68,631,778)	(801,018)	(1,242,126)	(55,820)	(70,730,742)
Depreciation charged for the year	(11,462,583)	(77,698)	(779,458)	(105,526)	(12,425,265)
Transfer from investment properties	-	(3,175)	-	-	(3,175)
Transfer to property, plant and equipment upon obtaining ownership of the underlying leased assets	1,473,724	-	-	-	1,473,724
Reduction upon completion/ early termination of leases	1,960,333	2,565	169,842	6,893	2,139,633
Exchange adjustments	(140,806)	-	(4,741)	-	(145,547)
At 31 December 2022	(76,801,110)	(879,326)	(1,856,483)	(154,453)	(79,691,372)
Net book value					
At 31 December 2022	120,835,184	3,226,808	1,435,058	321,551	125,818,601
At 31 December 2021	117,754,098	2,396,719	1,143,553	315,884	121,610,254

During the year, expense relating to short-term leases amounted to approximately RMB578 million (2021: RMB909 million), expense relating to leases of low-value assets, excluding short-term leases of low value assets, amounted to approximately RMB344,000 (2021: RMB996,000).

Leases committed

As at 31 December 2022, the Group had future undiscounted lease payments under non-cancellable period of RMB275 million (2021: RMB330 million), which was not recognised as lease liabilities since leases have yet to be commenced.

During the year, total cash outflow for leases was RMB18,140 million (2021: RMB15,992 million).

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

As at 31 December 2022, all the Group's land use rights, which are recorded as part of right-of-use assets are located in Mainland China, with an aggregate net book value of approximately RMB25 million (2021: RMB26 million) were pledged to secure certain bank loans and other borrowings of the Group (Note 36).

As at 31 December 2022, the Group was in the process of applying for the title certificates of certain land use rights acquired by the Group with an aggregate net book value of approximately RMB841 million (2021: Nil). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned land, and the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

19. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
Cost		
As at 1 January	759,692	764,453
Transfer to property, plant and equipment	(28,459)	(4,699)
Transfer to right-of-use assets	(9,018)	(62)
As at 31 December	722,215	759,692
Accumulated depreciation		
As at 1 January	(187,894)	(164,124)
Depreciation for the year	(23,839)	(24,961)
Transfer to property, plant and equipment	16,853	1,170
Transfer to right-of-use assets	3,175	21
As at 31 December	(191,705)	(187,894)
Net carrying amount		
As at 31 December	530,510	571,798

20. INTANGIBLE ASSETS

As at 31 December 2022, The Group's intangible assets is 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. The Admission Rights have an indefinite useful life due to their lasting legal and economic significance.

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21. GOODWILL

	2022 RMB'000	2021 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 discount rate of 11% (2021: 12%). The discount rate used is a pre-tax rate that reflects the risks specific to the unit. Shenzhen Airlines' cash flows beyond the five-year period were extrapolated using a 2.5% (2021: 2%) growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash flows which include budgeted sales and gross margin are based on the unit's past performance and management's expectations for the market development.

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

22. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Company name	Place of incorporation/ registration and operations	Legal status	Paid up issued/ registered capital	Percentage of equity interests attributable to the Company as at 2022 and 2021		Principal activities
				Direct %	Indirect %	
China National Aviation Company Limited ("CNAC") (中航興業有限公司)	Hong Kong SAR, China	Limited liability company	HKD331,268,000	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
Air China Development Corporation (Hong Kong) Limited (國航香港發展有限公司)	Hong Kong SAR, China	Limited liability company	HKD9,379,010	95	-	Provision of air ticketing services

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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 as at 2022 and 2021		Principal activities
				Direct %	Indirect %	
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 ("BVI")	Limited liability company	HKD13,765,440,000	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	MOP842,042,000	-	66.9	Airline operator
Chengdu Falcon Aircraft Engineering Service Co., Ltd. [#] (成都富凱飛機工程服務有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	30	30	Provision of aircraft overhaul and maintenance services
Shenzhen Airlines (深圳航空有限責任公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB5,360,000,000	51	-	Airline operator
Kunming Airlines Co., Ltd. [#] (昆明航空有限公司) (Note(b))	PRC/Mainland China	Limited liability company	RMB80,000,000	-	80	Airline operator
Beijing Airlines Co., Ltd. [#] (北京航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	51	-	Airline operator
Dalian Airlines Co., Ltd. [#] (大連航空有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB3,000,000,000	80	-	Airline operator
Air China Inner Mongolia Co., Ltd. [#] (中國國際航空內蒙古有限公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,000,000,000	80	-	Airline operator
Aircraft Maintenance and Engineering Corporation ("AMECO") (北京飛機維修工程有限公司) (Note(b))	PRC/Mainland China	Limited liability company	US\$300,052,800	75	-	Provision of aircraft overhaul and maintenance services
China National Aviation Finance Co., Ltd. ("CNAF") (中國航空集團財務有限責任公司) (Note(a))	PRC/Mainland China	Limited liability company	RMB1,127,961,864	51	-	Provision of financial services

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

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22. INTERESTS IN SUBSIDIARIES (continued)

Notes:

- (a) These companies are wholly-domestic owned enterprises.
 (b) These companies are sino-foreign equity joint ventures.

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 2022, 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	1,000,000	1,024,739	05/03/2023
	2,000,000	2,020,817	23/08/2024
	1,500,000	1,537,210	18/02/2025
	1,500,000	1,539,672	25/02/2025
	1,000,000	1,026,309	21/03/2025
	1,500,000	1,536,677	07/04/2025
	700,000	715,855	26/04/2025
		9,401,279	

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

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

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22. INTERESTS IN SUBSIDIARIES (continued)

Composition of the Group

Principal activities	Place of incorporation/ registration and operations	Number of principal subsidiaries	
		2022	2021
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 air ticketing service	Hong Kong SAR	1	1
Provision of human resources services	PRC	1	1
Provision of aircraft overhaul and maintenance services	PRC	2	2
Provision of financial services	PRC	1	1
		15	15

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 subsidiaries	Place of registration and operations	Proportion of equity interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		at 31 December		year ended 31 December		at 31 December	
		2022	2021	2022	2021	2022	2021
				RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen Airlines	PRC	49%	49%	(5,753,524)	(1,785,914)	(4,548,830)	1,180,902
Individually immaterial subsidiaries with non- controlling interests				(802,891)	(401,146)	2,499,882	3,281,652
Total				(6,556,415)	(2,187,060)	(2,048,948)	4,462,554

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22. INTERESTS IN SUBSIDIARIES (continued)

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

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

	Shenzhen Airlines	
	2022 RMB'000	2021 RMB'000
Current assets	4,043,309	4,783,241
Non-current assets	60,266,673	62,260,532
Current liabilities	(22,057,983)	(26,981,907)
Non-current liabilities	(51,028,062)	(37,457,985)
Net (liabilities)/assets	(8,776,063)	2,603,881
– Equity contributed to equity shareholders of Shenzhen Airlines	(8,288,691)	2,790,155
– Equity contributed to the non-controlling interests (“NCI”) of Shenzhen Airlines' subsidiaries	(487,372)	(186,274)
Carrying amount of NCI	(4,548,830)	1,180,902
Revenue	12,540,728	18,500,326
Loss for the year	(11,428,498)	(3,490,838)
Total comprehensive expense	(11,379,944)	(3,536,273)
– attributable to equity shareholders of Shenzhen Airlines	(11,078,847)	(3,388,423)
– attributable to NCI of Shenzhen Airlines' subsidiaries	(301,097)	(147,850)
Dividend paid to NCI	–	(2,400)
Cash (used in)/generated from operating activities	(3,936,692)	2,156,595
Cash used in investing activities	(489,364)	(1,483,742)
Cash from financing activities	3,765,041	1,739,780

23. INTERESTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets		
– Listed shares in the PRC	–	–
– Listed shares in Hong Kong SAR, China	7,828,779	7,128,872
– Unlisted investments	144,913	796,274
Goodwill	2,562,791	2,465,794
As at 31 December	10,536,483	10,390,940
Market value of listed shares	14,692,504	10,459,833

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23. INTERESTS IN ASSOCIATES (continued)

Details of each of the Group's associates at the end of the reporting period are 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
			as at 31 December		
			2022 %	2021 %	
Cathay Pacific* (國泰航空有限公司)	Hong Kong SAR, China	HKD28,822,000,000	29.99	29.99	Airline operator
Shandong Aviation Group Co., Ltd. (山東航空集團有限公司) ("Shandong Aviation")	PRC/Mainland China	RMB580,000,000	49.4	49.4	Investment holding
Shandong Airlines Co., Ltd. (山東航空股份有限公司) ("Shandong Airlines")	PRC/Mainland China	RMB400,000,000	22.8	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	41	Provision of airport ground handling services
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	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	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	31	Airline operator
ZhengZhou Aircraft Maintenance and Engineering Co., Ltd.* (鄭州飛機維修工程有限公司)	PRC/Mainland China	RMB150,000,000	30	30	Provision of overhaul and maintenance services
Chongqing Air Catering Co., Ltd.* (重慶中航食品有限責任公司)	PRC/Mainland China	RMB80,000,000	6.25	6.25	Provision of airline catering service
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

* 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.

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23. INTERESTS IN ASSOCIATES (continued)

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

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

Cathay Pacific

	2022 RMB'000	2021 RMB'000
Gross amounts of the associate's		
Current assets	23,525,160	23,626,187
Non-current assets	138,079,890	137,136,048
Current liabilities	(38,769,705)	(35,267,176)
Non-current liabilities	(65,769,684)	(66,424,277)
Equity	57,065,661	59,070,782
– Equity contributed to equity shareholders of the associate	37,887,154	42,019,734
– Equity contributed to preferred shareholders of the associate	18,703,287	16,616,902
– Equity contributed to NCI of the associate	5,360	4,088
– Equity contributed to convertible bond holders of the associate	469,860	430,058
Revenue	43,657,981	37,819,887
Loss for the year	(5,600,533)	(4,584,480)
Other comprehensive (expense)/income	(1,555,181)	3,308,525
Total comprehensive expense	(7,155,714)	(1,275,955)
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate attributable to equity shareholders	37,887,154	42,019,734
Group's effective interest	29.99%	29.99%
Group's share of net assets of the associate	11,362,357	12,601,718
Elimination of reciprocal shareholding	(3,533,578)	(5,472,846)
Goodwill	2,535,073	2,320,324
Carrying amount in the consolidated financial statements	10,363,852	9,449,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

23. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material:

	2022 RMB'000	2021 RMB'000
Aggregate carrying amounts of individually immaterial associates in the consolidated financial statements	172,631	941,744
Aggregate amounts of the Group's share of those associates'		
– Loss for the year	(729,401)	(224,094)
– Other comprehensive income/(expense) for the year	3,821	(5,046)
– Total comprehensive expense for the year	(725,580)	(229,140)

Unrecognised share of losses of associates of the Group:

Name	Cumulative unrecognised share of losses at 31 December 2021 RMB'000	Unrecognised share of losses for the year RMB'000	Cumulative unrecognised share of losses at 31 December 2022 RMB'000
– Shandong Aviation	–	925,311	925,311
– Shandong Airlines	223,016	1,565,263	1,788,279
	223,016	2,490,574	2,713,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. INTERESTS IN JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Share of net assets	2,171,314	1,823,575
Goodwill	6,495	6,495
	2,177,809	1,830,070

Details of each of the Group's joint ventures at the end of the reporting period are 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
			as at 31 December		
			2022 %	2021 %	
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
Beijing Aero-Engine Services Co., Ltd. [#] (北京航空發動機維修有限公司) (Note)	PRC/Mainland China	US\$190,000,000	50	-	Provision of engine overhaul and maintenance services

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

Note: On 22 August 2022, Beijing Aero-Engine Services Co., Ltd. was incorporated with 50% interest hold by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

24. INTERESTS IN JOINT VENTURES (continued)

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.

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:

	2022 RMB'000	2021 RMB'000
Aggregate carrying amounts of individually immaterial joint ventures in the consolidated financial statements	2,177,809	1,830,070
Aggregate amounts of the Group's share of those joint ventures'		
– Profit for the year	376,872	272,965
– Total comprehensive income for the year	376,872	272,965

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Unlisted investments:		
– Equity securities	241,717	176,323

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 2022

26. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Investments in listed bonds	1,360,982	1,373,634

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

Details of impairment assessment are set out in Note 44.

27. DEFERRED TAXATION

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets:		
As at 1 January	11,131,899	8,179,742
Credited to profit or loss (Note 14)	783,153	2,953,193
Exchange realignment	2,224	(1,036)
Gross deferred tax assets as at 31 December	11,917,276	11,131,899
Deferred tax liabilities:		
As at 1 January	1,702,865	1,763,579
Charged/(credited) to profit or loss (Note 14)	51,127	(44,746)
Charged/(credited) to other comprehensive income	13,254	(15,968)
Gross deferred tax liabilities as at 31 December	1,767,246	1,702,865
Net deferred tax assets as at 31 December	10,150,030	9,429,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

27. DEFERRED TAXATION (continued)

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets:		
Deductible tax losses	6,295,356	6,076,172
Provisions and accruals	3,402,296	3,370,105
Right-of-use assets and lease liabilities	1,644,935	986,794
Impairment	294,182	440,958
Unrealised profit of intra-group transactions	222,470	198,248
Differences in value of property, plant and equipment	55,875	56,543
Impairment of investments in debt instruments at FVTOCI	2,159	2,978
Unrealised loss on derivative financial instruments	3	101
Gross deferred tax assets	11,917,276	11,131,899
Deferred tax liabilities:		
Depreciation allowances in excess of the related depreciation	(1,318,755)	(1,341,399)
Unrealised equity investment income	(117,033)	(43,262)
Changes in fair value of equity instruments at FVTOCI	(51,247)	(34,899)
Impairment of investments in debt instruments at FVTOCI	(2,159)	(2,978)
Changes in fair value of debt instruments at FVTOCI	(1,779)	(4,054)
Others	(276,273)	(276,273)
Gross deferred tax liabilities	(1,767,246)	(1,702,865)
Net deferred tax assets	10,150,030	9,429,034

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

	2022 RMB'000	2021 RMB'000
Net deferred tax assets	10,473,327	9,757,097
Net deferred tax liabilities	(323,297)	(328,063)
	10,150,030	9,429,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

27. DEFERRED TAXATION (continued)

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

	2022 RMB'000	2021 RMB'000
Deductible tax losses	47,280,705	7,919,175
Other unrecognised deductible temporary differences	490	484
	47,281,195	7,919,659

At the end of the reporting period, the Group has unused tax losses of approximately RMB72,462 million (2021: RMB32,224 million) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately RMB25,181 million (2021: RMB24,305 million) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately RMB47,281 million (2021: RMB7,919 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 RMB47,251 million (2021: RMB7,897 million) with expiry dates as disclosed in the following table. Other tax losses may be carried forward indefinitely.

	2022 RMB'000	2021 RMB'000
2022	–	8,219
2023	445,810	445,810
2024	302,295	302,295
2025	450,281	18,689
2026	7,437,825	5,243,540
2027	33,417,819	–
2028	5,197,211	1,878,358
	47,251,241	7,896,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. INVENTORIES

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

	2022 RMB'000	2021 RMB'000
Spare parts of flight equipment	1,136,602	1,072,143
Catering supplies	78,418	82,534
Equipment	7,440	9,072
Others	1,335,363	886,533
	2,557,823	2,050,282

29. ACCOUNTS RECEIVABLE

	2022 RMB'000	2021 RMB'000
Accounts receivable	1,794,464	3,150,020
Less: Allowance for expected credit losses	(145,108)	(158,983)
	1,649,356	2,991,037

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:

	2022 RMB'000	2021 RMB'000
Within 30 days	871,543	1,841,788
31 to 60 days	354,939	912,729
61 to 90 days	103,925	68,098
Over 90 days	318,949	168,422
	1,649,356	2,991,037

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 2022

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of prepayments, deposits and other receivables as at the end of the reporting period, net of allowance for expected credit losses, was as follows:

	2022 RMB'000	2021 RMB'000
Manufacturers' credits	456,026	639,348
Prepayments of jet fuel	85,077	66,756
Other prepayments	283,615	373,518
	824,718	1,079,622
Deposits and other receivables	2,351,700	2,551,899
	3,176,418	3,631,521

As at 31 December 2022, the allowance for expected credit losses mainly consisted of the full provision for the amount due from Shenzhen Airlines Property Development Co., Ltd. of RMB293,685,000 (2021: RMB298,438,000). The decrease of allowance for expected credit losses was due to the collection of RMB4,753,000 from Shenzhen Airlines Property Development Co., Ltd. during the current year.

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

31. RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Time deposits with banks	231,390	223,818
Bank and cash	11,204,487	16,485,846
Less: Restricted bank deposits (Note)	(828,166)	(774,951)
Cash and cash equivalents	10,607,711	15,934,713

Note: As at 31 December 2022 and 2021, the Group's restricted bank deposits mainly contains deposits with the People's Bank of China by CNAF, deposits against aircraft leases and bank deposits with an original maturity of more than three months.

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For the Year Ended 31 December 2022

32. OTHER CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
The value added tax credit	2,458,518	4,050,877
Debt instruments at FVTOCI	793,677	–
Loans to related parties	120,107	80,085
Debt instruments at amortised cost	–	500,000
Others	47,272	49,052
	3,419,574	4,680,014
Impairment	(6,100)	(7,422)
	3,413,474	4,672,592

Loans to related parties mainly represented loans to CNAHC and its subsidiaries by CNAF at a rate of 3.20%-3.60% (2021: 3.50%) per annum and the loans are repayable within one year.

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

33. ACCOUNTS PAYABLE

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

	2022 RMB'000	2021 RMB'000
Within 30 days	4,233,975	4,440,586
31 to 60 days	1,228,802	1,070,102
61 to 90 days	950,354	1,053,190
Over 90 days	4,522,415	6,026,897
	10,935,546	12,590,775

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

34. OTHER PAYABLES AND ACCRUALS

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

	2022 RMB'000	2021 RMB'000
Accrued salaries, wages and benefits	4,371,313	3,610,772
Payables for construction in progress	1,484,480	1,496,416
Deposits received from sales agents	307,024	367,250
Other tax payables	266,571	161,513
Current portion of long-term payables	3,003	15,624
Deposits received by CNAF from related parties	7,790,663	11,336,605
Others	2,325,090	2,605,760
	16,548,144	19,593,940

35. LEASE LIABILITIES

The Group has obligations under lease agreements expiring during the years from 2023 to 2034 (2021: from 2022 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 2022		At 31 December 2021	
	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	20,023,361	17,085,829	17,511,588	14,534,309
– After 1 year but within 2 years	18,618,357	16,082,080	16,940,172	14,468,929
– After 2 years but within 5 years	40,807,251	36,673,405	41,151,717	36,603,375
– After 5 years	25,190,894	24,141,862	26,984,463	25,274,747
Total	104,639,863	93,983,176	102,587,940	90,881,360
Less: Amounts representing future finance costs	(10,656,687)		(11,706,580)	
Present values of lease payments	93,983,176		90,881,360	
Less: Portion classified as current liabilities	(17,085,829)		(14,534,309)	
Non-current portion	76,897,347		76,347,051	

The weighted average incremental borrowing rates applied to lease liabilities ranged from 0.32% to 4.90% per annum at 31 December 2022 (2021: from 0.37% to 4.90%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

36. INTEREST-BEARING BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank loans and other borrowings:		
– Secured	1,315,191	1,560,835
– Unsecured	113,287,610	66,528,013
	114,602,801	68,088,848
Corporate bonds and short-term commercial papers:		
– Secured	6,773,180	6,773,180
– Unsecured	14,428,305	18,459,894
	21,201,485	25,233,074
	135,804,286	93,321,922
	2022 RMB'000	2021 RMB'000
Bank loans and other borrowings repayable:		
– Within 1 year	32,949,027	24,468,380
– After 1 year but within 2 years	19,980,259	20,840,886
– After 2 years but within 5 years	61,558,753	22,626,486
– After 5 years	114,762	153,096
	114,602,801	68,088,848
Corporate bonds and short-term commercial papers repayable:		
– Within 1 year	10,008,143	15,733,495
– After 1 year but within 2 years	2,020,817	7,476,609
– After 2 years but within 5 years	9,172,525	2,022,970
	21,201,485	25,233,074
Total interest-bearing borrowings	135,804,286	93,321,922
Less: Portion classified as current liabilities	(42,957,170)	(40,201,875)
Non-current portion	92,847,116	53,120,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

36. INTEREST-BEARING BORROWINGS (continued)

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

	2022 RMB'000	2021 RMB'000
United State Dollar ("USD")	116,117	1,464,616
European Dollar ("EURO")	114,859	111,716
HKD	403,299	368,619
Macau Pataca ("MOP")	673,747	-
	1,308,022	1,944,951

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

	2022		2021	
	RMB'000	%	RMB'000	%
Fixed rate bank and other borrowings	75,590,803	2.00-4.38	49,849,416	1.30-4.38
Fixed rate corporate bonds and short-term commercial papers	21,201,485	1.81-5.30	25,233,074	2.34-5.30
Floating rate bank and other borrowings	39,011,998	2.25-5.79	18,239,432	2.66-4.65
	135,804,286		93,321,922	

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

The nominal amount of the Group's bank loans and corporate bonds of approximately RMB8,088 million as at 31 December 2022 (2021: RMB8,334 million) were secured or guaranteed by:

- (a) Secured by certain of the Group's aircraft and flight equipment, buildings and other equipment with an aggregate net book value of approximately RMB1,994 million as at 31 December 2022 (2021: RMB2,230 million) (Note 17); and land use rights with an aggregate net book value of approximately RMB25 million as at 31 December 2022 (2021: RMB26 million) (Note 18);
- (b) As at 31 December 2022, corporate bonds issued by the Group with a face value of RMB6,500 million (2021: RMB6,500 million) were guaranteed by CNAHC.

As at 31 December 2022, corporate bonds with carrying amount of RMB9,401 million (2021: corporate bonds and short-term commercial papers with carrying amount of RMB8,677 million) were issued by Shenzhen Airlines, a subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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:

	2022 RMB'000	2021 RMB'000
As at 1 January	9,384,846	8,810,074
Provision for the year	963,654	1,196,797
Utilisation during the year	(806,278)	(622,025)
As at 31 December	9,542,222	9,384,846
Less: Portion classified as current liabilities	(936,804)	(801,235)
Non-current portion	8,605,418	8,583,611

As at 31 December 2022, provision for major overhauls was RMB6,421 million (2021: RMB6,373 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.

38. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Frequent-flyer programme (Note)	2,028,222	2,706,173
Others	489,806	545,753
	2,518,028	3,251,926
Analysed as:		
Current portion	1,095,185	1,479,717
Non-current portion	1,422,843	1,772,209
	2,518,028	3,251,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

38. CONTRACT LIABILITIES (continued)

Note:

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

	2022 RMB'000	2021 RMB'000
As at 1 January	2,706,173	3,092,542
Additions during the year	805,257	1,099,211
Recognised as revenue during the year	(1,483,208)	(1,485,580)
As at 31 December	2,028,222	2,706,173
Less: Portion classified as current liabilities	(605,379)	(933,964)
Non-current portion	1,422,843	1,772,209

39. DEFINED BENEFIT OBLIGATIONS

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

	2022 RMB'000	2021 RMB'000
Post-retirement benefit obligations	225,824	242,920
Less: current portion	(23,808)	(24,584)
Long-term portion	202,016	218,336

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

39. DEFINED BENEFIT OBLIGATIONS (continued)

Movements of the defined benefit obligations were set out as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	242,920	254,932
Remeasurement loss	952	5,787
Interest cost	6,573	7,749
Payments	(24,621)	(25,548)
At 31 December	225,824	242,920
Less: current portion	(23,808)	(24,584)
Long-term portion	202,016	218,336

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2022 RMB'000	2021 RMB'000
Finance costs		
– Interest cost	6,573	7,749
Other comprehensive expense		
– Remeasurement loss	952	5,787
Total defined benefit costs	7,525	13,536

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 2022 and 2021 were carried out by an independent firm of actuaries, Ernst & Young (China) Advisory Limited. The present value of the defined benefit obligations, and the related past cost were measured using the projected unit credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

39. DEFINED BENEFIT OBLIGATIONS (continued)

Significant actuarial assumptions (expressed as weighted averages) are as follows:

	2022	2021
Discount rate	2.90%	2.85%
Average expected remaining life of eligible participants	11.7 years	12.3 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 RMB8.3 million (2021: increase by RMB9.2 million).
- If the mortality changes to 95% of original assumption, the defined benefit obligations would increase by RMB4.9 million (2021: increase by RMB5.1 million).

40. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants	317,993	439,757
Others	100,207	104,626
	418,200	544,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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:

	Issued capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2021	14,524,815	27,536,897	11,527,181	20,148,272	73,737,165
Total comprehensive expense for the year	–	(3,858)	–	(13,252,578)	(13,256,436)
Others	–	3,637	–	(3,637)	–
As at 31 December 2021	14,524,815	27,536,676	11,527,181	6,892,057	60,480,729
Total comprehensive expense for the year	–	(10)	–	(30,794,040)	(30,794,050)
Others	–	10	–	(10)	–
As at 31 December 2022	14,524,815	27,536,676	11,527,181	(23,901,993)	29,686,679

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

41. CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

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 2022, in accordance with the PRC Company Law, amount of approximately RMB11,527 million (2021: RMB11,527 million) standing to the credit of the Company's reserve funds, as determined in accordance with CASs, were available for distribution by way of future capitalisation issue. In addition, the Company had accumulated losses of approximately RMB25,147 million as at 31 December 2022 (2021: retained earnings of approximately RMB5,649 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 2022 and 31 December 2021 are as follows:

	Number of shares 2022	Nominal value 2022 RMB'000	Number of shares 2021	Nominal value 2021 RMB'000
Registered, issued and fully paid:				
H shares of RMB1.00 each:				
– Tradable	4,562,683,364	4,562,683	4,562,683,364	4,562,683
A shares of RMB1.00 each:				
– Tradable	9,962,131,821	9,962,132	9,962,131,821	9,962,132
	14,524,815,185	14,524,815	14,524,815,185	14,524,815

A shares rank pari passu, in all material respects, with H shares of the Company.

(c) Treasury shares

As at 31 December 2022, the Group owned 29.99% equity interest in Cathay Pacific (2021: 29.99%), which in turn owned 18.13% equity interest in the Company (2021: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

41. CAPITAL AND RESERVES (continued)

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies, or processes for managing capital during the years ended 31 December 2022 and 2021.

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:

	2022 RMB'000	2021 RMB'000
Total liabilities	273,451,149	232,550,079
Total assets	294,979,377	298,381,190
Gearing ratio	92.70%	77.94%

42. CONTINGENT LIABILITIES

As at 31 December 2022, the Group had the following contingent liabilities:

Pursuant to the restructuring of CNAHC in preparation for the listing of the Company's H shares on the HKSE and the LSE, the Company entered into a restructuring agreement (the "Restructuring Agreement") with CNAHC and China National Aviation Corporation (Group) Limited ("CNACG", a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally, or jointly and severally, for debts and obligations incurred prior to the restructuring by CNAHC and CNACG. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
– Aircraft and flight equipment	56,952,422	28,695,911
– Buildings and others	1,556,361	1,825,802
Total capital commitments	58,508,783	30,521,713

(b) Investment commitments

The Group had the following amount of investment commitments as at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
– investment commitment to joint ventures	511,898	22,315

In 2012, the Company entered into an agreement with a joint venture as its 50% shareholder. As at 31 December 2022 and 2021, the Company has invested USD1.5 million and committed to invest USD3.5 million in the future.

During the year ended 31 December 2022, the Company entered into an agreement with a joint venture as its 50% shareholder. As at 31 December 2022, the Company has invested USD25 million and committed to invest USD70 million in the future.

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44. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Amortised cost:		
Accounts receivable	1,649,356	2,991,037
Deposits and other receivables	2,351,700	2,551,899
Deposits for aircraft under leases	539,624	566,684
Bills receivable	7,483	3,591
Loans to related parties	114,007	73,795
Restricted bank deposits	828,166	774,951
Cash and cash equivalents	10,607,711	15,934,713
Debt instruments at amortised cost	-	498,783
Other non-current assets	-	7,962
	16,098,047	23,403,415
Financial assets at FVTPL	3,398	4,157
Equity instruments at FVTOCI	241,717	176,323
Debt instruments at FVTOCI (including debt instruments at FVTOCI included in other current assets)	2,154,659	1,373,634
Financial liabilities		
Amortised cost:		
Accounts payable	10,935,546	12,590,775
Bills payable	-	199,276
Other payables	11,744,531	15,402,329
Interest-bearing borrowings	135,804,286	93,321,922
Dividends payable	98,000	98,000
	158,582,363	121,612,302
Lease liabilities	93,983,176	90,881,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 lease liabilities and fixed rate bank loans and other borrowings (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 loans and other borrowings, lease liabilities, restricted bank deposits, bank balances and loans to related parties include in other current assets. 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, loans to related parties include in other current assets, floating rate bank loans 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 (2021: 50 basis points) higher/lower with all other variables held constant, the Group's post-tax loss for the year ended 31 December 2022 and equity as at 31 December 2022 would increase/decrease by approximately RMB337,204,000 (2021: RMB222,196,000) taking into account the capitalisation of borrowing costs.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Currency risk

The Group's exposure to currency risk is attributable to cash and cash equivalents, accounts receivable, deposits and other receivables, accounts payable, other payables, lease liabilities and interest-bearing borrowings which are denominated in the currencies other than the functional currency of the relevant group entities. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
USD	4,662,006	2,749,520	41,306,548	44,986,142
EURO	126,316	201,872	662,117	405,609
HKD	250,970	205,125	504,600	476,904
JPY	27,488	31,088	501,719	675,798

Sensitivity analysis

The sensitivity analysis below has been determined based on a 1% (2021: 1%) increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 1% (2021: 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% (2021: 1%) change in foreign currency rates. A positive number below indicates a decrease in the Group's post-tax loss, where functional currency of respective group entities had strengthened 1% (2021: 1%) against the relevant foreign currency. For a 1% (2021: 1%) weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the post-tax loss for the year.

	Decrease in the Group's post-tax loss/ equity 2022 RMB'000	Decrease in the Group's post-tax loss/ equity 2021 RMB'000
- if RMB strengthens against USD	273,963	316,775
- if RMB strengthens against EURO	4,019	1,528
- if RMB strengthens against JPY	3,557	4,835
- if RMB strengthens against HKD	1,902	2,038

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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.

Accounts receivable of the Group mainly include receivables from CNAHC, receivables of transportation service fee on the passenger aircraft cargo business, and receivables from BSP agents (a clearing system between airlines and sales agents organised by the International Air Transportation Association). The balance due from above customers respectively amounted to approximately RMB403 million or 22% of accounts receivable, RMB308 million or 17% of accounts receivable, and RMB242 million or 13% of accounts receivable as at 31 December 2022 (2021: RMB384 million or 12% of accounts receivable, RMB1,588 million or 50% of accounts receivable, and RMB312 million or 10% of accounts receivable). The credit risk exposure to above customers and the remaining accounts receivable balance are monitored by the Group on an ongoing basis. In addition, the Group performs impairment assessment under ECL model on accounts receivable individually or based on provision matrix. The Group continues to pay attention to the credit risk and the balance of the above amounts.

In the opinion of management, the Group has no significant credit risk with BSP as the Group maintains long-term and stable business relationships with BSP with healthy repayment history.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

Other than the above mentioned concentration of credit risk, the Group does not have any other significant concentration of credit risk associated with financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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	2022		2021	
				Gross carrying amount RMB'000	Subtotal RMB'000	Gross carrying amount RMB'000	Subtotal RMB'000
Financial assets at FVTOCI							
Investments in listed bonds	26	AAA	12m ECL	1,360,982		1,373,634	
Other current assets – debt instruments	32	AAA	12m ECL	793,677	2,154,659	–	1,373,634
Financial assets at amortised costs							
Accounts receivable	29	N/A	Lifetime ECL (provision matrix) Credit-impaired	1,668,139 126,325	1,794,464	3,009,598 140,422	3,150,020
Deposits and other receivables	30	N/A	12m ECL Lifetime ECL (not credit-impaired) Credit-impaired	2,317,669 49,173 636,749	3,003,591	2,521,917 49,173 638,538	3,209,628
Deposits for aircraft under leases		N/A	12m ECL	539,624	539,624	566,684	566,684
Bills receivable		N/A	12m ECL	7,483	7,483	3,591	3,591
Loans to related parties	32	N/A	12m ECL	120,107	120,107	80,085	80,085
Restricted bank deposits	31	N/A	12m ECL	828,166	828,166	774,951	774,951
Cash and cash equivalents	31	N/A	12m ECL	10,603,771	10,603,771	15,933,417	15,933,417
Debt instruments at amortised cost	32	N/A	12m ECL	–	–	500,000	500,000
Other non-current assets – other deposits		N/A	12m ECL	–	–	7,962	7,962

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 2022. Debtors with credit-impaired with gross carrying amounts of RMB126 million as at 31 December 2022 (2021: RMB140 million) were assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For deposits and other receivables, financial assets included in other current assets and other non-current assets, the Group measures the loss allowance equal to 12m ECL, unless when these has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

Gross carrying amount of accounts receivable using a provision matrix

Customer group	2022		2021	
	Loss rate	Accounts receivable RMB'000	Loss rate	Accounts receivable RMB'000
Ground service receivable	1%	11,522	1%	20,777
BSP international	1%	19,942	1%	4,174
Others	0.05% – 4%	1,636,675	0.05% – 4%	2,984,647
		1,668,139		3,009,598

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 2021	21,547	137,982	159,529
Transfer to credit-impaired	(884)	884	–
Impairment losses recognised	1,980	10,104	12,084
Impairment losses reversed	(4,016)	(2,153)	(6,169)
Write-offs	–	(6,395)	(6,395)
Exchange adjustments	(66)	–	(66)
As at 31 December 2021	18,561	140,422	158,983
Transfer to credit-impaired	(21)	21	–
Impairment losses recognised	653	7,795	8,448
Impairment losses reversed	(650)	(11,503)	(12,153)
Write-offs	–	(10,410)	(10,410)
Exchange adjustments	240	–	240
As at 31 December 2022	18,783	126,325	145,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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 2021	25,811	5,073	808,891	839,775
Transfer to credit-impaired	(11,255)	–	11,255	–
Net impairment losses reversed	(431)	–	(170,352)	(170,783)
Write-offs	–	–	(11,256)	(11,256)
Exchange adjustments	(7)	–	–	(7)
As at 31 December 2021	14,118	5,073	638,538	657,729
Transfer to credit-impaired	(2,942)	–	2,942	–
Net impairment losses reversed	(1,126)	–	(4,728)	(5,854)
Write-offs	–	–	(3)	(3)
Exchange adjustments	19	–	–	19
As at 31 December 2022	10,069	5,073	636,749	651,891

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 RMB196,101 million as at 31 December 2022 (2021: RMB175,405 million), of which an amount of approximately RMB85,156 million was utilised (2021: RMB61,928 million).

The Directors had carried out a detailed review of the cash flow forecast of the Group for the year ended 31 December 2022. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Repayable on demand or within one year RMB'000	In the second year RMB'000	In the third year RMB'000	In the fourth year RMB'000	In the fifth year RMB'000	After five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2022								
Accounts payable	10,935,546	-	-	-	-	-	10,935,546	10,935,546
Other payables	11,744,531	-	-	-	-	-	11,744,531	11,744,531
Interest-bearing borrowings	45,530,167	24,036,740	69,132,604	460,109	3,220,491	212,761	142,592,872	135,804,286
Dividends payable	98,000	-	-	-	-	-	98,000	98,000
Lease liabilities	20,023,361	18,618,357	16,072,381	13,454,997	11,279,873	25,190,894	104,639,863	93,983,176
	88,331,605	42,655,097	85,204,985	13,915,106	14,500,364	25,403,655	270,010,812	252,565,539
At 31 December 2021								
Accounts payable	12,590,775	-	-	-	-	-	12,590,775	12,590,775
Bills payable	199,276	-	-	-	-	-	199,276	199,276
Other payables	15,402,329	-	-	-	-	-	15,402,329	15,402,329
Interest-bearing borrowings	42,265,384	30,062,186	24,642,416	268,847	331,302	253,305	97,823,440	93,321,922
Dividends payables	98,000	-	-	-	-	-	98,000	98,000
Lease liabilities	17,511,588	16,940,172	15,889,614	13,778,550	11,483,553	26,984,463	102,587,940	90,881,360
	88,067,352	47,002,358	40,532,030	14,047,397	11,814,855	27,237,768	228,701,760	212,493,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

c. Interest rate benchmark reform

As listed in Note 35, several of the Group's lease liabilities denominated based on LIBOR will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

As at 31 December 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US dollar settings (other than the 1-week and 2-month settings) which will be ceased immediately after 30 June 2023.

Progress towards implementation of alternative benchmark interest rates

The Group is planning to transition the majority of its LIBOR-linked contracts through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from LIBOR to alternative reference rate at an agreed point in time.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2022. The amounts of financial assets and liabilities are shown at their carrying amounts.

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts RMB'000	Hedging accounting	Transition progress for financial instruments
Lease liabilities linked to 3 month USD LIBOR	2023-2024	1,271,482	N/A	Expected to transition in 2023
Lease liabilities linked to 6 month USD LIBOR	2023-2025	5,951,477	N/A	Expected to transition in 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments

Fair value measurements for financial instruments measured at fair value on a recurring basis

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique.

	Fair value at	Fair value measurements		
	31 December	as at 31 December 2022 categorised into		
	2022	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss	3,398	3,398	-	-
Equity instruments at FVTOCI	241,717	-	-	241,717
Debt instruments at FVTOCI (including debt instruments at FVTOCI included in other current assets)	2,154,659	-	2,154,659	-
Total financial assets at fair value	2,399,774	3,398	2,154,659	241,717
	Fair value at	Fair value measurements		
	31 December	as at 31 December 2021 categorised into		
	2021	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss	4,157	4,157	-	-
Equity instruments at FVTOCI	176,323	-	-	176,323
Debt instruments at FVTOCI	1,373,634	-	1,373,634	-
Total financial assets at fair value	1,554,114	4,157	1,373,634	176,323

During the year ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

All financial instruments classified within Level 2 of the fair value hierarchy are debt investments the fair value of which were determined based upon the valuation conducted by the China Central Depository & Clearing Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

44. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments

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 2022 RMB'000	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	19,195,336	12,900,439	18,834,464	12,701,744

Fair value hierarchy as at 31 December 2022

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	–	18,834,464	–	18,834,464

Fair value hierarchy as at 31 December 2021

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
– corporate bonds (fixed rate)	–	12,701,744	–	12,701,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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	Corporate bonds and short-term commercial papers	Lease liabilities	Total
	Note 36	Note 36	Note 35	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	52,383,645	18,885,817	89,659,540	160,929,002
Financing cash flows	15,737,121	6,350,000	(15,082,110)	7,005,011
Foreign exchange translation	(42,398)	–	(1,174,665)	(1,217,063)
New leases entered/lease modified	–	–	17,518,895	17,518,895
Lease modification	–	–	(40,300)	(40,300)
Increase/(Decrease) in accrued interest	10,480	(2,743)	–	7,737
At 31 December 2021	68,088,848	25,233,074	90,881,360	184,203,282
Financing cash flows	46,289,085	(4,050,000)	(17,561,884)	24,677,201
Foreign exchange translation	195,738	–	3,770,867	3,966,605
New leases entered/lease modified	–	–	16,923,537	16,923,537
Lease modification	–	–	(30,704)	(30,704)
Increase in accrued interest	29,130	18,411	–	47,541
At 31 December 2022	114,602,801	21,201,485	93,983,176	229,787,462

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 RMB17,056 million (2021: RMB19,296 million) and lease liabilities of RMB16,924 million (2021: RMB17,519 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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

	2022 RMB'000	2021 RMB'000
<i>Service provided to the CNAHC Group</i>		
Transportation service fee on the passenger aircraft cargo business (Note)	9,665,584	10,491,416
Aircraft maintenance income	318,691	240,477
Government charter flights	252,041	365,433
Transfer of pilots income	172,051	–
Land and buildings rental income	151,343	133,371
Ground services income	106,920	96,671
Aviation communication expenses	30,157	53,268
Air catering income	18,551	30,103
Income from advertising media business	13,162	13,105
Sales commission income	506	626
Others	422,959	287,144
	11,151,965	11,711,614

Note: In 2022, the Company and Air China Cargo Co., Ltd. (“ACC”, a subsidiary of CNAHC) entered into the 2022 ACC framework agreement and related specific agreement of the passenger aircraft cargo business under an exclusive operating model, in accordance with which, the entire passenger aircraft cargo business of the Company would be operated exclusively by ACC, and ACC undertook the overall responsibilities for transporting the cargos to the consignors with respect to the cargos which are transported through the passenger aircraft. Under the exclusive operating model, the Company should charge ACC the transportation service fee regularly in each year. Upon the 2022 ACC framework agreement became effective, the previous 2019 ACC Framework Agreement was terminated immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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)

	2022 RMB'000	2021 RMB'000
<i>Service provided by the CNAHC Group</i>		
Operating service fee on the passenger aircraft cargo business	-	606,057
Airport ground services, take-off, landing and depot expenses	847,820	1,146,468
Air catering charges	372,721	747,368
Interest expenses	352,399	54,693
Management fees	295,118	253,146
Other procurement and maintenance	258,174	201,752
Aviation communication expenses	235,687	419,691
Media advertisement expenses	145,832	174,578
Expense relating to short-term leases and leases of low-value assets	87,882	93,200
Repair and maintenance costs	23,831	15,430
Construction management expenses	10,413	33,533
Sales commission expenses	1,193	3,421
Others	50,147	62,763
	2,681,217	3,812,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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)

	2022 RMB'000	2021 RMB'000
<i>Loans to the CNAHC Group by CNAF:</i>		
Advances of loans	40,000	60,000
Interest income	2,556	1,457
<i>Deposits from the CNAHC Group received by CNAF:</i>		
(Decrease)/increase in deposits received	(3,542,942)	6,875,992
Interest expenses	87,418	59,456
<i>As a lessee with CNAHC Group:</i>		
Addition in right-of-use assets and lease liabilities on new leases	5,043,426	3,703,170
Lease payments paid	2,154,594	1,881,577
Interest on lease liabilities	418,957	391,434
<i>Service provided to joint ventures and associates</i>		
Aircraft maintenance income	97,592	107,800
Ground services income	70,636	92,971
Frequent-flyer programme expenses	1,236	835
Land and buildings rental income	3,085	4,336
Air catering income	2,907	3,726
Sales commission income	398	523
Others	645	1,307
	176,499	211,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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)

	2022 RMB'000	2021 RMB'000
<i>Service provided by joint ventures and associates</i>		
Repair and maintenance costs	517,249	925,000
Airport ground services, take-off, landing and depot expenses	126,676	219,987
Other procurement and maintenance	94,547	17,084
Aviation communication expenses	5,166	5,743
Air catering charges	1,317	13
Expense relating to short-term leases and leases of low value assets	1,181	19,389
Sales commission expenses	300	685
Others	8	–
	746,444	1,187,901
<i>Deposits from joint ventures and associates received by CNAF:</i>		
Increase/(decrease) in deposits received	86,362	(2,708)
Interest expenses	2,406	2,670

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 2022

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

	2022 RMB'000	2021 RMB'000
<i>Outstanding balances with related parties*</i>		
Amount due from the ultimate holding company	405,194	384,102
Amounts due from associates	109,162	139,177
Amounts due from joint ventures	547	2,745
Amounts due from other related companies	653,381	1,878,142
<hr/>		
Amount due to the ultimate holding company	39,706	45,707
Amounts due to associates	78,787	80,836
Amounts due to joint ventures	248,095	320,974
Amounts due to other related companies	17,214,383	14,713,417

* Outstanding balances with related parties exclude borrowing balances with related parties and outstanding balances between CNAF and related parties.

Except for lease liabilities, the above outstanding balances with related parties are unsecured, interest-free and repayable within one year or have no fixed terms of repayment.

	2022 RMB'000	2021 RMB'000
<i>Outstanding borrowing balances with related parties:</i>		
Interest-bearing borrowings:		
– Due to the ultimate holding company	14,796,068	1,101,150
– Due to other related companies	1,061,844	330,280
<hr/>		
	2022 RMB'000	2021 RMB'000
<i>Outstanding balances between CNAF and related parties:</i>		
(1) Outstanding balances between CNAF and CNAHC Group		
Loans granted	120,000	80,000
Deposits received	7,598,398	11,236,165
Interest payable to related parties	22,062	13,622
Interest receivable from related parties	67	85
<hr/>		
(2) Outstanding balances between CNAF and joint ventures and associates of the Group		
Deposits received	173,151	86,789
Interest payable to related parties	52	29
Interest receivable from related parties	40	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

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)

The outstanding balances between CNAF and related parties represent loans to related parties or deposits received by CNAF from related parties. The applicable interest rates are determined in accordance with the prevailing borrowing rates/deposit saving rates published by The People’s Bank of China.

- (b) An analysis of the compensation of key management personnel of the Group is as follows:

	2022 RMB'000	2021 RMB'000
Short term employee benefits	10,931	14,068
Retirement benefits	1,632	660
Total emoluments for key management personnel	12,563	14,728

The breakdown of emoluments for key management personal are as follows:

	2022 RMB'000	2021 RMB'000
Directors and supervisors	3,074	3,532
Senior management	9,489	11,196
	12,563	14,728

Further details of the remuneration of the directors and supervisors are included in Note 13 to the consolidated financial statements.

- (c) Guarantee with related parties

Amount of guaranty at 31 December 2022:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2022 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 2022

47. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantee with related parties (continued)

Amount of guaranty at 31 December 2021:

Name of guarantor	Name of guarantee	Amount of guaranty at 31 December 2021 RMB'000	Inception date of guaranty	Maturity date of guaranty
Corporate bonds:				
CNAHC	Air China Limited	5,000,000	18/01/2013	18/07/2023
CNAHC	Air China Limited	1,500,000	16/08/2013	16/02/2024

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

48. EVENTS AFTER THE REPORTING PERIOD

- (a) In January 2023, pursuant to the approvals in 2022 to issue no more than 4,357,444,555 new non-public A shares to no more than 35 (inclusive) specified investors (including CNAHC), the Company issued 1,675,977,653 new non-public A shares at the price of RMB8.95 per share with par value of RMB1. Total proceed of the issue is RMB15,000 million and the net proceed is RMB14,993 million, after deducting issue cost of RMB7 million (excluding VAT).
- (b) On 30 December 2022, (i) the Company entered into the equity transfer agreements with Shansteel Financial Holdings Asset Management (Shenzhen) Company Limited (“Shansteel Financial Holdings”) (山鋼金控資產管理(深圳)有限公司) and Qingdao Qifa Trading Co., Ltd. (“Qingdao Qifa”) (青島市企發商貿有限公司) respectively, pursuant to which the Company acquired the 1.4067% and 0.9043% equity interest in Shandong Aviation held by Shansteel Financial Holdings and Qingdao Qifa at the consideration of RMB20,064,883.27 and RMB12,898,394.49, respectively; and (ii) the Company, Shandong Province Finance Investment Group Co., Ltd. (山東省財金投資集團有限公司), Shandong Hi-Speed Group Co., Ltd. (“Shandong Hi-Speed”) (山東高速集團有限公司) and Shandong Aviation entered into the capital increase agreement, pursuant to which the Company and Shandong Hi-Speed injected capital of RMB6,600,000,000 and RMB3,400,000,000 to Shandong Aviation respectively. Upon the completion of the transactions, the percentage of the equity interest of Shandong Aviation held by the Company will increase from 49.4067% to 66%, Shandong Aviation became a non-wholly owned subsidiary of the Company, of which its consolidated financial results will be consolidated into the Group’s consolidated financial statements thereafter.

As at 20, March 2023, the registration procedures for industrial and commercial changes in respect of the equity transfer was completed, the Company has acquired the control of Shandong Aviation.

Since the initial accounting for the business combination is incomplete at the time the consolidated financial statements are authorised for issue, it’s impracticable for the Company to disclose related information required by IFRS 3 B64.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period included:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets		
Property, plant and equipment	74,601,990	72,239,615
Right-of-use assets	90,522,197	85,304,541
Intangible assets	11,015	11,015
Interests in subsidiaries (Note 22)	20,153,167	20,153,167
Interests in associates	119,756	885,731
Interests in joint ventures	1,724,271	1,616,067
Advance payments for aircraft and flight equipment	12,546,345	13,425,634
Deposits for aircraft under leases	393,104	440,475
Equity instruments at fair value through other comprehensive income	22,110	22,110
Deferred tax assets	7,837,205	7,505,632
Other non-current assets	477,690	535,016
	208,408,850	202,139,003
Current assets		
Inventories	70,232	81,634
Accounts receivable	1,095,090	2,492,262
Prepayments, deposits and other receivables	2,536,882	2,665,597
Financial assets at fair value through profit or loss	3,398	3,066
Restricted bank deposits	30,744	30,635
Cash and cash equivalents	6,057,863	5,794,662
Assets held for sale	-	333,884
Other current assets	1,857,777	3,364,547
	11,651,986	14,766,287
Total assets	220,060,836	216,905,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Information about the statement of financial position of the Company at the end of the reporting period included:
(continued)

	31 December 2022 RMB'000	31 December 2021 RMB'000
Current liabilities		
Air traffic liabilities	(2,220,131)	(1,885,651)
Accounts payable	(7,349,395)	(9,830,667)
Other payables and accruals	(7,537,444)	(7,225,128)
Lease liabilities	(12,456,662)	(10,044,657)
Interest-bearing borrowings	(34,055,549)	(27,495,473)
Provision for return condition checks	(657,202)	(170,111)
Contract liabilities	(919,221)	(1,189,785)
	(65,195,604)	(57,841,472)
Net current liabilities	(53,543,618)	(43,075,185)
Total assets less current liabilities	154,865,235	159,063,818
Non-current liabilities		
Lease liabilities	(55,125,953)	(52,938,427)
Interest-bearing borrowings	(63,420,855)	(38,320,863)
Provision for return condition checks	(5,135,749)	(5,441,494)
Provision for early retirement benefit obligations	(807)	(1,006)
Contract liabilities	(1,256,237)	(1,528,569)
Deferred income	(238,952)	(352,730)
	(125,178,553)	(98,583,089)
NET ASSETS	29,686,679	60,480,729
CAPITAL AND RESERVES		
Issued capital	14,524,815	14,524,815
Reserves	15,161,864	45,955,914
TOTAL EQUITY	29,686,679	60,480,729

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	2022 RMB'000	2021 RMB'000
Net loss attributable to shareholders of the Company under CASs		(38,619,499)	(16,642,310)
Deferred taxation	(i)	(668)	(2,377)
Differences in value of fixed assets and certain non-current assets	(ii)	2,672	9,509
Net loss attributable to shareholders of the Company under IFRSs		(38,617,495)	(16,635,178)
	Notes	31 December 2022 RMB'000	31 December 2021 RMB'000
Equity attributable to shareholders of the Company under CASs		23,609,134	61,402,519
Deferred taxation	(i)	55,875	56,543
Differences in value of fixed assets and certain non-current assets	(ii)	(227,752)	(230,424)
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		23,577,176	61,368,557

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 two types: (1) in accordance with the accounting policies under IFRSs, all assets are recorded at historical cost. Therefore, the revaluation surplus or deficit (and the related depreciation/amortisation or impairment) recorded under CASs should be reversed in the financial statements prepared under IFRSs; (2) the differences were caused by the adoption of component accounting in different years under IFRSs and CASs. Component accounting was adopted by the Group on a prospective basis under IFRSs since 2005 and under CASs since 2007. Such differences are expected to be eliminated through depreciation or disposal of fixed assets in future.
- (iii) The difference was caused by the disposal of Hong Kong Dragon Airlines Limited to Cathay Pacific and is expected to be eliminated when the Group's interest in Cathay Pacific is disposed of.

GLOSSARY OF TECHNICAL TERMS

CAPACITY MEASUREMENTS

“available tonne kilometres” or “ATK(s)”	the number of tonnes of capacity available for transportation multiplied by the kilometres flown
“available seat kilometres” or “ASK(s)”	the number of seats available for sale multiplied by the kilometres flown
“available freight tonne kilometres” or “AFTK(s)”	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the kilometres flown

TRAFFIC MEASUREMENTS

“passenger traffic”	measured in RPK, unless otherwise specified
“revenue passenger kilometres” or “RPK(s)”	the number of revenue passengers carried multiplied by the kilometres flown
“cargo and mail traffic”	measured in RFTK, unless otherwise specified
“revenue freight tonne kilometres” or “RFTK(s)”	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
“revenue tonne kilometres” or “RTK(s)”	the revenue load (passenger and cargo) in tonnes multiplied by the kilometres flown

EFFICIENCY MEASUREMENTS

“overall load factor”	RTK expressed as a percentage of ATK
“passenger load factor”	RPK expressed as a percentage of ASK
“cargo and mail load factor”	RFTK expressed as a percentage of AFTK
“Block hours”	each whole and/or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

YIELD MEASUREMENTS

“passenger yield”/“yield per RPK”	revenues from passenger operations divided by RPKs
“cargo yield”/“yield per RFTK”	revenues from cargo operations divided by RFTKs

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

“Airbus”	Airbus S.A.S.
“Air China Cargo”	Air China Cargo Co., Ltd., a non-wholly owned subsidiary of CNAHC
“Air China Inner Mongolia”	Air China Inner Mongolia Co., Ltd., a non-wholly owned subsidiary of the Company
“Air Macau”	Air Macau Company Limited, a non-wholly owned subsidiary of the Company
“Ameco”	Aircraft Maintenance and Engineering Corporation, a non-wholly owned subsidiary of the Company
“Articles of Association”	the articles of association of the Company, as amended from time to time
“A Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on Shanghai Stock Exchange
“Beijing Airlines”	Beijing Airlines Company Limited, a non-wholly owned subsidiary of the Company
“Board”	the board of directors of the Company
“Boeing”	The Boeing Company
“CASS”	China Accounting Standards for Business Enterprises
“Capital Holding”	China National Aviation Capital Holding Co., Ltd., a wholly-owned subsidiary of CNAHC
“Cathay Pacific”	Cathay Pacific Airways Limited, an associate of the Company
“CNACD”	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC
“CNACG”	China National Aviation Corporation (Group) Limited, a wholly-owned subsidiary of CNAHC
“CNACG Group”	CNACG and its subsidiaries
“CNAF”	China National Aviation Finance Co., Ltd, a non-wholly owned subsidiary of the Company
“CNAHC”	China National Aviation Holding Corporation Limited
“CNAHC Group”	CNAHC and its subsidiaries
“COMAC”	Commercial Aircraft Corporation of China, Ltd.
“CNAMC”	China National Aviation Media Co., Ltd, a wholly-owned subsidiary of CNAHC
“Company, “We”, or “Air China”	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
“CSRC”	China Securities Regulatory Commission
“Dalian Airlines”	Dalian Airlines Company Limited, a non-wholly owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong” or “Hong Kong SAR”	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

DEFINITIONS

“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 2022 to 31 December 2022
“Date of this Annual Report”	30 March 2023
“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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