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If you have sold or transferred all your shares in Air China Limited, you should at once hand this circular and the form of proxy and the notice of attendance to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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中國國際航空股份有限公司
AIR CHINA LIMITED

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

CONTINUING CONNECTED TRANSACTIONS
AND
SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

A letter from the Board is set out on pages 3 to 10 of this circular.

A letter from the Independent Board Committee, containing its advice to the Independent Shareholders of the Company, is set out on pages 11 to 12 of this circular.

A letter from Asian Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 13 to 23 of this circular.

A supplemental notice convening the EGM to be held at The Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 10:00 a.m. on 29 October 2013 is set out on pages 27 to 28 of this circular. Whether or not you are able to attend and/or vote at the EGM, you are requested to complete and return the accompanying revised form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the EGM or any adjournment thereof. Completion and return of the revised form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment should you so wish.

15 October 2013

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
I. Introduction	3
II. Continuing Connected Transactions	4
III. EGM	9
IV. Recommendation	9
V. Additional Information	10
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	11
LETTER FROM ASIAN CAPITAL	13
APPENDIX I – GENERAL INFORMATION	24
APPENDIX II – SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING	27

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Air China Cargo”	Air China Cargo Co., Ltd, a company with limited liability incorporated under the laws of the PRC, 51% of whose registered capital is owned by the Company as at the Latest Practicable Date
“Asian Capital”	Asian Capital (Corporate Finance) Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions and the Proposed Annual Caps
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange, the principal activity of which is the operation of scheduled airline services
“Company”	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
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to seek Independent Shareholders’ approval for, among other things, the Transactions as set forth in this circular
“Framework Agreement”	the framework agreement, dated 27 October 2011, entered into between the Company and Air China Cargo in respect of the Transactions
“Group”	the Company and its subsidiaries

DEFINITIONS

“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming and Mr. Yang Yuzhong, all being the independent non-executive directors of the Company
“Independent Shareholders”	the shareholders of the Company excluding Cathay Pacific and its associates
“Latest Practicable Date”	9 October 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules, i.e. “assets ratio”, “profits ratio”, “revenue ratio”, “consideration ratio” and “equity capital ratio”
“PRC”	The People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Proposed Annual Caps”	the proposed annual caps of the Transactions for each of the three years ending 31 December 2014, 2015 and 2016
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Listing Rules”	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
“Shareholders”	the shareholders of the Company
“Transactions”	the continuing connected transactions contemplated under the Framework Agreement between the Company and Air China Cargo in relation to the provision of bellyhold space, ground support and aircraft maintenance engineering, as well as other services between Air China Cargo and the Group

LETTER FROM THE BOARD



中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 00753)

Non-executive Directors:

Mr. Wang Changshun
Ms. Wang Yinxiang
Mr. Cao Jianxiong
Mr. Sun Yude
Mr. Christopher Dale Pratt
Mr. Ian Sai Cheung Shiu

Registered office:

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

Executive Directors:

Mr. Cai Jianjiang
Mr. Fan Cheng

Principal place of

business in Hong Kong:
5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

Independent non-executive Directors:

Mr. Fu Yang
Mr. Li Shuang
Mr. Han Fangming
Mr. Yang Yuzhong

15 October 2013

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

In addition to the resolutions to be proposed at the EGM, details of which are set out in the notice of the EGM dated 10 September 2013, it is proposed that at the EGM, an additional resolution will be proposed to approve the Transactions as set forth in this circular.

The supplemental notice of EGM is set out on pages 27 to 28 of this circular.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS

1. Introduction

Reference is made to the announcement of the Company dated 27 October 2011 and the circular of the Company dated 10 November 2011 in relation to the Framework Agreement entered into between the Company and Air China Cargo on 27 October 2011 and the Transactions. At the extraordinary general meeting of the Company dated 25 November 2011, the Independent Shareholders approved the Transactions and the annual caps for the three years ending 31 December 2013. The current term of the Framework Agreement will expire on 31 December 2013. Upon the expiry of such term, the Framework Agreement shall automatically renew for successive terms of three years unless either party gives to the other party a notice of termination of not less than three months expiring on any 31 December. As the Company expected the Transactions will continue to be conducted after 31 December 2013, the Company has decided to extend the term of the Framework Agreement for a further term of three years commencing on 1 January 2014 and ending on 31 December 2016. Accordingly, the Company is required to re-comply with Chapter 14A of the Hong Kong Listing Rules in respect of the renewal of the Framework Agreement and the Transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Transactions and the Proposed Annual Caps; (ii) the letter of advice from Asian Capital to the Independent Board Committee and the Independent Shareholders in relation to the Transactions and the Proposed Annual Caps; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Transactions and the Proposed Annual Caps as well as voting at the EGM; and (iv) the supplemental notice of the EGM.

2. The Transactions

Parties and Connection of the Parties

The Company's principal business activity is air passenger, air cargo and airline-related services. The principal activity of Air China Cargo is the operation of cargo airline services.

Air China Cargo is a 51% held subsidiary of the Company. Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the equity interest in Air China Cargo. Therefore, Air China Cargo is a connected person of the Company as defined under the Hong Kong Listing Rules. Mr. Fan Cheng, a Director of the Company, is a director of Cathay Pacific as well as a director of Air China Cargo.

Description of the Transactions

Pursuant to the Framework Agreement, the Group (other than Air China Cargo) will provide the following services to Air China Cargo:

- the provision of bellyhold space of the passenger aircraft operated by the Company;

LETTER FROM THE BOARD

- ground support and aircraft maintenance engineering including, among others, the repair and maintenance of aircrafts and engines; and
- other services to Air China Cargo including, among others, labour management and import and export agency services.

Air China Cargo will provide the following services to the Group (other than Air China Cargo):

- ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and
- other services provided to the Group (other than Air China Cargo).

The consideration of specific continuing connected transactions under the Framework Agreement shall be agreed between the Company and Air China Cargo on a case-by-case basis.

The initial term of the Framework Agreement is three years, ending on 31 December 2013, which is automatically renewable for successive terms of three years after its initial expiry date unless being terminated by either party to the Framework Agreement by serving the other party notice of termination of not less than three months expiring on any 31 December.

Reasons for and Benefits of the Transactions

The Directors believe that it is in the best interest of the Company to continue the Transactions with Air China Cargo having taken into account the following factors:

- Air China Cargo, being a company having engaged in air cargo business for a long time, has a profound understanding of, and extensive experience in, the air cargo business and the air cargo industry, and therefore possesses certain advantages in promoting the Company's air cargo business with access to the Company's bellyhold space;
- as the Company and Air China Cargo both have significant presence in Beijing, the PRC, the aircraft related services such as ground support and aircraft maintenance engineering services could be easily accessible and therefore generate revenue and benefit for the Company with low additional cost; and
- the long established successful cooperative relationship between the Company and Air China Cargo is able to provide streamlined and efficient cooperation and transaction between the Company and Air China Cargo.

LETTER FROM THE BOARD

Historical Amounts and Proposed Caps

The annual cap for the aggregate amount paid by Air China Cargo to the Group for each of the three years ending 31 December 2013 was RMB5,600 million, RMB6,300 million and RMB7,700 million, respectively. The annual cap for the aggregate amount paid by the Group to Air China Cargo for each of the three years ending 31 December 2013 was RMB46 million, RMB46 million and RMB46 million, respectively.

The actual aggregate amount paid by Air China Cargo to the Group for the two years ended 31 December 2011 and 2012 was approximately RMB3,769 million and RMB4,076 million, respectively. The estimated aggregate amount paid by Air China Cargo to the Group for the year ending 31 December 2013 is approximately RMB4,870 million. The actual aggregate amount paid by the Group to Air China Cargo for the two years ended 31 December 2011 and 2012 was RMB2 million and RMB1 million, respectively. The estimated aggregate amount paid by the Group to Air China Cargo for the year ending 31 December 2013 is approximately RMB3 million.

It is proposed that the annual caps for the aggregate amount payable by Air China Cargo to the Group for the years ending 31 December 2014, 2015 and 2016 shall be RMB6,120 million, RMB7,110 million and RMB8,250 million, respectively. The annual caps for the aggregate amount payable by the Group to Air China Cargo for the years ending 31 December 2014, 2015 and 2016 are proposed to be RMB1,060 million, RMB1,250 million and RMB1,480 million, respectively.

	Historical Caps			Historical Figures			Future Caps		
	Annual cap for the year ended	Annual cap for the year ended	Annual cap for the year ending	Actual annual amount for the year ended	Actual annual amount for the year ended	Estimated annual amount for the year ending	Annual cap for the year ending	Annual cap for the year ending	Annual cap for the year ending
	31 December 2011	31 December 2012	31 December 2013	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016
Transactions									
				<i>(in millions of RMB)</i>					
Amount paid/payable by Air China Cargo to the Group	5,600	6,300	7,700	3,769	4,076	4,870	6,120	7,110	8,250
Amount paid/payable by the Group to Air China Cargo	46	46	46	2	1	3	1,060	1,250	1,480

Basis for such caps

In arriving at the above annual caps, the Directors have considered the historical transaction amount, the expected growth of the Transactions, as well as a change in accounting policy.

LETTER FROM THE BOARD

Prior to 1 September 2012, the revenue from the provision of bellyhold services (the “**Bellyhold Revenue**”) was subject to business tax and was recognised as an amount paid by Air China Cargo to the Group on a net basis by setting off against the commission paid by the Group to Air China Cargo in respect of the provision of the bellyhold services (the “**Commission**”). Therefore, the previous annual caps for the aggregate amount payable by Air China Cargo to the Group as well as the aggregate amount payable by the Group to Air China Cargo for the three years ending 31 December 2013 do not take into account the Commission paid by the Group to Air China Cargo. Pursuant to the relevant new tax rules and regulations of the PRC, the Bellyhold Revenue has become revenue subject to value-added tax with effect from 1 September 2012. Under the new tax rules and regulations, the gross amount of the Bellyhold Revenue shall be recognised as an amount paid by Air China Cargo to the Group while the Commission, which will be negotiated between the Group and Air China Cargo on the basis of market condition, shall be recognised as an amount paid by the Group to Air China Cargo. The aggregate amount of the Commission is expected to increase at the same rate as that of the gross Bellyhold Revenue.

In order to be in line with the accounting treatment for the Bellyhold Revenue and the Commission in this regard, the Company considers that, for the purpose of setting the Proposed Annual Caps, it is desirable to treat the gross Bellyhold Revenue to be paid by Air China Cargo to the Group and the Commission to be paid by the Group to Air China Cargo separately rather than on a net basis from 2014. As a result, it is expected that both the aggregate amount payable by Air China Cargo to the Group and the aggregate amount payable by the Group to Air China Cargo will increase significantly from the year ending 31 December 2014 compared with previous years.

In addition to the impact from the abovementioned change in accounting policy, more than 90% of the amount payable by Air China Cargo to the Group has been derived from the provision of bellyhold services by the Company to Air China Cargo, and the Bellyhold Revenue is subject to the change of fleet capacity and the unit air transportation price:

- The bellyhold cargo space for Air China Cargo will increase along with the expansion of the fleet of passenger aircraft of the Company. The fleet of passenger aircraft of the Company is expected to expand at an annual rate of approximately 7.5% from 2014 to 2016; and
- As a result of the combined effects of the increase in bellyhold utilization and general product quality, the unit air transportation price is expected to rise at an annual rate of approximately 8.0% from 2014 to 2016.

As such, based on the historical figures set out above, it is expected that the aggregate amount payable by Air China Cargo to the Group for the three years ending 31 December 2016 will increase at an annual rate of approximately 16%.

LETTER FROM THE BOARD

In arriving at the estimated aggregate amount payable by the Group to Air China Cargo for the years ending 31 December 2014, 2015 and 2016, in addition to the impact from the change in accounting policy as illustrated above, the Company also considered, among other things, the expected increase of other services, such as ground support services and lease of properties, to be provided by Air China Cargo to the Group.

3. Listing Rules Implications

As the highest of the applicable Percentage Ratios in respect of the Proposed Annual Caps applicable to the Transactions is, on an annual basis, higher than 5.0%, the Transactions fall under Rule 14A.35 of the Hong Kong Listing Rules. Therefore, the Transactions and the Proposed Annual Caps are subject to the reporting, annual review and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by Independent Shareholders in accordance with the requirements under Rules 14A.48 at the EGM.

The Independent Board Committee has been formed to advise the Independent Shareholders on the Transactions and the Proposed Annual Caps. Asian Capital has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Transactions and the Proposed Annual Caps will be considered, and if thought fit, approved at the EGM. Voting will be by poll and Cathay Pacific, being a substantial shareholder of the Company and Air China Cargo, together with its associates, will abstain from voting.

The Company will comply with the continuing obligations under Rules 14A.37 to 14A.41 of the Hong Kong Listing Rules and will re-comply with the relevant Hong Kong Listing Rules if the annual caps are exceeded, when the Framework Agreement is renewed or when there is a material change to its terms.

Mr. Wang Changchun, Mr. Christopher Dale Pratt, Mr. Ian Sai Cheung Shiu, Mr. Cai Jianjiang and Mr. Fan Cheng are considered to have a material interest in the Transactions and therefore have abstained from voting in the relevant board resolutions in respect of the Transactions. Save as disclosed above, none of the Directors have a material interest in the Transactions and hence no other Director is required to abstain from voting on the relevant board resolution.

4. PRC Law Implications

Pursuant to the Shanghai Listing Rules, the Transactions shall be disclosed in a timely fashion.

LETTER FROM THE BOARD

III. EGM

The Company will convene the EGM at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 10:00 a.m. on 29 October 2013. In accordance with the Hong Kong Listing Rules, a notice of the EGM, a form of proxy and an attendance notice have been dispatched to the Shareholders on Tuesday, 10 September 2013 and a supplemental notice of the EGM and a revised form of proxy (the “**Revised Proxy Form**”) will be dispatched to the Shareholders on Tuesday, 15 October 2013. The supplemental notice of the EGM is reproduced on pages 27 to 28 of this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the Revised Proxy Form in accordance with the instruction printed thereon. If you intend to attend the EGM, you are required to complete and return the notice of attendance to the H share registrar of the Company on or before Wednesday, 9 October 2013.

Completion and return of the Revised Proxy Form will not preclude you from attending and voting in person at the meetings or at any adjourned meetings should you so wish and completion and return of the notice of attendance do not affect the right of a shareholder to attend the respective meeting.

Pursuant to Rule 14A.54 of the Hong Kong Listing Rules, any connected person and any Shareholder and their associates with a material interest in the Transactions are required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, Cathay Pacific is a substantial shareholder of the Company and Air China Cargo. Accordingly, Cathay Pacific and its associates are required to abstain from voting on the resolution in respect of the Transactions.

IV. RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the Transactions have been conducted on normal commercial terms or on terms no less favourable than those available to independent third parties and were entered into on a continuing and regular basis and in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the Proposed Annual Caps for each of the three years ending 31 December 2014, 2015 and 2016 for the Transactions are fair and reasonable.

The Board recommends that the Independent Shareholders vote to approve the Transactions and the Proposed Annual Caps for each of the three years ending 31 December 2014, 2015 and 2016 at the EGM.

LETTER FROM THE BOARD

V. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 11 to 12 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Transactions and the Proposed Annual Caps.

Your attention is also drawn to the letter from Asian Capital as set out on pages 13 to 23 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transactions as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to the additional information set out in Appendices I and II to this circular.

By Order of the Board
Wang Changshun
Chairman

Beijing, the PRC



中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 00753)

Independent Board Committee:

Mr. Fu Yang

Mr. Li Shuang

Mr. Han Fangming

Mr. Yang Yuzhong

15 October 2013

To the Independent Shareholders of the Company

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 15 October 2013 (“**Circular**”) issued by the Company to its Shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 26 September 2013, the Board decided to renew the Framework Agreement in respect of the Transactions as set out in the Circular for a further term of three years commencing on 1 January 2014 and ending on 31 December 2016, and approved the Proposed Annual Caps for the three years ending 31 December 2014, 2015 and 2016. The renewal of the Framework Agreement and the Proposed Annual Caps for the Transactions are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The terms and the reasons for the Transactions are summarised in the Letter from the Board set out on pages 3 to 10 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the renewal of the Framework Agreement, the Transactions and the Proposed Annual Caps are fair and reasonable and whether such transactions are in the interest of the Company and the Shareholders as a whole. Asian Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the renewal of the Framework Agreement, the Transactions and the Proposed Annual Caps, their terms and the basis upon which the terms have been determined. We have also considered the key factors taken into account by Asian Capital in arriving at its opinion regarding the Transactions as set out in the letter from Asian Capital on pages 13 to 23 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Asian Capital, considers the renewal of the Framework Agreement to be in the best interest of the Company and the Shareholders as a whole and to be fair and reasonable. The Independent Board Committee also considers the Transactions to be carried out in the usual and ordinary course of business, on normal commercial terms and the Proposed Annual Caps to be fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolution as set out in the supplemental notice of the EGM.

Yours faithfully,

Independent Board Committee

Mr. Fu Yang

*Independent
non-executive
Director*

Mr. Li Shuang

*Independent
non-executive
Director*

Mr. Han Fangming

*Independent
non-executive
Director*

Mr. Yang Yuzhong

*Independent
non-executive
Director*

LETTER FROM ASIAN CAPITAL

The following is the full text of the letter from Asian Capital (Corporate Finance) Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

To the Independent Board Committee and
the Independent Shareholders of Air China Limited

15 October 2013

Dear Sirs or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise whether the terms of the Transactions and the Proposed Annual Caps contemplated thereunder are in the ordinary and usual course of business on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Relevant details of the Transaction are set out in the circular of the Company dated 15 October 2013 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context indicates otherwise.

As set out in the letter from the Board, reference is made to the announcement of the Company dated 27 October 2011 and the circular of the Company dated 10 November 2011 in relation to the Framework Agreement entered into between the Company and Air China Cargo on 27 October 2011 and the Transactions. In anticipation of the expiry of the existing arrangements between the Company and Air China Cargo on 31 December 2013, the Board approved the renewal of the Framework Agreement, the Transactions and the Proposed Annual Caps for the three years ending 31 December 2014, 2015 and 2016. The Company is seeking Independent Shareholders’ approval of the renewal of the Framework Agreement, the Transactions and the Proposed Annual Caps for the years ending 31 December 2014, 2015 and 2016 in accordance with the Hong Kong Listing Rules.

Air China Cargo is a connected person of the Company by virtue of being a non-wholly owned subsidiary of the Company in which Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the voting rights through Cathay Pacific China Cargo Holdings Limited, a wholly-owned subsidiary of Cathay Pacific. As the highest of the applicable Percentage Ratios in respect of the Proposed Annual Caps applicable to the Transactions are, on an annual basis, higher than 5%, the Transactions fall under Rule 14A.35

LETTER FROM ASIAN CAPITAL

of the Hong Kong Listing Rules. Therefore, the Transactions and the Proposed Annual Caps are subject to the reporting, annual review and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by Independent Shareholders in accordance with the requirements under Rules 14A.48 at the EGM.

As at the Latest Practical Date, Cathay Pacific, being a substantial shareholder of the Company and Air China Cargo, together with its associates will abstain from voting on the ordinary resolution approving the Transactions and the Proposed Annual Caps at the EGM.

The Independent Board Committee comprising independent non-executive Directors Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming and Mr. Yang Yuzhong has been established to advise the Independent Shareholders whether the terms of the Transactions and the Proposed Annual Caps are in the ordinary and usual course of business on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

We are not connected with the Company or any of its substantial Shareholders or any person acting or deemed to be acting in concert with any of them and accordingly, are considered eligible to give independent advice on the Transactions and the Proposed Annual Caps. Apart from a normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any of its substantial Shareholders or any person acting or deemed to be acting in concert with any of them.

In forming our opinion in relation to the Transactions and the Proposed Annual Caps, we consider that we have reviewed sufficient relevant information and documents and have taken reasonable steps as specified under Rule 13.80 of the Hong Kong Listing Rules (including its notes) to reach an informed view and to make our recommendation on a reasonable basis. We relied on the information provided and statements and opinions made by the Company, its Directors, advisers and representatives, for which they take full responsibilities. We assumed that all relevant information and statements were true, accurate and complete at the time they were given or made and continue to be so as at the date of the Circular. We also assumed that all views, opinions and statements of intention provided by the Directors, advisers and representatives of the Company had been arrived at after due and careful enquiries. The Company confirmed that there were no other material facts not contained in the information provided to us the omission of which would make any statement or opinion contained in the Circular misleading.

We have no reason to suspect that any material fact or information has been omitted or withheld from the information or opinions provided to us by the Company, its Directors, advisers or representatives, or to doubt the truth, accuracy or completeness of the information and representations or reasonableness of the opinions provided to us by them. We have not, however, conducted any independent verification on the information provided to us by the Company, its Directors, advisers or representatives, nor have we conducted any independent investigation into the business and affairs or the prospects of the Group. We therefore do not guarantee the accuracy or completeness of any of such information.

LETTER FROM ASIAN CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the Proposed Annual Caps contemplated thereunder, we have considered the following principal factors:

1. Background of the Company

The Company's principal business activity is air passenger, air cargo and airline-related services.

We understand that the Company is the only national flag carrier of China and a member of the Star Alliance, the world's largest airline alliance. It is also the only Chinese civil aviation enterprise listed in "The World's 500 Most Influential Brands".

2. Background of Air China Cargo

The principal activity of Air China Cargo is the operation of cargo airline services.

Air China Cargo is a 51% held subsidiary of the Company. Cathay Pacific, a substantial shareholder of the Company, holds more than 10% of the equity interest in Air China Cargo. Therefore, Air China Cargo is a connected person of the Company as defined under the Hong Kong Listing Rules. Mr. Fan Cheng, a Director of the Company, is a director of Cathay Pacific as well as a director of Air China Cargo.

Since Air China Cargo became a joint venture cargo airline between the Company and Cathay Pacific on 18 March 2011, there have been certain continuing connected transactions between the Group (other than Air China Cargo) and Air China Cargo which mainly comprise the sale of bellyhold space of the Company's passenger aircraft, provision of ground support and engineering services and other services governed by certain written agreements between the Group (other than Air China Cargo) and Air China Cargo.

3. Principal terms of the Framework Agreement

Pursuant to the Framework Agreement, the Group (other than Air China Cargo) will provide the following services to Air China Cargo:

- (i) the provision of bellyhold space of the passenger aircraft operated by the Company;
- (ii) ground support and aircraft maintenance engineering, including, among others, the repair and maintenance of aircraft and engineers; and
- (iii) other services to Air China Cargo including, among others, labour management and import and export agency services.

LETTER FROM ASIAN CAPITAL

Air China Cargo will provide the following services to the Group (other than Air China Cargo):

- (i) ground support including, among others, cargo and mail ground loading and unloading and security inspection services; and
- (ii) other services provided to the Group (other than Air China Cargo).

The consideration of specific continuing connected transactions under the Framework Agreement shall be agreed between the Company and Air China Cargo on a case-by-case basis.

The initial term of the Framework Agreement is three years, ending on 31 December 2013, which is automatically renewable for successive terms of three years after its initial expiry date unless being terminated by either party to the Framework Agreement by serving the other party notice of termination of not less than three months expiring on any 31 December.

We have reviewed the specific agreements and/or the pricing guidelines and other relevant information in respect of those continuing connected transactions for the period from 2011 to 2013 and noted that the pricing basis for each of the Transactions, either in accordance with the then prevailing market prices or industry standards, were adopted in setting the consideration of the relevant Transactions for each of the three years ended/ending 2011, 2012 and 2013 save for the transactions in respect of the provision of bellyhold space of the passenger aircraft operated by the Company to Air China Cargo (the “**Bellyhold Services**”).

As advised by the management of the Company, the pricing basis which takes into consideration of costs, the commission received by the Company and market conditions and factors has been established in determining the fees charged on the Bellyhold Services. Given the Company is able to recover its cost in providing the Bellyhold Services and shares a high proportion of profit generated from the sales of Bellyhold Services by Air China Cargo to its customers, we concur with the Directors’ view that such pricing basis is beneficial to the Company.

In addition, in view of the principal activities of the Company and Air China Cargo, we agree with the Board that the Transactions have been conducted on normal commercial terms or on terms no less favorable than those available to independent third parties and are entered into on a continuing and regular basis and in the ordinary and usual course of business on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. Reasons and benefits of the Transactions

As disclosed in the Letter from the Board in the Circular, the Directors believe that it is in the best interest of the Company to continue the Transactions with Air China Cargo having taken into account the following factors:

- Air China Cargo, being a company having engaged in air cargo business for a long time, has a profound understanding of, and extensive experience in, the air cargo business and the air cargo industry, and therefore possesses certain advantages in promoting the Company’s air cargo business with access to the Company’s bellyhold space;

LETTER FROM ASIAN CAPITAL

- as the Company and Air China Cargo both have significant presence in Beijing, the PRC, the aircraft related services such as ground support and aircraft maintenance engineering services could be easily accessible and therefore generate revenue and benefit for the Company with low additional cost; and
- the long established successful cooperative relationship between the Company and Air China Cargo is able to provide streamlined and efficient cooperation and transaction between the Company and Air China Cargo.

As disclosed on the official website of Air China Cargo, Air China Cargo was established in 2003 and it is the only cargo company that can carry national flags with the headquarters in Beijing and major cargo operation base in Shanghai. Air China Cargo is the exclusive agency for all passenger aircraft bellyhold space of the Company.

Up to March 2013, Air China Cargo has eight Boeing 747-400 air freighters, and has ordered another eight B777F air freighters from the Boeing Company. This batch of new cargo aircraft will be delivered to Air China Cargo to put into service from December 2013 to the middle of 2015.

In addition, up to March 2013, Air China Cargo, based in Beijing and Shanghai hubs, had put into operation international, regional and domestic cargo flights departing from Shanghai successively to European cities, namely Frankfurt, Amsterdam, Copenhagen and Zaragoza; American cities, namely New York, Chicago, Los Angeles and Dallas; Japanese cities, namely Tokyo and Osaka, and other regional and domestic cities such as Taipei, Hong Kong, Chengdu, Chongqing, Tianjin and Zhengzhou. Meanwhile, with the support of the Company's global air route network, Air China Cargo operates as many as 284 air transportation routes and 145 navigation points all over the globe. It also owns 664 international and 114 domestic ground truck routes in Europe, America, Japan and Asia-Pacific region, and the globe as a whole, to complement the networks of freighter and passenger aircraft bellyhold space, hence is capable to ensure fast delivery of goods to all over the world.

Moreover, according to the annual reports of the Company for the three years ended 31 December 2010, 2011 and 2012, the available freight tonne kilometers (the "AFTKs") of Air China Cargo, including its freighters and the bellyhold space of its passenger aircraft, were approximately 7,429 million AFTKs, 7,578 million AFTKs and 7,836 million AFTKs for each of the three years ended 31 December 2010, 2011 and 2012, which represented 94.6%, 92.7% and 92.6% of the total AFTKs of the Group with annual growth rates of approximately 2.0% and 3.4% for 2011 and 2012 respectively.

Furthermore, the Group (including Air China Cargo) has significant presence in Beijing, the PRC, with its established headquarters and major operation bases in Beijing. The aircraft related services such as ground support and aircraft maintenance engineering services could be easily accessible and thereby generate revenue and benefits for the Group with low additional costs.

LETTER FROM ASIAN CAPITAL

After reviewing the published financial information of the Company and the public information disclosed by Air China Cargo, we are of the view that Air China Cargo has (i) an extensive business operations and experience in the air cargo industry, (ii) an important contribution to the Group's operation and growth and (iii) played an exclusive agency role for all airliner bellies of the Company since 2003, and we concur with Director's view that it is in the interests of the Company and its Shareholders as a whole to enter into the Transactions.

5. Historical amounts and the Proposed Annual Caps of the Transactions under Framework Agreement

Set out below are (i) the historical annual caps and actual aggregate transaction amounts between the Group and Air China Cargo for each of the three years ended/ending 2011, 2012 and 2013, respectively; (ii) the Proposed Annual Caps for the aggregate transaction amounts between the Group and Air China Cargo for each of the three years ending 31 December 2014, 2015 and 2016 respectively; and (iii) the respective year-to-year growth rates of historical actual aggregate amounts and the Proposed Annual Caps for the aggregate transaction amounts between the Group and Air China Cargo:

	Historical Annual Caps			Historical Annual Figures			Proposed Annual Caps		
	For the year ended/ending 31 December			For the year ended/ending 31 December			For the year ending 31 December		
	2011	2012	2013	2011	2012	2013	2014	2015	2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Amount paid/payable by Air China Cargo to the Group	5,600	6,300	7,700	3,769	4,076	4,870*	6,120	7,110	8,250
Increase rate	n/a	n/a	n/a	n/a	8%	19%	26%	16%	16%
Amount paid/payable by the Group to Air China Cargo	46	46	46	2	1	3*	1,060	1,250	1,480
Increase rate	n/a	n/a	n/a	n/a	-50%	>100%	>100%	18%	18%

* These figures are based on the actual historic figures for the period from 1 January 2013 to 31 August 2013 and that the expected transactions value of approximately RMB2,000 million and RMB1.3 million will be payable by Air China Cargo to the Group and by the Group to Air China Cargo respectively in 2013 since 1 September 2013.

In the course of assessing the reasonableness of the Proposed Annual Caps, we have discussed with the management of the Group the basis of determination and assumptions of the Proposed Annual Caps and understand that the Proposed Annual Caps have taken into account (i) the historical transaction amounts; (ii) the expected growth of such Transactions; and (iii) a change in the accounting policy.

Amount payable by Air China Cargo to the Group

As illustrated in the table above and advised by the management of the Company, the historical amounts paid by Air China Cargo to the Group increased by approximately 8% and 19% for 2012 and 2013 respectively, which is mainly due to the recovery of the financial and economic conditions of major economies since second half of 2008. The Directors also believe that the recovery of global economy will continue in the next three years from 2014 to 2016.

LETTER FROM ASIAN CAPITAL

As discussed with the management and reviewed the relevant documents during 2011 to 2013, we noted that (i) more than 90% amount payable by Air China Cargo to the Group has been derived from the Bellyhold Services provided by the Company; and (ii) the revenue from Bellyhold Services (the “**Bellyhold Revenue**”) is subject to the change of fleet capacity and the unit price. As such, we understand that the management’s estimation of the Proposed Annual Caps increasing by 16% annually in 2015 and 2016 is based on the following assumptions: (i) the annual increase of the number of passenger aircrafts in its fleet by approximately 7.5%; (ii) the annual increase of unit air transportation price by approximately 8% and (iii) the daily utilization of aircraft will remain constant, and that, besides the assumptions mentioned above, the Proposed Annual Caps in 2014 increasing by 26% is also due to (iv) the change of accounting treatment in recognising revenue will lead to approximately 8.5% increase in total transaction amount.

(i) Annual increase of the Company’s passenger aircrafts

As advised by the Directors, the bellyhold cargo space for Air China Cargo will increase along with the expansion of the fleet of passenger aircraft of the Company. The fleet of passenger aircraft of the Company is expected to expand at an average annual rate of approximately 7.5% from 2014 to 2016. We have obtained an aircraft introduction and retirement schedule available until 2015 from the Company, and noted that the total number of passenger aircraft of the Company is expected to increase by approximately 7.3% and 9.5% in 2014 and 2015 respectively.

In addition, we noted that the PRC had experienced steady economic growth in the past few years. According to the official statistics published by the National Bureau of Statistics of China, (i) the gross domestic products of the PRC had been growing in the past few years and increased from approximately RMB40,151.3 billion in 2010 to approximately RMB51,932.2 billion in 2012 (preliminary figure published on 19 January 2013), representing a compound annual growth rate of approximately 13.7% and (ii) volume of freight traffic in the PRC increased from approximately 32.4 billion tones in 2010 to approximately 41.2 billion tones in 2012, representing a compound annual growth rate of approximately 12.8%.

With reference to the World Air Cargo Forecast by the Boeing Company, the domestic China air cargo market is expected to have an annual growth rate of 8% for the period from 2011 to 2031. It also states that despite the near-term slowdown from early 2011 to 2012, world air cargo traffic will be more than doubled over the next 20 years, compared to 2011 level, at an average annual growth rate of 5.2%.

The Directors consider that the demand for air cargo services is correlated to the economic condition, the PRC’s freight traffic volume and the growth in the global and PRC’s air cargo market. Therefore, the demand for cargo services from Air China Cargo is expected to be enough to support the assumption that the Bellyhold Revenue will increase along with the expansion of the fleet of passenger aircraft of the Company. In view of rising trend in above statistics, we concur with the Directors’ view that the demand for services from Air China Cargo is expected to increase accordingly.

LETTER FROM ASIAN CAPITAL

(ii) Annual increase of unit air transportation price

As advised by the management of the Company, the expected increase of unit air transportation price is the combined effects of the increasing of bellyhold utilization and general product quality transported. The management estimates the bellyhold utilization, which refers to the actual cargo space accounted for the bellyhold capacity, will increase by 2% to 3% annually from 2014 to 2016 considering the demand for air cargo services will increase with the improvement of economic situation. In addition, the management of the Company believes that the general product quality transported, which refers to the proportion of high-value products, will also be enhanced through the adjustment of product structure, for example, to increase small size, express transfer and delicate electronic products, which will also contribute an annual increase rate of 2% to 3% to the unit air transportation price from 2014 to 2016. As such, provided the prospects are both achieved, the unit air transportation price will increase at an annual rate of approximately 8% for the next three years from 2014 to 2016.

(iii) Daily utilization of aircraft will remain constant

Daily utilization of aircraft refers to the block hours per day per aircraft. The management believes that the daily utilization of aircraft is unlikely to suffer significant fluctuation. In addition, as displayed in the annual reports of the Company, the daily utilization of aircraft were 9.71 hours, 9.58 hours and 9.61 hours in 2010, 2011 and 2012 respectively, which were generally stable.

(iv) The change of accounting treatment

Prior to 1 September 2012, the Bellyhold Revenue was subject to business tax and was recognised as an amount paid by Air China Cargo to the Group on a net basis by setting off against the commission paid by the Group to Air China Cargo in respect of the provision of the Bellyhold Services (the “**Commission**”). Therefore, the previous annual caps for the aggregate amount payable by Air China Cargo to the Group as well as the aggregate amount payable by the Group to Air China Cargo for the three years ending 31 December 2013 do not take into account the Commission paid by the Group to Air China Cargo.

Pursuant to the relevant new tax rules and regulations of the PRC, the Bellyhold Revenue has become revenue subject to value-added tax with effect from 1 September 2012. Under the new tax rules and regulations, the gross amount of the Bellyhold Revenue shall be recognised as an amount paid by Air China Cargo to the Group since 1 September 2012 for tax purpose while the Commission, which will be negotiated between the Group and Air China Cargo on the basis of market condition, shall be recognised as an amount paid by the Group to Air China Cargo. In respect of the accounting treatment, the Company will continue to set off the Commission against the Bellyhold Revenue until the end of the financial year ending 31 December 2013. Starting from the financial year ending 31 December 2014, the Company shall report the Bellyhold Revenue on a gross basis and the Commission shall be reported as payment by the Group to Air China Cargo.

LETTER FROM ASIAN CAPITAL

In order to be in line with the accounting treatment for the Bellyhold Revenue and the Commission in this regard, the Company considers that, for the purpose of setting the Proposed Annual Caps, it is desirable to treat the gross Bellyhold Revenue to be paid by Air China Cargo to the Group and the Commission to be paid by the Group to Air China Cargo separately rather than on a net basis from 2014. Accordingly, it is expected that the aggregate amount payable by Air China Cargo to the Group will increase by approximately 8.5% for the year ending 31 December 2014, taking into account the historical commission rate.

Amount payable by the Group to Air China Cargo

As illustrated above, due to the change of accounting treatment, the aggregate amount payable by the Group to Air China Cargo, almost all of which is derived from the Commission, will also increase significantly for the year ending 31 December 2014. In order to propose a cap of the Commission in the coming three years from 2014, on top of a historical commission rate of 8.5%, the Company also considers the impact of potential out-performance bonus, which is a part of the Commission and calculated based on the difference between the amount of Bellyhold Revenue and its pre-determined target, times a fixed bonus rate negotiated by the Company and Air China Cargo on a yearly basis. Based on historical figures, the Company assumes that the overall Commission including such out-performance bonus in the coming three years from 2014 will be accounted for approximately 17% of the Bellyhold Revenue.

The growth rate will be fixed at 18% from 2015, which is because (i) the Commission are expected to increase at the same rate as that of gross Bellyhold Revenue, which is 16%; and (ii) other services, such as ground support services and lease of properties, will also contribute an increase of approximately 2% considering the expansion of the fleet.

In respect of the Proposed Annual Caps on amount payable by the Group to Air China Cargo as illustrated in the table above, we obtained and reviewed the estimation on the amounts of various kinds of services provided by Air China Cargo to the Group prepared by the management of the Company.

Having considered (i) the growth rate in the historical amounts paid by Air China Cargo to the Group from 2011 to 2013; (ii) the expected increase in bellyhold space of the Company's passenger aircraft after the expansion of the fleet size; (iii) the expected increase in demand for services from Air China Cargo after considering the economic situation and demand for freight traffic services; (iv) the expected growth in the unit air transportation price; (v) the expected increase of other services to be provided by Air China Cargo to the Group; (vi) the change of accounting treatment from on net basis to gross basis; and (vii) the expected mechanism of out-performance bonus, we concur with the Directors' view that the Proposed Annual Caps are fair and reasonable.

LETTER FROM ASIAN CAPITAL

Annual review of the continuing connected transactions

Pursuant to Rules 14A.37 to 14A.40 of the Hong Kong Listing Rules, the continuing connected transactions are subject to the following requirements:

- (i) each year the independent non-executive Directors will review the continuing connected transactions and confirm in the annual report and accounts that they have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company will provide a letter to the Board confirming that the continuing connected transactions:
 - (a) have received the approval of the Directors;
 - (b) are in accordance with the pricing policies of the Group if the transactions involving provision of goods and services by the Group;
 - (c) have been entered into in accordance with the relevant agreement governing the continuing connected transactions; and
 - (d) have not exceeded the cap disclosed in previous announcement(s).

The Directors must state in the annual report whether the auditors have confirmed the above matters;

- (iii) the Company shall allow, and shall procure the relevant counterparties to the continuing connected transactions to allow, the auditors of the Company sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (ii) above; and
- (iv) the Company will promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in (i) and/or (ii) respectively.

As the conduct of the transactions contemplated under the Framework Agreement will be subject to annual review by the independent non-executive Directors and auditors of the Company, we are of the view that there exist appropriate measures to govern the future execution of such transactions and to safeguard the interest of the Company and its Shareholders as a whole.

LETTER FROM ASIAN CAPITAL

RECOMMENDATIONS

Having considered the above principal factors and reasons, we concur with the Directors' view that the Framework Agreement is under normal commercial terms, is in the ordinary and usual course of business of the Group and that the terms of the Transactions under the Framework Agreement, including the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution in relation to the renewal of the Framework Agreement, the Transactions and the Proposed Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Asian Capital (Corporate Finance) Limited
Larry CHAN
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and Hong Kong Stock Exchange pursuant to the SFO, or were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name of company Relevant shareholder	Personal interest	Number of Shares			Total	Shareholding percentage as at the Latest Practicable Date
		Interest of children under the age of 18 or spouse	Corporate interest			
Cathay Pacific Airways Limited Ian Sai Cheung Shiu	1,000 (ordinary shares)	-	-	1,000 (ordinary shares)	0.00%	
Air China Limited Zhou Feng	10,000 (A shares)	-	-	10,000 (A shares)	0.00%	

None of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2012 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors or supervisors of the Company is materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and an executive director of Cathay Pacific. Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and is concurrently a non-executive director

of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at Latest Practicable Date, and it wholly owns Hong Kong Dragon Airlines Limited (“**Dragonair**”). Mr. Wang Changshun, who is the chairman and a non-executive director of the Company and Mr. Cai Jianjiang and Mr. Fan Cheng, who are both executive directors of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Save as above, none of the Directors or supervisors of the Company and their respective associates (as defined in the Hong Kong Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if each of them were a controlling shareholder of the Company.

3. SERVICE CONTRACTS

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

4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group’s financial or trading position since 31 December 2012, being the date to which the latest published audited financial statements of the Group have been made up.

5. EXPERT

The following are the qualifications of the expert who has given its opinion or advice, which is contained in this circular:

Name	Qualification
Asian Capital	a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO

- (a) As at the Latest Practicable Date, Asian Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012 (the date to which the latest published audited financial statements of the Group were made up);
- (b) As at the Latest Practicable Date, Asian Capital was not beneficially interested in the share capital of any member of the Group and had no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

- (c) Asian Capital has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

6. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Rao Xinyu and Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountant (AICPA), USA.
- (b) The registered address of the Company is at Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.
- (c) The H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong during normal business hours on any business day from the date of this circular until 29 October 2013:

- (a) the Framework Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 11 to 12 of this circular;
- (c) the letter from Asian Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 13 to 23 of this circular; and
- (d) the consent letter issued by the expert referred to in this circular.



中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 00753)

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the notice of the extraordinary general meeting of Air China Limited (the “**Company**”) dated 10 September 2013 (the “**Former EGM Notice**”) which sets out the resolutions to be considered by shareholders at the extraordinary general meeting to be held at 10:00 a.m. on 29 October 2013 at The Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC (the “**EGM**”).

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM, which will be held as originally scheduled, will consider and, if thought fit, pass the following ordinary resolution in addition to the resolutions set out in the Former EGM Notice:

Ordinary Resolution:

3. To consider and approve the renewal of the framework agreement entered into between the Company and Air China Cargo Co., Ltd dated 27 October 2011 in respect of the continuing connected transactions for a further term of three years and the proposed annual caps for the aggregate amount payable by Air China Cargo Co., Ltd. to the Group pursuant to the such continuing connected transactions for the years ending 31 December 2014, 2015 and 2016, being RMB6,120 million, RMB7,110 million and RMB8,250 million, respectively; and the annual caps for the aggregate amount payable by the Group to Air China Cargo Co., Ltd. pursuant to the same continuing connected transactions for the years ending 31 December 2014, 2015 and 2016, being RMB1,060 million, RMB1,250 million and RMB1,480 million, respectively.

By order of the Board

Air China Limited

Rao Xinyu Tam Shuit Mui

Joint Company Secretaries

Beijing, the PRC, 15 October 2013

Notes:

- (1) A revised form of proxy is enclosed with this notice. Whether or not you are able to attend the EGM, you are requested to complete the accompanying revised form of proxy in accordance with the instructions printed thereon and return the same to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the revised form of proxy will not preclude the shareholders of the Company from attending and voting in person at the EGM or any adjournment thereof.
- (2) Please refer to the Former EGM Notice for details in respect of the eligibility for attending the EGM, proxy, registration procedures, closure of register of members and other relevant matters.
- (3) Please refer to the notice of attendance of the EGM of the Company in respect of the timing and address for attending the EGM and other relevant matters.

As at the date of this notice, the directors of the Company are Mr. Wang Changshun, Ms. Wang Yinxiang, Mr. Cao Jianxiong, Mr. Sun Yude, Mr. Christopher Dale Pratt, Mr. Ian Sai Cheung Shiu, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Fu Yang, Mr. Li Shuang*, Mr. Han Fangming* and Mr. Yang Yuzhong*.*

** Independent non-executive director of the Company*