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

**(1) PROPOSED ELECTION OF DIRECTORS AND SUPERVISORS
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
(3) PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES OF
SHAREHOLDERS' MEETINGS AND THE RULES AND PROCEDURES OF
MEETINGS OF THE BOARD
(4) CONTINUING CONNECTED TRANSACTIONS:
TRADEMARK LICENCE FRAMEWORK AGREEMENT
FINANCIAL SERVICES AGREEMENTS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

 **金融有限公司**
OCTAL Capital Limited

A letter from the Board is set out on pages 5 to 26 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 27 to 28 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 29 to 44 of this circular.

A notice convening the EGM to be held at 2:00 p.m. on Friday, 27 October 2017 at The Conference Room C313, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC, is set out on pages VII-1 to VII-4 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying 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 form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment should you so wish.

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DEFINITIONS

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

“2004 Trademark Licence Agreement”	the trademark licensing agreement entered into between the Company and CNAHC on 1 November 2004
“2015 Air China Financial Services Agreement”	the financial services framework agreement entered into between the Company and CNAF on 29 April 2015
“2015 CNAHC Financial Services Agreement”	the financial services framework agreement entered into between CNAF and CNAHC on 29 April 2015
“Air China Financial Services Agreement”	the financial services framework agreement entered into between the Company and CNAF on 30 August 2017
“Air China New Annual Caps”	RMB12 billion, RMB14 billion and RMB15 billion, being the proposed maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Air China Financial Services Agreement for each of the three years ending 31 December 2020, respectively
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“Cathay Dragon”	Hong Kong Dragon Airlines Limited
“Cathay Pacific”	Cathay Pacific Airways Limited
“CBRC”	China Banking Regulatory Commission
“CNACG”	China National Aviation Corporation (Group) Limited (中國航空(集團)有限公司), a company incorporated under the laws of Hong Kong, which is a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company as at the Latest Practicable Date
“CNAF”	China National Aviation Finance Co., Ltd. (中國航空集團財務有限責任公司), a limited liability company incorporated under the laws of the PRC
“CNAHC”	China National Aviation Holding Company (中國航空集團公司)
“CNAHC Financial Services Agreement”	the financial services framework agreement entered into between CNAHC and CNAF on 30 August 2017

DEFINITIONS

“CNAHC Group”	CNAHC, its subsidiaries and their associates, companies falling within the definition of commonly held entity under the Hong Kong Listing Rules, as well as any other CNAHC Member Company which, in accordance with the listing rules of the places where the shares of the Company are listed as in force and as amended from time to time, is a connected person or related party of the Company, but excluding the Group
“CNAHC Member Companies”	the member companies of the enterprise group of which CNAHC is the parent company, specific scope of the CNAHC Member Companies shall be determined in accordance with the Administrative Measures for Finance Companies of Enterprise Groups and other relevant regulations
“CNAHC New Annual Caps”	RMB8 billion, RMB9 billion and RMB10 billion, being the proposed maximum daily balance of Credit Services (including accrued interests) to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for each of the three years ending 31 December 2020, respectively
“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the 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
“Credit Services”	loan, finance lease, and other credit services
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 2:00 p.m. on Friday, 27 October 2017 at The Conference Room C313, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC for the Shareholders to consider and approve the resolutions set out in the notice of the EGM dated 7 September 2017
“Financial Services Agreements”	the Air China Financial Services Agreement and the CNAHC Financial Services Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Independent Board Committee”	a board committee comprising Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps
“Independent Shareholders”	the independent shareholders of the Company
“Latest Practicable Date”	1 September 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“NAFMII”	National Association of Financial Market Institutional Investors
“Non-exempt Continuing Connected Transactions”	the deposit services to be provided by CNAF to the Group under the Air China Financial Services Agreement and the Credit Services to be provided by CNAF to CNAHC Group under the CNAHC Financial Services Agreement
“PBOC”	the People’s Bank of China
“Percentage Ratio”	shall have the meaning ascribed to it by the Hong Kong Listing Rules
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Proposed Annual Caps”	the Air China New Annual Caps and the CNAHC New Annual Caps
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC

DEFINITIONS

“SASAC”	The 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)
“Shanghai Listing Rules”	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of the shares of the Company
“Shenzhen Airlines”	Shenzhen Airlines Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the Supervisory Committee of the Company
“Trademark Licence Framework Agreement”	the trademark licence framework agreement, dated 28 October 2014, entered into between the Company and CNAHC in respect of the Trademark Licence Transaction
“Trademark Licence Transaction”	the continuing connected transaction contemplated under the Trademark Licence Framework Agreement in relation to the granting by the Company to CNAHC and its controlled companies (excluding the Group) of a non-exclusive licence for the use of 83 registered trademarks of the Company

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)

Directors:

Non-Executive Directors:

Cai Jianjiang (Chairman)
Cao Jianxiong
Feng Gang
John Robert Slosar
Sai Cheung Shiu, Ian

Executive Director:

Song Zhiyong (President)

Independent Non-Executive Directors:

Wang Xiaokang
Liu Deheng
Stanley Hui Hon-chung
Li Dajin

Registered Address:

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

Principal Place of Business

in Hong Kong:

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

7 September 2017

To the Shareholders

Dear Sirs or Madams,

(1) PROPOSED ELECTION OF DIRECTORS AND SUPERVISORS
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
(3) PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES OF
SHAREHOLDERS' MEETINGS AND THE RULES AND PROCEDURES OF
MEETINGS OF THE BOARD
(4) CONTINUING CONNECTED TRANSACTIONS:
TRADEMARK LICENCE FRAMEWORK AGREEMENT
FINANCIAL SERVICES AGREEMENTS

I. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 29 April 2015 and the circular of the Company dated 8 May 2015 in relation to the 2015 Air China Financial Services Agreement and the 2015 CNAHC Financial Services Agreement; (ii) the announcement of the Company dated 28 October 2014

LETTER FROM THE BOARD

and the circular of the Company dated 31 October 2014 in relation to the Trademark Framework Licence Agreement; (iii) the announcement of the Company dated 30 August 2017 in relation to the proposed election of Directors and Supervisors; (iv) the announcement of the Company dated 30 August 2017 in relation to the proposed amendments to the Articles of Association, the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board; and (v) the announcement of the Company dated 30 August 2017 in relation to the Air China Financial Services Agreement, the CNAHC Financial Services Agreement and the Trademark Licence Framework Agreement.

The purpose of this circular is to provide you with all the information regarding, among others, (i) the proposed election of Directors and Supervisors; (ii) the proposed amendments to the Articles of Association; (iii) the proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board; (iv) the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps; and (v) the Trademark Licence Framework Agreement to enable you to make an informed decision on voting in respect of the relevant resolutions at the EGM.

The notice of the EGM is set out on pages VII-1 to VII-4 of this circular.

II. PROPOSED ELECTION OF DIRECTORS AND SUPERVISORS

Reference is made to the announcement of the Company dated 27 October 2016 in relation to the postponed election and appointment of members of the Board and the Supervisory Committee. As the Company has recently completed the nomination process of candidates for Directors and Supervisors of the new session of the Board and the Supervisory Committee, the Board and the Supervisory Committee resolved on 30 August 2017 to make recommendations of the Director candidates for the fifth session of the Board and the shareholder representative Supervisor candidates for the fifth session of the Supervisory Committee, respectively.

1. Proposed Election of Directors of the Fifth Session of the Board

The Board resolved to propose to elect Mr. Cai Jianjiang and Mr. John Robert Slosar as non-executive Directors of the fifth session of the Board, to elect Mr. Song Zhiyong as executive Director of the fifth session of the Board, and to elect Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin as independent non-executive Directors of the fifth session of the Board.

Biographical details of the Director candidates for the fifth session of the Board are set out in Appendix I to this circular.

The Board also resolved to propose that the Shareholders approve that the emoluments of Mr. Stanley Hui Hon-chung and Mr. Li Dajin be RMB150,000 per person per year, the emoluments of Mr. Wang Xiaokang and Mr. Liu Deheng be determined pursuant to relevant policies as prescribed by the SASAC and the other proposed Directors will not receive any emoluments for serving as a Director. Each proposed Director shall enter into a service contract on this basis. The term of office of each proposed Director is three years, which shall commence upon the Shareholders' approval of the appointment and shall end upon the election of the sixth session of the Board in three years.

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An ordinary resolution to consider and approve the election of the above proposed Directors and the proposal on their emoluments will be proposed at the EGM. “Cumulative voting” will be used in respect of all the sub-resolutions.

Mr. Cao Jianxiong, Mr. Feng Gang and Mr. Ian Sai Cheung Shiu will retire upon the office term expiration of the fourth session of the Board.

2. Proposed Election of Shareholder Representative Supervisors of the Fifth Session of the Supervisory Committee

The Supervisory Committee resolved to propose to elect Mr. Wang Zhengang and Mr. He Chaofan as shareholder representative Supervisors of the fifth session of the Supervisory Committee.

Biographical details of the shareholder representative Supervisors for the fifth session of the Supervisory Committee are set out in Appendix II to this circular.

The Supervisory Committee also resolved to propose that the Shareholders approve that the proposed Supervisors will not receive any emoluments for serving as a Supervisor. Each proposed Supervisor shall enter into a service contract on this basis. The term of office of each proposed Supervisor is three years, which shall commence upon the Shareholders’ approval of the appointment and shall end upon the election of the sixth session of the Supervisory Committee in three years.

An ordinary resolution to consider and approve the election of the above proposed Supervisors and the proposal on their emoluments will be proposed at the EGM. “Cumulative voting” will be used in respect of the two sub-resolutions.

III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

According to the “Notice of Accelerating the Inclusion of General Provisions into the Articles of Association of Central Level State-Owned Enterprises for Party Building” (《關於加快推進中央企業黨建工作總體要求納入公司章程有關事項的通知》) (Guo Zi Dang Wei Dang Jian [2017] No. 1) and the Company’s actual operational demands, the Board has resolved to propose to the Shareholders certain amendments to the Articles of Association.

The amendments to the Articles of Association include, among others, (i) the incorporation of provisions concerning Party building into the Articles of Association, which include the overall requirements for Party building works; (ii) a further refinement of the composition of the Board according to the Company’s actual demands of operational decision-making; and (iii) the establishment of the position of one employee representative Director.

The full text of the proposed amendments to the Articles of Association is set out in Appendix III to this circular.

The proposed amendment to the Articles of Association is prepared in the Chinese language and the English version is therefore a translation only. In the event of any discrepancy between the English translation and the Chinese version of the Articles of Association, the Chinese version shall prevail.

LETTER FROM THE BOARD

The proposed amendments to the Articles of Association are subject to approval by the Shareholders by way of special resolution at the EGM.

IV. PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES OF SHAREHOLDERS' MEETINGS AND THE RULES AND PROCEDURES OF MEETINGS OF THE BOARD

In light of the proposed amendments to the Articles of Association, the Board has resolved to propose to the Shareholders certain amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board of the Company, so as to align with the Articles of Association.

The full texts of the proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board are set out in Appendices IV and V to this circular, respectively.

The proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board are prepared in the Chinese language and the English versions are therefore a translation only. In the event of any discrepancy between the English translation and the Chinese version, the Chinese version shall prevail.

The proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board are subject to approval by the Shareholders by way of special resolution at the EGM.

V. THE TRADEMARK LICENCE FRAMEWORK AGREEMENT

1. Renewal of the Trademark Licence Framework Agreement

Description of the Trademark Licence Framework Agreement

The Company and CNAHC (for itself and on behalf of its controlled companies, excluding the Group) entered into the Trademark Licence Framework Agreement on 28 October 2014. According to the Trademark License Framework Agreement, the Company granted CNAHC and its controlled companies (excluding the Group) a non-exclusive licence for the use of a total of 83 registered trademarks of the Company. The granting of the non-exclusive licence under the Trademark Licence Framework Agreement is made on a royalty-free basis at nil consideration. CNAHC and its controlled companies undertook to use such licensed trademarks subject to the terms of the non-competition agreement between CNAHC and the Company dated 20 November 2004, and to ensure the quality of the services using the licensed trademarks in order to maintain their reputation.

Pricing of and reasons for the Transaction

The licensed trademarks had been contributed by CNAHC to the Company as its intangible assets upon its incorporation at nil consideration. As the trademarks are related to the daily business of CNAHC and its controlled companies, the Company licensed certain trademarks to CNAHC and its controlled companies at nil consideration for its use in its ordinary course of business as a reciprocal arrangement pursuant to the 2004 Trademark

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Licence Agreement. On 1 November 2004, the Company and CNAHC entered into the 2004 Trademark Licence Agreement, which expired on 31 December 2014; on 28 October 2014, the Company and CNAHC entered into the Trademark Licence Framework Agreement, which expires on 31 December 2017. Given the above circumstances, the current extension period of the Trademark Licence Framework Agreement still adopts the same method of trademark licencing at nil consideration.

The current term of the Trademark Licence Framework Agreement will expire on 31 December 2017. To maintain the consistency of the business operation, the Company and CNAHC have proposed to extend the valid period of the Trademark Licence Framework Agreement to 31 December 2020.

2. Parties and the Relationship between the Parties

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

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB10,027,830,000. Its registered address is Air China Plaza, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC and the legal representative is Mr. Cai Jianjiang. It is primarily engaged in managing its state-owned assets and its equity interest in investees, charter of aircrafts and maintenance of aviation equipment. CNAHC is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

3. Hong Kong Listing Rules Implications

The Trademark Licence Transaction under the Trademark Licence Framework Agreement constitutes a continuing connected transaction of the Company under the Hong Kong Listing Rules. As the transaction is on normal commercial terms or better and on a royalty-free basis, it falls below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and therefore is fully exempt from independent shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

4. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, the Trademark Licence Transaction is subject to the Independent Shareholders' approval. The Company therefore seeks approval from Independent Shareholders at the EGM of the renewal of the Trademark Licence Framework Agreement for a term of three years from 1 January 2018 to 31 December 2020.

5. Approval by the Board

At the forty-eighth meeting of the fourth session of the Board of the Company held on 30 August 2017, the Board approved the renewal of the Trademark Licence Framework Agreement for a term of three years from 1 January 2018 to 31 December 2020. Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Cao Jianxiong and Mr. Feng Gang are considered to have a material interest in the Trademark Licence Transaction and therefore have abstained from voting on the relevant Board resolution.

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VI. FINANCIAL SERVICES AGREEMENTS

1. The Air China Financial Services Agreement

Reference is made to the announcement of the Company dated 30 August 2017. The current term of the 2015 Air China Financial Services Agreement will expire on 31 December 2017. As the Company expects that the transactions thereunder will continue to be conducted after 31 December 2017, on 30 August 2017 (after trading hours), the Company and CNAF entered into the Air China Financial Services Agreement to renew and amend the 2015 Air China Financial Services Agreement. Air China Financial Services Agreement contains no material changes to the 2015 Air China Financial Services Agreement.

Date

30 August 2017

Parties

The Company and CNAF

Financial services to be provided by CNAF to the Group

Pursuant to the Air China Financial Services Agreement, CNAF has agreed to provide the Group with a range of financial services including the following:

- a. deposit services;
- b. Credit Services;
- c. other financial services, including but not limited to:
 - (i) negotiable instrument and letter of credit services;
 - (ii) trust loan and trust investment services;
 - (iii) underwriting services for debt issuances;
 - (iv) intermediary and consulting services;
 - (v) guarantee services;
 - (vi) settlement services;
 - (vii) internet banking services;
 - (viii) insurance agency services;

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- (ix) spot exchange settlement and sale services;
- (x) cross-border bilateral RMB capital pooling services; and
- (xi) other businesses of CNAF approved by CBRC, PBOC and SAFE.

Pricing basis

Deposit services

The interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements prescribed by PBOC on such type of deposit; (ii) be not lower than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Credit Services

The interest rates applicable to the Credit Services provided by CNAF to the Group shall (i) be in compliance with the requirements prescribed by PBOC on such type of loan; (ii) be not higher than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Other financial services

The fees charged by CNAF to the Group for providing paid services in the other financial services shall (i) be in line with the relevant standards (if any) prescribed by PBOC, CBRC, CSRC, NAFMII or other regulatory authorities; (ii) be not higher than the fees charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the Air China Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amount will be monitored closely to ensure that the aggregate annual fees to be paid by the Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

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Other terms

Pursuant to the Air China Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBRC or any illegal activities. CNAF is not allowed, during the term of the Air China Financial Services Agreement, to make use of the deposits of the Group for investments involving high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangement for such inspection after receiving notice from the Company.

The Air China Financial Services Agreement is subject to the approval by the Independent Shareholders at the EGM. The initial term of the Air China Financial Services Agreement is three years commencing from 1 January 2018 and ending on 31 December 2020, which is automatically renewable for successive terms of three years after the expiry of its initial term subject to the requirements under Hong Kong Listing Rules and the required approval procedures thereof. Upon expiry of the Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of the Air China Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

Reasons and benefits for the transaction

The Directors believe that it is in the best interest of the Group to enter into the above transactions with CNAF having taken into account the following factors:

- a. in respect of transactions between the Group and CNAHC Group, CNAF is able to provide more efficient settlement services compared with independent third party banks;
- b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2015 and up to the Latest Practicable Date, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;
- c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and
- d. a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the Air China Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures and Air China New Annual Caps

Set forth below is a summary of the historical annual caps, the actual maximum amount and the Air China New Annual Caps for the daily balance of deposits (including accrued interests) placed or to be placed by the Group with CNAF:

Transaction	Historical Annual Caps			Actual maximum amount			Air China New Annual Caps		
	for the	for the	for the	for the	for the	for the	for the	for the	for the
	year	year	year	year	year	period	year	year	year
	ended 31	ended 31	ending 31	ended 31	ended 31	from 1	ending 31	ending 31	ending 31
	December	December	December	December	December	January	December	December	December
	2015	2016	2017	2015	2016	to 30	2018	2019	2020
						June 2017			
Financial Services (daily balance of deposits)	RMB12 billion	RMB14 billion	RMB15 billion	RMB3.996 billion	RMB4.772 billion	RMB6.403 billion	RMB12 billion	RMB14 billion	RMB15 billion

Basis for the Air China New Annual Caps

The Air China New Annual Caps are determined based on the following factors:

- a. The historical amount of the Group's daily balance of deposits placed with CNAF for the two years ended 31 December 2016 and the six months ended 30 June 2017 as shown in the table above. The historical utilization ratios are relatively low mainly because the planned cross-border bilateral RMB capital polling services were not carried out due to the market interest rates and foreign exchange control, etc. As market uncertainties still exist and specific business model is still under discussion, for the sake of prudence, the cross-border bilateral RMB capital polling services are not taken into account in determining the annual caps for the three years ending 31 December 2020.
- b. The annual caps for the daily balance of deposits to be placed by the Group with CNAF in the next three years are mainly determined based on the highest cash and bank balance of the Group, and the possible proportion of the Group's monetary funds deposited with CNAF. For the past three years, the highest cash and bank balance of the Group increased at a growth rate of 12%, and the average amount of the highest cash and bank balance of the Group for the three years ended 31 December 2016 and the first three months of 2017 is approximately RMB11.6 billion. Based on such average highest cash and bank balance and the historical growth rate of 12%, it is estimated that the highest

LETTER FROM THE BOARD

cash and bank balance of the Group for each of the three years ending 31 December 2020 will reach up to RMB13 billion, RMB14.6 billion and RMB16.3 billion, respectively. In addition, as at the end of 2017, the proportion of the Group's monetary funds deposited in CNAF is expected to reach 62%, representing an increase of 14 percentage points as compared to that as at the end of 2016. Considering the historical growth of the proportion of such deposits of monetary funds, the Group's demands for fund utilisation, and the requirements of centralisation of fund management and improvement of efficiency of fund utilisation by relevant regulatory authorities, for each of the three years ending 31 December 2020, the Group's proportion of deposits of monetary funds in CNAF is expected to be no less than 70%. Based on the above, it is estimated that the Group's deposits placed with CNAF for each of the three years ending 31 December 2020 will reach up to RMB9 billion, RMB11 billion and RMB12 billion respectively.

- c. In addition to the factor mentioned in paragraph b above, the Company will continue to deposit unutilized proceeds from issue of debts financing instruments with CNAF in the next three years. In 2016, the Company has been approved to issue super short-term commercial papers with principal amount of RMB10 billion. During the year of 2016, the Company issued super short-term commercial papers of RMB7.2 billion, among which a total of RMB3 billion were issued within one month, and some of the unutilized proceeds had been deposited with CNAF. As the Company will continue to issue direct financing instruments to raise funds in the next three years and the unutilized proceeds will continue to be deposited with CNAF, with reference to the historical maximum net proceeds received within a month, it is estimated that an additional deposit of approximately RMB3 billion will be placed by the Company with CNAF for each of the three years ending 31 December 2020.

Taking into account the aforesaid various factors, it is proposed that the maximum daily balance of deposits (including accrued interests) placed by the Group with CNAF for each of the three years ending 31 December 2020 shall be RMB12 billion, RMB14 billion and RMB15 billion, respectively.

2. The CNAHC Financial Services Agreement

Reference is made to the announcement of the Company dated 30 August 2017. The current term of the 2015 CNAHC Financial Services Agreement will expire on 31 December 2017. As CNAF expects that the transactions thereunder will continue to be conducted after 31 December 2017, on 30 August 2017 (after trading hours), CNAF and CNAHC entered into the CNAHC Financial Services Agreement to renew and amend the 2015 CNAHC Financial Services Agreement. CNAHC Financial Services Agreement contains no material changes to the 2015 CNAHC Financial Services Agreement.

Date

30 August 2017

LETTER FROM THE BOARD

Parties

CNAF and CNAHC

Financial services to be provided by CNAF to CNAHC Group

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide CNAHC Group with a range of financial services including the following:

- a. deposit services;
- b. Credit Services;
- c. other financial services, including but not limited to:
 - (i) negotiable instrument and letter of credit services;
 - (ii) trust loan and trust investment services;
 - (iii) underwriting services for debt issuances;
 - (iv) intermediary and consulting services;
 - (v) guarantee services;
 - (vi) settlement services;
 - (vii) internet banking services;
 - (viii) insurance agency services;
 - (ix) spot exchange settlement and sale services;
 - (x) cross-border bilateral RMB capital pooling services; and
 - (xi) other businesses of CNAF approved by CBRC, PBOC and SAFE.

Pricing basis

Deposit services

The interest rates applicable to CNAHC Group's deposits with CNAF shall (i) be in compliance with the requirements prescribed by PBOC on such type of deposit; (ii) be not higher than the interest rates charged by state-owned commercial banks to the CNAHC Group

LETTER FROM THE BOARD

for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Credit Services

The interest rates applicable to the Credit Services provided by CNAF to CNAHC Group shall (i) be in compliance with the requirements prescribed by PBOC on such type of loan; (ii) be not lower than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Other financial services

The fees charged by CNAF to the CNAHC Group for providing paid services in the other financial services shall (i) be in line with the relevant rate standards (if any) prescribed by the PBOC, CBRC, CSRC, NAFMII or other regulatory authorities; (ii) be not lower than the fees charged by state-owned commercial banks to CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the CNAHC Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the CNAHC Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amount will be monitored closely to ensure that the aggregate annual fees to be paid by CNAHC Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

Other terms

Pursuant to the CNAHC Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBRC or any illegal activities.

The CNAHC Financial Services Agreement is subject to the approval by the Independent Shareholders at the EGM. The initial term of the CNAHC Financial Services Agreement is three years commencing from 1 January 2018 and ending on 31 December 2020, which is automatically renewable for successive terms of three years after the expiry of its initial term subject to the requirements under Hong Kong Listing Rules/Shanghai Listing Rules and the required approval procedures thereof. Upon expiry of the CNAHC Financial Services Agreement, the Board will re-assess the terms and conditions of the CNAHC Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules/Shanghai Listing Rules. During the

LETTER FROM THE BOARD

term of the CNAHC Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

Reasons and benefits for the transaction

CNAF has been providing financial services to CNAHC Group for years. The business with CNAHC Group contributed a steady and significant portion to CNAF's revenues in the past. The Directors believe that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to CNAHC Group.

The Directors (including the independent non-executive Directors) consider that the CNAHC Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures and CNAHC New Annual Caps

Set forth below is a summary of the historical annual caps, the actual maximum amount and the CNAHC New Annual Caps of the daily balance of Credit Services (including accrued interests) granted or to be granted by CNAF to CNAHC Group:

Transaction	Historical Annual Caps			Actual maximum amount			CNAHC New Annual Caps		
	for the year ended 31 December 2015	for the year ended 31 December 2016	for the year ending 31 December 2017	for the year ended 31 December 2015	for the year ended 31 December 2016	for the period from 1 January to 30 June 2017	for the year ending 31 December 2018	for the year ending 31 December 2019	for the year ending 31 December 2020
Financial Services (daily balance of Credit Services)	RMB8 billion	RMB9 billion	RMB10 billion	RMB2.2 billion	RMB2.146 billion	RMB3.125 billion	RMB8 billion	RMB9 billion	RMB10 billion

Basis for the CNAHC New Annual Caps:

The CNAHC New Annual Caps are determined based on the following factors:

- a. The historical maximum amount of daily balance of Credit Services provided by CNAF to CNAHC Group for the two years ended 31 December 2015 and 2016 and the period from 1 January 2017 to 30 June 2017.
- b. On the foundation of consolidating its principal business activity, the CNAHC Group will promote the development of the industries which are highly related to aviation, expand the production scale of on-board catering and services products,

LETTER FROM THE BOARD

increase infrastructure investments in the fields such as air logistics network construction, development and innovation of new media, as well as the logistics and warehousing which supports hub construction, and gradually expand the operation scale of related industries. With the continuous expansion of operation scale of CNAHC Group, the loans obtained from CNAF will steadily increase. The maximum amount of daily balance in relation to the Credit Services provided by CNAF to the CNAHC Group was approximately RMB1.9 billion, RMB2.2 billion, RMB2.146 billion and RMB3.125 billion during the three years ended 31 December 2014, 2015 and 2016 and the first six months of 2017 respectively, with a growth rate of approximately 19%. Taking the maximum amount of daily balance for the six months ended 30 June 2017 as the basis and assuming the historical growth rate of 19% will be maintained in the next three years, it is estimated that the maximum amount of daily balance of Credit Services provided by CNAF to CNAHC Group for each of the three years ending 31 December 2020 will reach RMB3.7 billion, RMB4.5 billion and RMB5.4 billion respectively.

- c. CNAF can fully function as a financial company and become the lender of CNAHC Group in place of banks, so as to effectively improve the overall efficiency of the utilization of funds. Taking into account the amount of borrowings previously obtained from banks by the CNAHC Group and its future fund use plan, it is estimated that an additional borrowings of RMB4.0 billion, RMB4.2 billion and RMB4.5 billion will be obtained from CNAF in place of banks for each of the three years ending 31 December 2020 respectively.
- d. According to the project planning of certain subsidiaries of CNHAC, they will conduct the construction of auxiliary facilities of a project, and the estimated total investment amount is approximately RMB1 billion. CNAHC Group will borrow up to approximately RMB0.7 billion in aggregate from CNAF for this purpose. It is estimated that CNAHC Group will therefore require additional loans from CNAF amounting to RMB0.3 billion, RMB0.3 billion and RMB0.1 billion for each of the three years ending 31 December 2020 respectively.

Taking into account the various factors as mentioned above, it is proposed that the maximum daily balance of Credit Services (including accrued interests) to be provided by CNAF to CNAHC Group for each of the three years ending 31 December 2020 shall be RMB8 billion, RMB9 billion and RMB10 billion, respectively.

3. Risk Profile and Management of CNAF

CNAF, as a non-banking financial institution providing financial services to the Group and the CNAHC Group, is subject to regulations promulgated by CBRC from time to time. These regulations may not be the same as those regulating commercial banks. As CNAF and commercial banks have different target customers for their respective financial services, they may be subject to different risk profiles. Set out below are the major risk exposures of CNAF:

LETTER FROM THE BOARD

Compliance risks

According to the Measures for the Administration of Finance Companies of Enterprise Groups) (《企業集團財務公司管理辦法》) issued by the CBRC on 27 July 2004 (as amended on 28 December 2006), CNAF shall comply with various ratios in respect of its assets and liabilities, including the capital adequacy ratio, inter-bank borrowing balances to total capital ratio, outstanding guarantees to total capital ratio, short-term securities investment to total capital ratio, long-term investment to total capital ratio and self-owned fixed assets to total capital ratio. Since its establishment until the Latest Practicable Date, CNAF has complied with all the relevant requirements from the CBRC in respect of the above-mentioned ratios and the applicable rules and regulations stipulated by the CBRC.

Liquidity risks

CNAF utilises deposits placed with it by lending the funds out to members of the Group and the CNAHC Group. Since the terms of the deposits and loans are often different, CNAF faces liquidity risks if any deposit becomes due and it has no immediately available fund for repayment. The nature of such risk does not differ materially from the liquidity risks faced by PRC commercial banks.

To manage its liquidity risks, CNAF strictly adheres to a 25% current ratio requirement (i.e. its current liabilities shall not exceed 25% of its current assets). The liquidity risks of CNAF are also mitigated as it could obtain financing through inter-bank loans or pledged repurchase from the inter-bank market if and when necessary. In addition, since the customers of CNAF are limited to the members of the Group and the CNAHC Group, CNAF is shielded from the risk of bank runs by individual depositors faced by commercial banks. Since its establishment until the Latest Practicable Date, CNAF had always been able to meet the repayment schedules in respect of deposits placed by its customers.

Credit risks

Like PRC commercial banks, CNAF faces credit risks in providing its loans and other credit services to its customers. CNAF, being a member of the CNAHC Group, is in a better position to gain information on the member companies who are its customers in a more timely and comprehensive manner as opposed to other PRC commercial banks who conduct business with clients of various credit ratings and backgrounds. To manage the credit risks, CNAF carefully evaluates the operation situation and financial position of the member companies within the Group and the CNAHC Group when receiving loan applications from them and only provides loans to member companies who have sound financial position and cash flow. CNAF normally requires guarantees from the parent company of the applicant if the applicant's credit standing exposes CNAF to relatively high risks. If a loan is approved, CNAF conducts quarterly post-loan examination on the borrower to monitor and safeguard against the credit risks. If a borrower defaults on the loan or falls into financial difficulty in repayments, CNAF may enforce the guarantee provided by the parent company. Moreover, according to the relevant laws and regulations promulgated by the CBRC and as set out in the articles of association of CNAF, in the event that CNAF falls into financial difficulty in payments,

LETTER FROM THE BOARD

CNAHC has the obligation to take all necessary steps including injecting capital into CNAF based on its funding needs, to restore its financial position. Due to the careful management of the credit risks, CNAF has not had any non-performing loan since its establishment until the Latest Practicable Date.

Directors' view

Based on the foregoing, the Directors are of the view that the risk profile of CNAF, as a provider of financial services to the Group and the CNAHC Group, is remained not greater than that of PRC commercial banks.

4. Internal Control Measures for the Non-exempt Continuing Connected Transactions

To safeguard the interest of the Group, the Group will adopt the following internal control measures in respect of the deposit services to be provided by CNAF to the Group and the Credit Services to be provided by CNAF to the CNAHC Group, respectively.

Deposit services under the Air China Financial Services Agreement

The Company would take the following review procedure process against the following assessment criteria when obtaining the deposit services from CNAF under the Air China Financial Services Agreement:

- a. the designated staff of the Company and CNAF would closely monitor the deposit balance of the Group with CNAF on a daily basis to ensure that it does not exceed the Air China New Annual Caps;
- b. the finance department of the Company would update the list of the Company's subsidiaries on a quarterly basis to ensure the aggregate deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the Air China New Annual Caps; and
- c. the designated staff of the Company would compare the rates and terms offered by CNAF and several state-owned commercial banks when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are in line with the relevant pricing basis.

Credit Services under the CNAHC Financial Services Agreement

CNAF would take the following review procedure process against the following assessment criteria when providing the Credit Services to the CNAHC Group under the CNAHC Financial Services Agreement:

- a. after receiving the Credit Services application from members of the CNAHC Group, the designated staff of CNAF would verify the information provided by the applicant, assess if the application is in compliance with the terms set out in

LETTER FROM THE BOARD

the CNAHC Financial Services Agreement, and issue a report to the loan review committee of CNAF for approval if he considers the Credit Services should be provided, otherwise the Credit Services application will be rejected;

- b. the loan review committee of CNAF will make the final decision on the approval of the Credit Services and the determination of relevant terms of the Credit Services, including the interest rate of the loan based on the relevant pricing policy;
- c. the accounting department of CNAF will grant the loan to the applicant after obtaining approval from the department manager and leaders of CNAF;
- d. after the granting of the loan, the financing credit department of CNAF will conduct post-loan examination on the applicant every quarter and issue examination reports; and
- e. the accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for extension in writing to CNAF prior to the maturity of the loan, and may carry out relevant formalities upon obtaining approval.

Since the Group has established adequate and appropriate internal control procedures to review the Non-exempt Continuing Connected Transactions, the Directors (including the independent non-executive Directors) consider that such methods and procedures can ensure and safeguard the Non-exempt Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

5. Parties and Connected Relationship of the Parties

The Company

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

CNAF

CNAF is a company with limited liability incorporated in the PRC, and is a non-wholly owned subsidiary of the Group. CNAF is primarily engaged in providing financial services to CNAHC Member Companies. Since CNAHC can exercise more than 10% of the voting power at CNAF's general meeting, CNAF is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

CNAHC

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB10,027,830,000. Its registered address is Air China Plaza, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC and its legal representative is Mr. Cai Jianjiang. It is primarily engaged in managing its state-owned assets and its equity interest in investees, charter of aircrafts and maintenance of aviation equipment. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

6. Hong Kong Listing Rules Implications

The Air China Financial Services Agreement

Deposit services

As one or more of the applicable Percentage Ratios (other than the profits ratio) in respect of the Air China New Annual Caps exceed 5% and the maximum annual consideration is more than HK\$10,000,000, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Credit Services

Credit services to be provided to the Group by CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions in accordance with Rule 14A.90 of the Hong Kong Listing Rules.

Other financial services

The other financial services to be provided by CNAF to the Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to CNAF for such services for each of the three years ending 31 December 2018, 2019 and 2020 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

LETTER FROM THE BOARD

The CNAHC Financial Services Agreement

Deposit services

The deposits placed by CNAHC Group with CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions as provided under Rule 14A.90 of the Hong Kong Listing Rules.

Credit Services

As one or more of the applicable Percentage Ratios (other than the profits ratio) in respect of the CNAHC New Annual Caps exceed 5% and the maximum annual consideration is more than HK\$10,000,000, the Credit Services to be provided to CNAHC Group by CNAF under the CNAHC Financial Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Other financial services

The other financial services to be provided by CNAF to the CNAHC Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the CNAHC Group to CNAF for such services for each of the three years ending 31 December 2018, 2019 and 2020 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

Approval by the Board

At the forty-eighth meeting of the fourth session of the Board of the Company held on 30 August 2017, the Board approved the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Mr. Cai Jianjiang, Mr. Song Zhiyong and Mr. Feng Gang, holding positions in CNAHC, as well as Mr. Cao Jianxiong who is the chairman of the board of directors of CNAF and also holds a position in CNAHC, are considered to have a material interest in the Financial Services Agreements and therefore have abstained from voting in the relevant board resolutions in respect of the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Save as disclosed above, none of the Directors has a material interest in the Financial Services Agreements and hence no other Director is required to abstain from voting on the relevant board resolutions.

LETTER FROM THE BOARD

7. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, the CNAHC Financial Services Agreement shall be approved or ratified by Independent Shareholders at the EGM.

VII. EGM

The Company will convene the EGM at The Conference Room C313, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC at 2:00 p.m. on Friday, 27 October 2017 for the purpose of considering, and if thought fit, approving the resolutions in respect of (i) the proposed election of Directors and Supervisors; (ii) the proposed amendments to the Articles of Association; (iii) the proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board; (iv) the Financial Services Agreements (including the Non-exempt Continuing Connected Transactions contemplated thereunder and the Proposed Annual Caps); and (v) the renewal of the Trademark Licence Framework Agreement. Votes on the resolutions to be considered at the EGM shall be taken by way of poll.

A form of proxy and a notice of attendance are also enclosed herein and published on the website of the Stock Exchange (www.hkexnews.hk). The notice of EGM is reproduced on pages VII-1 to VII-4 of this circular.

Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the Financial Services Agreements is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, CNAHC is a substantial shareholder of the Company and CNAF. Accordingly, CNAHC and CNACG, which is CNAHC's wholly-owned subsidiary, are required to abstain from voting on the resolutions in respect of the Financial Services Agreements, the relevant transactions contemplated thereunder and the Proposed Annual Caps at the EGM. As at the Latest Practicable Date, CNAHC and CNACG held an aggregate of 7,508,571,617 shares of the Company (representing approximately 51.70% of the issued share capital of the Company), control or are entitled to control over the voting right in respect of their shares in the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as CNAHC and CNACG, no Shareholder has a material interest in the resolutions in respect of the Financial Services Agreements, the relevant transactions contemplated thereunder and the Proposed Annual Caps or should be required to abstain from voting on the relevant resolutions at the EGM.

Pursuant to the Shanghai Listing Rules, CNAHC and CNACG have a material interest in the Trademark Licence Transaction, and are therefore required to abstain from voting on the resolution in respect of the renewal of the Trademark Licence Framework Agreement.

VIII. GENERAL INFORMATION

The Company will close its register of members of H shares and suspend the registration of transfer of shares from Wednesday, 27 September 2017 to Friday, 27 October 2017 (both days inclusive) in order to determine the list of holders of H shares of the Company who will be entitled to attend and vote at the

LETTER FROM THE BOARD

EGM. Shareholders of the Company whose names appear on the register of members of H shares of the Company on Wednesday, 27 September 2017 may attend the EGM after completing the registration procedures.

In order to qualify for attendance at the EGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, by 4:30 p.m. on Tuesday, 26 September 2017.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy 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 Company's H Share registrar, Computershare Hong Kong Investor Services Limited on or before Monday, 9 October 2017.

Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the meetings or at any adjournment 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.

IX. RECOMMENDATION

The Board (including the independent non-executive Directors) considers that each of the Air China Financial Services Agreement and the CNAHC Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders vote to approve the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

The Board (including the independent non-executive Directors) considers that the Trademark Licence Transaction under the Trademark Licence Framework Agreement is on normal commercial terms or better. The terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders vote to approve the renewal of the Trademark Licence Framework Agreement.

Furthermore, the Directors are of the view that the resolutions in respect of (i) the proposed election of Directors and Supervisors; (ii) the proposed amendments to the Articles of Association; (iii) the proposed amendments to the Rules and Procedures of Shareholders' Meetings and the Rules and Procedures of Meetings of the Board are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of these resolutions at the EGM.

X. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 27 to 28 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

LETTER FROM THE BOARD

Your attention is also drawn to the letter from the Independent Financial Adviser as set out on pages 29 to 44 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Financial Services Agreements, the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps 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 to VII to this circular.

By order of the Board
Cai Jianjiang
Chairman

Beijing, the PRC

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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. Wang Xiaokang

Mr. Liu Deheng

Mr. Stanley Hui Hon-chung

Mr. Li Dajin

7 September 2017

To the Independent Shareholders of the Company

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 7 September 2017 (the “**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 30 August 2017, the Board decided to enter into the Financial Services Agreements as set out in the Circular, and approved the Proposed Annual Caps for the three years ending 31 December 2018, 2019 and 2020. The Non-exempt Continuing Connected Transactions and the Proposed Annual Caps 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 entering into the Financial Services Agreements are summarised in the Letter from the Board set out on pages 5 to 26 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the Financial Services Agreements, the Non-exempt Continuing Connected 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. Octal 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 entering into the Financial Services Agreements, the Non-exempt Continuing Connected 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 Octal Capital in arriving at its opinion regarding the Financial Services Agreements and the Proposed Annual Caps as set out in the letter from Octal Capital on pages 29 to 44 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Octal Capital, considers the Financial Services Agreements 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 Non-exempt Continuing Connected 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 favour of the relevant ordinary resolutions as set out in the notice of the EGM.

Yours faithfully,

Independent Board Committee

Mr. Wang Xiaokang

*Independent non-
executive Director*

Mr. Liu Deheng

*Independent non-
executive Director*

Mr. Stanley Hui Hon-chung

*Independent non-
executive Director*

Mr. Li Dajin

*Independent non-
executive Director*

LETTER FROM OCTAL CAPITAL

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

7 September 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps, details of which are set out in the Letter from the Board contained in the circular of the Company dated 7 September 2017 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 30 August 2017, the Company and CNAF entered into the Air China Financial Services Agreement while CNAHC and CNAF also entered into the CNAHC Financial Services Agreement to renew the 2015 Air China Financial Services Agreement and the 2015 CNAHC Financial Services Agreement, both of which will expire on 31 December 2017.

As one or more of the applicable Percentage Ratios (other than the profits ratio) exceeds 5% and the maximum annual consideration is more than HK\$10,000,000, the deposit services under the Air China Financial Services Agreement and the Credit Services under the CNAHC Financial Services Agreement are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements pursuant to Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hong-chung and Mr. Li Dajin, has been established to consider and advise the Independent Shareholders in respect of whether the Non-exempt Continuing Connected 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. We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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As at the Latest Practicable Date, we, are not connected with the directors, chief executives and substantial shareholders of the Company or any of their respective subsidiaries or associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any members of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholder.

During the last two years, Octal Capital Limited has been appointed as the independent financial adviser in respect of the continuing connected transactions of the Company and details of such appointment are set out in the circular of the Company dated 14 September 2016. Apart from the normal professional fees paid to us in connection with the aforesaid appointment, no arrangement exists whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relation would not affect our independence. We are independent of the Company pursuant to Rule 13.84 of the Hong Kong Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and the management of the Company regarding the Group and the Non-exempt Continuing Connected Transactions, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and its associates nor have we carried out any independent verification of the information supplied. The Company will notify the Shareholders of any material changes after the Latest Practicable Date and after the dispatch of the Circular. The Shareholders will also be notified of any material changes to such information provided and our opinion as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps, we have taken the following principal factors and reasons into consideration:

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1. Background information of the Group

(i) *The Group*

The Group's principal business activity is air passenger, air cargo and airline-related services, including aircraft engineering services and airport ground handling services, mainly in Mainland China, Hong Kong and Macau. The Group has its headquarters in Beijing, PRC with two important hubs in Chengdu and Shanghai.

The Group is the only national flag carrier of China and a member of 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". With two increasingly important hubs in Chengdu and Shanghai, with Star Alliance, the Group's network covered 1,330 destinations in 192 countries as at 31 December 2016.

The table below presents the major audited information extracted from the consolidated statement of profit or loss of the Group for the three financial years ended 31 December 2014, 2015 and 2016.

in RMB million	Year ended 31 December		
	2014	2015	2016
Air traffic revenue	101,385	104,368	108,585
Profit from operations	7,257	15,552	17,533
Finance income	233	152	127
Profit attributable to owners of the Company	3,852	7,063	6,809

Source: Annual Reports of 2014, 2015 and 2016

For the year ended 31 December 2015 (the "FY2015"), the Group recorded air traffic revenue of approximately RMB104.4 billion, representing a year-on-year increase by approximately 2.9%. The operating expenses of FY2015 was approximately RMB94.5 billion, representing a decrease from approximately RMB98.7 billion for the year ended 31 December 2014 (the "FY2014"). The decrease is mainly driven by the lower fuel cost during FY2015. The profit attributable to the equity shareholders of the Company increased by approximately 83.3% from approximately RMB3.9 billion for FY2014 to approximately RMB7.1 billion for FY2015.

For the year ended 31 December 2016 (the "FY2016"), the Group recorded air traffic revenue of approximately RMB108.6 billion, representing a year-on-year increase by approximately 4.0%. The operating expenses increased by approximately 3.3% from approximately RMB94.5 billion for FY2015 to approximately RMB97.6 billion for FY2016, which was in line with the growth of the air traffic revenue. Fuel cost, which was one of the major operating expenses, was approximately RMB22.0 billion for FY2016, representing a year-on-year decrease by approximately 8.6% due to the reduction in the international crude oil prices. During FY2016, the Group recorded finance income of approximately RMB127 million, representing a decrease of approximately RMB25 million or 16.5%

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as compared to that of FY2015. The profit attributable to equity shareholders of the Company decreased by approximately 3.6% from approximately RMB7.1 billion for FY2015 to approximately RMB6.8 billion for FY2016.

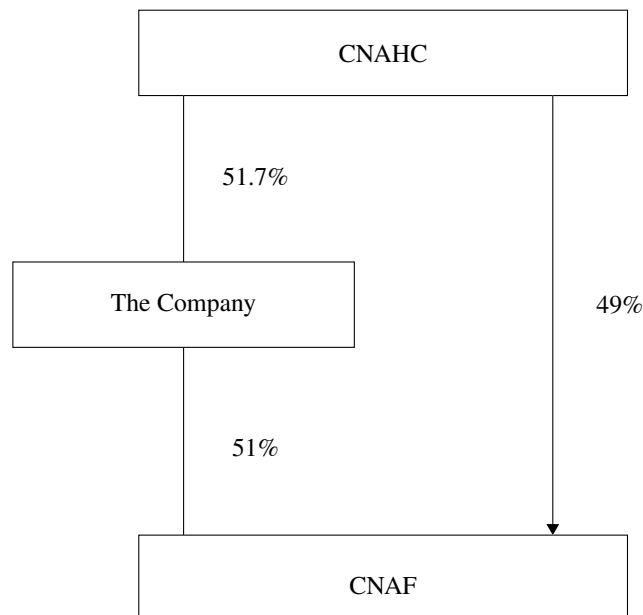
(ii) CNAHC

CNAHC is a state-owned company established in the PRC and is under the supervision of SASAC. It is primarily engaged in managing its state-owned assets and its equity interest in investees, charter of aircrafts and maintenance of aviation equipment. CNAHC is a controlling shareholder of the Company holding approximately 51.7% of the issued share capital of the Company as at the Latest Practicable Date.

(iii) CNAF

CNAF is a company with limited liability established in the PRC and is mainly engaged in provision of financial services to the Group and the CNAHC Group. CNAF is a non-bank financial institution with the approval from the China Banking Regulatory Commission (“CBRC”) and is regulated by the relevant PRC regulatory authorities including the People’s Bank of China (the “PBOC”) and CBRC. As at the Latest Practicable Date, the Company holds 51% of the issued share capital of CNAF and CNAHC holds 49% of issued share capital of CNAF.

The following is a simplified shareholding chart among the Company, CNAHC and CNAF as at the Latest Practicable Date:



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The table below sets forth the major financial information of CNAF extracted from its audited financial statements for the three years ended 31 December 2014, 2015 and 2016.

in RMB million	For the year ended 31 December		
	2014	2015	2016
Net interest income	113	128	111
Net fees and commissions income	8	9	8
Investment income	27	38	58
Profit after taxation	64	83	59

The net interest income of CNAF had decreased by approximately RMB17 million or 13% from FY2015 to FY2016. As advised by the management of the Company, it was primarily due to the reduction of benchmark interest rates of RMB denominated loans and deposits set by PBOC.

2. Deposit services contemplated under the Air China Financial Services Agreement

(i) *Reasons and benefits for the transaction*

We note that the deposit services to be provided by CNAF under the Air China Financial Services have been started at least since 2004. As advised by the Company, due to the long term business relationship between the Group and CNAF, CNAF has a good understanding of the Group's settlement procedures and deposit requirements and has established convenient communication channels. Based on the previous cooperation with other banks, the management of the Company considers that CNAF is more efficient in provision of deposit services as compared to the banks because CNAF has been in-corporation with the Group for over 10 years, thereby having in-depth understanding in each other's business model and working practice. The deposit services offered by CNAF, in term of deposit amounts and period, can be tailor-made to fulfil the financial needs of the Group.

Furthermore, the Air China Financial Services Agreement will not restrict the Group to place their monetary funds in any banks. The Group is flexible in selecting the appropriate banks for deposit services to satisfy the Group's own financial needs. When other banks can offer more favourable deposit rates to the Group, the Group is allowed to engage other banks for deposit services.

We understand from the Company that the selection criteria of banks for placing deposits are mainly based on the interest rates offered. A designated staff from the finance department of the Company compares the interest rate quotation offered by at least three state-owned commercial banks with those offered by CNAF and also considers the other terms of deposits and the quality of services in making its choice of the banks.

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Based on the above, we understand that the Air China Financial Services Agreement allows the Group to continue using the deposit services offered by CNAF without a fixed service commitment and the Group has the flexibility to select other banks for deposit services. We therefore are of the view that entering into the Air China Financial Services Agreement is under the Group's normal and usual course of business and is in the interests of the Company and the Shareholders as a whole.

(ii) Internal control measures on the deposits placed with CNAF

We are advised by the management of the Company that the finance department of the Company has been assigned to (i) obtain the financial reports/management accounts on a monthly basis to review the financial position and the profile of investments in order to assess the risks of placing deposits with CNAF; (ii) review CNAF's required financial ratios which are calculated in accordance with the Interim Measures for the Administration of Finance Companies of Enterprise Group in relation to the Risk Management (the "**Administrative Measures**") (企業集團財務公司風險監管指標考核暫行辦法) issued on 29 December 2006 and review whether these ratios are in compliance with the regulatory requirements and evaluate the operating capability of CNAF.

Pursuant to the Air China Financial Services Agreement, CNAF has agreed not to utilize the deposits placed by the Group for high-risk investment activities, including but not limited to equity securities and corporate bonds. The Company's auditor is allowed to inspect the management accounts of CNAF and CNAF is obligated to cooperate with the Company's auditor.

The customers of CNAF is principally limited to the entities within the Group and the CNAHC Group only, thereby reducing the risks that CNAF will be exposed to. Since CNAF is owned as to 51% by the Company, which can have full access to the financial information of the entities within the Group, CNAF has a better understanding to the financial position and performance of its customers and can obtain sufficient information in advance via the Group's internal financial reporting system to determine whether the loan should be granted to the loan applicants, which is very unlikely that other state-owned commercial banks have such easily-assessable channels to evaluate their customers' creditability. As a result, the customer credit controls of CNAF is comparatively more efficient than the state-owned commercial banks and help reducing the customers' default risk.

The Company has appointed some of its senior management to be the CNAF's directors who are responsible for supervising the operation and monitoring the investment risk of CNAF. Compared to other state-owned commercial banks, the Company has involvement in the risk management of CNAF.

As CNAF is a non-bank financial institution regulated by CBRC and PBOC, CNAF is subject to regular reporting of its audited financial statements and financial ratios to the regulatory departments. We have been advised by the Directors that to their best knowledge, from the completion of acquisition of CNAF (i.e. 1 September 2015) up to the Latest Practicable Date, CNAF has no record of non-compliance with relevant laws, rules and regulations of the PRC.

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Apart from the internal controls conducted by the Group to monitor the financial position of CNAF, we have performed an assessment on the risk profile of CNAF (the details can be referred to the section headed “Risk profile of CNAF as a non-bank financial institution”) and no violation of the required financial ratios are noted.

In view of the above, we consider that there are measures in place to monitor CNAF’s financial position, the Group’s deposits maintained with CNAF and the customer creditability of CNAF. We are of the view that the risks borne by CNAF are less than those borne by other state-owned commercial banks, which have a broad and unrestricted customer base, and CNAF is able to safeguard its customers’ fund more effectively. Therefore, we consider that the increasing use of the deposit services provided by CNAF is in the interest of the Company and its Shareholders as whole.

(iii) Pricing terms of the deposit services

Pursuant to the Air China Financial Services Agreement entered on 30 August 2017, the interest rates of deposits to be placed by the Group with CNAF will be determined based on the following three conditions:

- (i) the interest rates should be in compliance with the requirements prescribed by PBOC;
- (ii) the interest rates will be not lower than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and
- (iii) the interest rates will be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Therefore, the pricing basis has made reference to the prevailing interest rates and also sets a floor interest rate for the deposit services.

Since CNAF only provides deposit services to the entities within the Group and the CNAHC Group, we selected five deposit transactions between CNAF and the entities within the CNAHC Group and other five deposit transactions between CNAF and the entities within the Group. The selected transactions were conducted during the two years ended 31 December 2016 and the first six months of 2017 and they have similar amounts of deposits and tenor within one year. We compared the interest rates offered to the Group and noted that the interest rates provided to the Group are not lower than those offered to other entities within the CNAHC Group with similar principal amount and tenor of deposits. Moreover, we also reviewed the comparison between the interest rates offered by CNAF and those interest rates offered by three state-owned commercial banks to the Group and noted that the interest rates offered by CNAF are same as those offered by two state-owned commercial banks. Based on our review, we are of the view that the deposits service offered by CNAF to the Group is in compliance with the pricing basis stipulated in the Air China Financial Services Agreement.

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We have reviewed the daily deposit reports between CNAF and the Group to ensure that the daily deposit balance does not exceed the approved annual caps under 2015 Air China Financial Services Agreement. The finance department of the Company maintains a list of associates, joint ventures and subsidiaries of the Company and CNAHC and the list is updated on a quarterly basis. The list has identified and classified the connected parties of the Company under the Hong Kong Listing Rules. Based on the list of connected parties, a designated staff from the finance department of the Company is assigned to review the daily balance of deposits of the connected parties of the Group placed with CNAF to ensure that it does not exceed the approved annual caps.

We also checked to the latest interest rates of RMB denominated deposits announced by PBOC on 24 May 2015 and noted that, among the selected sample transactions, the interest rates offered by CNAF to the Group is either higher or same as the interest rates prescribed by PBOC.

As stated in the term sheets of the deposits, the interests derived from the deposits with CNAF are calculated on daily basis and are payable on a quarterly basis and the payment terms are in line with the market practice. We note that, according to Notice in relation to Determination of Interests on Loans and Deposits Denominated in RMB by PBOC (中國人民銀行關於人民幣存貸款計結息問題的通知) published on 27 May 2005, the accrued interests on RMB-denominated deposits are to be settled on a quarterly basis.

We understand from the Company that a designated staff from the finance department of the Company would compare the interest rates offered by CNAF and those offered by at least three state-owned commercial banks in order to ensure that the interest rates offered by CNAF is no less favourable than those offered by other state-owned commercial banks and in line with the pricing basis as stipulated in the Air China Financial Services Agreement.

Based on the above, we are of the view that the pricing and payment terms of the deposit services under the Air China Financial Services Agreement are on normal commercial terms and are fair and reasonable.

(iv) Proposed annual caps

As set out in the Letter from the Board, the historical maximum daily balance of deposits (including accrued interests) placed by the Group to CNAF in respect of the Air China Financial Services Agreement for the two years ended 31 December 2016 are approximately RMB4.0 billion and RMB4.8 billion, respectively and reached approximately RMB6.4 billion during the first six months of 2017. In term of the approved annual caps, the historical maximum balance of deposits represented 33.3%, 34.1% and 42.7% of the respective approved annual caps under 2015 Air China Financial Services Agreement. We understand from the management of the Company that the approved annual caps have not been exceeded as at the Latest Practicable Date and is not expected to be exceeded before 31 December 2017.

The proposed maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF will be approximately RMB12 billion, RMB14 billion and RMB 15 billion, respectively, during the three years ending 31 December 2018, 2019 and 2020.

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During the three years ended 31 December 2014, 2015 and 2016 and the first three months of 2017, the Group recorded the highest cash and bank balance of approximately RMB11.1 billion, RMB10.3 billion, RMB9.4 billion and RMB15.7 billion respectively, representing a growth rate of 12% and an average highest cash and bank balance of approximately RMB11.6 billion. Based on the average highest cash and bank balance of approximately RMB11.6 billion and the historical growth rate of 12%, the Company estimates that the highest monetary funds of the Group will reach approximately RMB13.0 billion, RMB14.6 billion and RMB16.3 billion in the three years ending 31 December 2020.

As advised by the Company, the continuous growth in economy and the development of air transportation in the PRC may result in an increase in the volume of the Group's cash inflow and the demand on the deposit services may increase. According to the National Bureau of Statistics of the PRC, the annual growth rate of the gross domestic product ("GDP") of the PRC was at the rate of 6.9% and 6.7% for the years 2015 and 2016, respectively. The target growth rate of GDP of the PRC for the year ending 31 December 2017 is 6.5% based on the China's 13th Five Year Plan. Moreover, according to the 13th Five Year Plan for the Development of Civil Aviation in China (中國民用航空發展第十三個五年規劃) published by Civil Aviation Department of China (中國民用航空局), the capacity measured in the available tonne kilometres ("ATK") reached approximately 85.2 billion in 2015, representing an average annual growth rate of approximately 9.6% during 2010 to 2015. The average annual growth rate of passenger carried was at 10.4% and that of the cargo and mail carried was at 2.2% during 2010 to 2015. In the coming five years from 2016 to 2020, the average annual growth rate of passengers carried and the cargo and mail carried are estimated to be approximately 10.4% and 6.2% per year and the capacity in ATK is estimated to record an average annual growth rate of approximately 10.8%.

As disclosed in the 2016 Annual Report of the Company, the amount of passengers carried was approximately 97 million, representing a year-on-year increase at approximately 7.56% and the volume of cargo and mail carried was approximately 1.8 million tonnes, representing a year-on-year increase at approximately 6.29%. The overall load factor of the Group is approximately 70%. In the coming three years ending 31 December 2019, the Group will introduce 56, 46 and 55 new passenger aircraft. In 2017, the Group plans to launch new European and American routes (including but not limited to Beijing-Astana, Beijing-Zurich, Shanghai-Barcelona and Shenzhen-Los Angeles), some Southeast Asian routes departing from Hangzhou, Chongqing and Shanghai and China domestic routes.

Moreover, the air traffic revenue of the Group was continuously growing from RMB101.4 billion in FY2014 to RMB108.6 billion in FY2016. The EBITDA^(Note) of the Group increased from RMB18.7 billion in FY2014 to RMB31.0 billion in FY2016.

We understand from the management of the Company that the Group's monetary funds will be placed at CNAF or the banks during the year. As at 31 December 2015 and 31 December 2016 approximately 30% and 48% of the monetary funds of the Group had been deposited with CNAF, respectively. The management of the Company has forecasted that around 62% of the monetary funds of the Group will be deposited with CNAF near the end of 2017. The management of the Company

^{Note} EBITDA represents earnings before finance income, finance costs, income taxes, share of profits of joint ventures and associates, depreciation and amortisation as computed under the International Financial Reporting Standards.

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explained that the higher utilization of CNAF's services are due to the favourable interest rates and tailor-made financial solutions offered by CNAF to satisfy the Group's cash flow needs. After the completion of acquisition of CNAF on 1 September 2015, CNAF became a non-wholly owned subsidiary of the Company and the Company intends to develop CNAF as a corporate treasury centre of the Group in the coming years. This allows the Group with higher flexibility to manage its own cash flow and capital structure as well as reducing the finance cost and bank administrative expenses charged by the banks. In term of risk management, the Company can closely monitor the financial position and conditions of CNAF to minimize the default risk and liquidity risk of CNAF. We have reviewed an internal guidance letter issued by the relevant regulatory authorities that the state-owned group is encouraged to place not less than 70% of its monetary funds with the internal finance entity. In light of the development of a corporate treasury centre and the recommended best practices from the regulatory authorities, the Company will gradually increase the proportion of deposits to be placed with CNAF up to 70% of the Group's monetary funds during the year ending 31 December 2018 and then up to 75% of the Group's monetary funds during the two years ending 31 December 2020. As a result, approximately RMB9 billion, RMB11 billion and RMB12 billion will be deposited with CNAF for the three years ending 31 December 2020, respectively.

Having considered the internal monitoring procedures of the Company imposed on CNAF, the customer base of CNAF limited to the entities within the Group and the CNAHC Group and the historical high liquidity ratio of CNAF, we are of the view that the Group is considered to be in a low risk position to increase its reliance on CNAF's deposit services.

During the year ended 31 December 2016, the Company has been approved to issue super-short term commercial papers with principal amount of RMB 10 billion and such approval is effective until 23 February 2018. Among the approved quota, the Company issued super-short term commercial papers at the Inter-bank Bond Market of RMB7.2 billion and among which a total of approximately RMB3 billion of super-short term commercial papers was issued during March 2016. Among the net proceeds received during the year, some of unutilized proceeds were deposited with CNAF. The Company will continue using these super-short term commercial papers as the Company's major fund-raising channels in the coming years in order to supplement the working capital for expansion of fleet and network coverage. With reference to the historical maximum net proceeds received within a month, the management of the Company estimates that approximately RMB3 billion of unutilized proceeds will be placed with CNAF before the net proceeds are utilized if the Company issues super-short term commercial papers in the coming three years.

Having considered (i) the anticipated growth of the economy and the air transportation market as described above; (ii) the expansion plan in relation to the Group's fleet and network coverage; and (iii) the growing profitability of the Group, it is reasonable to anticipate that the Group has a higher cash inflow from operating activities, leading to a higher demand for deposit services. Therefore, we consider that the growth rates adopted for estimating the highest monetary funds of the Group are reasonable.

Taking into account (i) the estimated highest monetary funds of the Group of approximately RMB13.0 billion, RMB14.6 billion and RMB16.3 billion during the three years ending 31 December 2020, respectively; (ii) 70%, 75% and 75% of the Group's monetary funds to be deposited with CNAF during the three years ending 31 December 2020, respectively; and (iii) the unutilized

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proceeds of approximately RMB3 billion from the issuance of super-short term commercial papers may be placed with CNAF in the coming three years, we are of the view that the Air China New Annual Caps for the three years ending 31 December 2020 are fair and reasonable.

3. Credit Services contemplated under the CNAHC Financial Services Agreement

(i) Reasons and benefits for the transaction

With reference to the announcement dated 24 December 2014, the Company acquired the equity interests from the then shareholders of CNAF and carried out capital injection to CNAF. After the said acquisition and capital injection and as at the Latest Practicable Date, CNAF is held as to 51% by the Company and as to 49% by CNAHC. Before the acquisition, CNAF was owned as to 75.54% by CNAHC, being a subsidiary of CNAHC. CNAF is primarily engaged in providing financial services to CNAHC, its subsidiaries and its associates. We understand from the management of the Company that CNAF has been providing credit services, deposit services and financial services to the CNAHC Group since 1996. We have checked to the audited reports of CNAF and noted that a significant portion of interest income from the provision of loan services were derived from the CNAHC Group. During the three years ended 31 December 2014, 2015 and 2016, approximately 39.6%, 30.7% and 32.9% of the total loan interest income of CNAF were derived from the CNAHC Group.

With a registered capital of approximately RMB10 billion CNAHC is primarily engaged in managing its state-owned assets and have direct and indirect investments in various aviation businesses, including airlines, cargo terminals, airline catering services, ground support services, finance leasing services, logistic services etc. CNAHC is directly managed and owned by SASAC. We have also reviewed the credit rating reports issued by a credit rating agency in 2016 and 2017 and noted that CNAHC was granted an AAA rating, representing the highest creditability grade and an extremely strong capacity to meet its financial commitments. As at the Latest Practicable Date, CNAHC has 51.7% equity interests in the Company and is the controlling shareholder of the Company. Considering the creditability rating and the shareholding background of CNAHC, CNAF is expected to be in a relatively low risk position to provide loans to the CNAHC Group.

(ii) Internal control measures for the Credit Services

As advised by the management of the Company, CNAF has implemented various internal control procedures to review the loan application and assess the borrowers' creditability. We have reviewed the loan application forms, the comments of various reviewers of the loan application and the final decision endorsed by the loan review committee. The loans are only granted to the borrowers after the loan review committee approves all the terms of the loans. After the approval from the loan review committee is obtained, the borrower and CNAF enter into a legally-binding loan agreement and then the loan principal is transferred to the borrower. We also examined the annual review report prepared by CNAF to assess the recent financial conditions and creditability of the borrowers after the loans are granted to these borrowers. In view of the above, we are of the view that CNAF has internal control measures in place to monitor the loan approval process and the creditability of borrowers.

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Taking into account (i) the long-term business and shareholding relationship between CNAHC and CNAF; (ii) a significant portion of revenue derived from the CNAHC Group; (iii) the business scale and financial background of CNAHC; and (iv) the internal control procedures to monitor the Credit Services under the CNAHC Financial Service Agreement, we are of the view that the Credit Services contemplated under the CNAHC Financial Services Agreement are in the interests of the Company and the Shareholders as a whole.

(iii) Pricing terms of the Credit Services

Pursuant to the CNAHC Financial Services Agreement entered on 30 August 2017, CNAF will continue to provide the Credit Services to the CNAHC Group for another three years commencing from 1 January 2018 to 31 December 2020. The interest rates to be charged to the CNAHC Group by CNAF (i) should be in compliance with the requirements prescribed by PBOC on such type of loans; (ii) should not be lower than the interest rates charged by the state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) should not be lower than the interest rates charged by CNAF to other CNHAC Member Companies for the same type of services under the same conditions.

We have examined the loan agreements and loan application documents in relation to the loans provided by CNAF to the CNAHC Group and the Group during the two years ended 31 December 2016 and the latest six months of 2017. We noted that the interest rates charged to the CNAHC Group is not lower than those charged to the Group. We also compared the loan interest rates charged to the CNAHC Group by state-owned commercial banks and noted that the interest rates of comparable loans charged to the CNAHC Group by CNAF is not lower than those charged by state-owned commercial banks.

We also checked to the latest benchmark interest rates of RMB denominated loans announced by PBOC on 24 May 2015 and noted that the interest rates charged to the CNAHC Group by CNAF did not exceed the benchmark loan interest rates prescribed by PBOC.

Based on the above, we are of the view that the pricing terms of the Credit Services contemplated under the CNAHC Financial Service Agreement are on normal commercial terms and are fair and reasonable.

(iv) Proposed annual caps

As set out in the Letter from the Board, the maximum daily balance of Credit Services (including accrued interests) for the three years ending 31 December 2018, 2019 and 2020 are RMB8 billion, RMB9 billion and RMB10 billion, respectively.

Based on the information provided by CNAF, the historical maximum balance in relation to the Credit Services provided by CNAF to the CNAHC Group were approximately RMB1.9 billion, RMB2.2 billion, RMB2.1 billion and RMB3.1 billion during the three years ended 31 December 2014, 2015 and 2016 and the first six months of 2017, respectively, representing a growth rate of approximately 19%. Taking into account of the recent highest daily balance in relation to the Credit Services provided by CNAF to the CNAHC Group and the historical growth rate of approximately

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19%, CNAF estimates that the maximum daily balance in relation to the Credit Services may reach RMB3.7 billion, RMB4.5 billion and RMB5.4 billion during the three years ending 31 December 2018, 2019 and 2020, respectively.

As discussed in the previous section, the Company intends to develop CNAF as a corporate treasury center for the Group and the CNAHC Group to provide tailor-made financial services to meet the cash flow needs of the CNAHC Group. It is more cost-effective to centralize the cash management function of the CNAHC Group and the Group in CNAF and improve the overall efficiency for the use of funds. Being a corporate treasury center of the CNAHC Group, CNAF could earn more interest income from the provision of Credit Services to the CNAHC Group with a relatively lower default risk. The management of the Company stated that CNAHC intends to gradually reduce its borrowings from the banks and obtain loans directly from CNAF which will soon be developed as a corporate treasury center of the CNAHC Group and the Group. The Company made reference to the current amounts of borrowings of the CNAHC Group obtained from other banks and the CNAHC Group's future fund use plan to determine the CNAHC New Annual Caps. The CNAHC Group has a diversified investment profile in the aviation sector and the aviation-related sectors. As discussed in the previous section, the average annual growth rate of passengers carried and the cargo and mail carried will be approximately 10.4% and 6.2% during 2016 to 2020 in the PRC. We understand from the management of the Company that the strong demand on the airline services will induce higher demand on airline ancillary services, including but not limited to, flight catering services, in-flight entertainment services, ground supporting services, etc. Therefore, the business and investment scale of the CNAHC Group will be further expanded in order to capture the business opportunities in the aviation market. The CNAHC Group has estimated to maintain the current borrowing level to finance its future capital requirements. CNAF will be acting as the treasury center of the CNAHC Group and thus other CNAHC Member Companies will first consider the Credit Services from CNAF rather than other commercial banks. Therefore, additional borrowings of approximately RMB4.0 billion, RMB4.2 billion and RMB4.5 billion are estimated to be obtained by the CNAHC Group from CNAF instead of the banks in the coming three years ended 31 December 2020, respectively.

Moreover, certain subsidiaries of CNAHC will have an investment project relating to the construction of airport-related auxiliary facilities. The first phase of this project is expected to be completed in 2020 and the second phase of this project is expected to be completed in 2025. The estimated investment cost of this project is approximately RMB1 billion, among of which RMB0.7 billion will be financed by CNAF. In the coming three years ending 31 December 2020, additional borrowings of RMB0.3 billion, RMB0.3 billion and RMB0.1 billion will be obtained from CNAF to finance the construction of this project. In line with the development of CNAF as the CNAHC Group's treasury centre, the subsidiary of CNAHC is planning to obtain borrowings from CNAF.

Taking into account (i) the latest maximum balance of RMB3.1 billion in relating to the Credit Services and the related growth rate of 19%; (ii) the higher reliance on CNAF's Credit Services by the CNAHC Group in the coming three years; and (iii) the financing need for certain subsidiaries of CNAHC in relation to the construction of airport-related auxiliary facilities during 2018 to 2020, we are of the view that the CNAHC New Annual Caps for the three years ending 31 December 2018, 2019 and 2020 are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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4. Risk profile of CNAF as a non-bank financial institution

In order to formulate our view on the risk profile of CNAF compared with that of the PRC commercial banks, we have reviewed several key financial ratios of CNAF and PRC commercial banks according to three major risk factors of banks, which are compliance risk, liquidity risk and credit risk as set out below:

(a) *Compliance risk*

As a licensed non-bank financial institution in the PRC, CNAF is supervised by CBRC under the Administrative Measures, pursuant to which CNAF is required to submit audited financial statements and report its operation status to CBRC annually. In addition, CNAF must comply with certain financial ratio requirements set by CBRC from time to time.

The table below is the applicable financial ratios of CNAF as at 31 December 2015 and 2016 in relation to the requirements of the Administrative Measures:

Financial ratio	Requirements of the CBRC	Financial ratios of CNAF	
		As at 31 December 2015	2016
Capital adequacy ratio (<i>Note</i>)	≥ 10%	26.0%	28.8%
Inter-bank borrowing balances to total capital ratio	≤ 100%	0.0%	0.0%
Total amount of investment to total capital ratio	≤ 70%	62.7%	62.1%
Liquidity ratio	≥ 25%	65.4%	82.7%
Non-performing loan ratio	≤ 5%	0.0%	0.0%
Total fixed assets to total capital ratio	≤ 20%	1.0%	0.3%

Note: Capital adequacy ratio: total capital/risk adjusted assets.

We have reviewed the calculation of financial ratios of CNAF as at 31 December 2015 and 2016 in relation to the requirements of the Administrative Measures, and noted that CNAF has complied with all the financial ratio requirements during the relevant periods. We have also been advised by the Directors that to their best knowledge, information and belief, from the completion of acquisition of CNAF on 1 September 2015 up to the Latest Practicable Date, there is no record of material non-compliance with relevant laws, rules and regulations of the PRC by CNAF.

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(b) *Liquidity risk*

The below table shows the liquidity ratio of CNAF as at 31 December 2015 and 2016.

	Requirements of the CBRC	Liquidity ratio of CNAF As at 31 December	
		2015	2016
Liquidity ratio (<i>Note</i>)	≥ 25%	65.4%	82.7%

Note: Liquidity ratio is defined as current assets/current liabilities.

The below table summarizes the liquidity ratios of the four state-owned commercial banks in the PRC as at 31 December 2015 and 2016.

	Requirements of the CBRC	Liquidity ratio As at 31 December	
		2015	2016
Industrial and Commercial Bank of China Ltd (Stock code: 1398)	≥ 25%	35.5%	35.7%
China Construction Bank Corporation (Stock code: 939)		44.2%	44.2%
Agricultural Bank of China Ltd (Stock code: 1288)		44.5%	46.7%
Bank of China (Stock code: 3988)		48.6%	45.6%
Average:		43.2%	43.1%

Source: Annual reports of the above companies.

We noted that each of the liquidity ratio of CNAF as at 31 December 2015 and 2016 were higher than the average liquidity ratio of the above four state-owned commercial banks in the PRC. In view of the above, we are of the view that the liquidity risk of the CNAF is relatively smaller than the above four comparables.

(c) *Credit risk*

The key indicators of credit risk are the non-performing loans ratio and the allowance of non-performing loans to total loans ratio. We noted that the non-performing loans ratios of CNAF as at 31 December 2015 and 2016 are 0%, which is in compliance with the regulatory requirement of not more than 5%. We have checked to the audited financial statements of 2015 and 2016 and noted that CNAF did not have non-performing loans. Since CNAF has no non-performing loans, the allowance of non-performing loans to total loans ratios is not applicable.

In view of the above, we consider that the financial capability of CNAF is sufficient to provide deposit services to the Company, and the liquidity risk of the CNAF is relatively lower than the above four comparables.

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RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the Non-Exempt Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Group; (ii) the terms of the Non-Exempt Continuing Connected Transactions are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the Non-Exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the Proposed Annual Caps of the Non-Exempt Continuing Connected Transactions are fair and reasonable. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders, to vote in favour of the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps thereof at the EGM.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Managing Director

Wong Wai Leung

Executive Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and Type 9 (asset management) regulated activities. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

The biographical details of the Director candidates for the fifth session of the Board are as follows:

NON-EXECUTIVE DIRECTORS:

Mr. Cai Jianjiang, aged 54, graduated from China Civil Aviation Institute majoring in aviation control and English. Mr. Cai was appointed as General Manager of Shenzhen Airlines in 1999. He joined Air China International Corporation in 2001 as Manager of its Shanghai Branch, and subsequently as Assistant to the President and Manager of the marketing department. In October 2002, he was appointed as Vice President of Air China International Corporation, and subsequently as Secretary of the Communist Party Committee and Vice President of the Company in September 2004. He served as President and Deputy Secretary of the Communist Party Committee of the Company and a member of the Communist Party Group of CNAHC from January 2007 to January 2014. He has been serving as the non-executive Director of Cathay Pacific since November 2009, the Chairman of Shenzhen Airlines since May 2010, and the General Manager and Deputy Secretary of the Communist Party Group of CNAHC from January 2014 to December 2016. Mr. Cai has been serving as a Director of the Company since September 2004 and Chairman of the Company since February 2014. He has been serving as Chairman and Secretary of the Communist Party Group of CNAHC since December 2016. He has been serving as Secretary of the Communist Party Committee of the Company since May 2017.

Mr. John Robert Slosar, aged 61, holds degrees in Economics from Columbia University and Cambridge University. He joined the Swire group in 1980 and worked with the group in Hong Kong, the United States and Thailand. Mr. Slosar has been a Director of Cathay Pacific since July 2007 and served as Chief Operating Officer from July 2007 to March 2011 and as Chief Executive from March 2011 to March 2014, and has become Chairman of Cathay Pacific, John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited since March 2014. Mr. Slosar has been serving as a non-executive Director of the Company since May 2014.

EXECUTIVE DIRECTORS:

Mr. Song Zhiyong, aged 52, Mr. Song is a commanding pilot, graduating from the Second Flying Academy of China Air Force with a bachelor's degree in aviation. Mr. Song started his career in China's civil aviation industry in 1987 and was previously a pilot, Deputy Team Captain, Flight Director, and Deputy Group Captain of the Third Group of the Chief Flight Team, Deputy Captain of the Chief Flight Team and Director of the Training Department of Air China International Corporation. He served as Captain of the Chief Flight Team and Deputy Secretary of the Communist Party Committee of the Company from November 2002 to June 2008. Mr. Song held the post of Assistant to President from September 2004 to October 2006. He was the Vice President, a Member of the Communist Party Committee, and a Member of the Standing Committee of the Communist Party Committee of the Company from October 2006 to December 2010. Mr. Song served as the Deputy General Manager of CNAHC from December 2010 to April 2014. He has been a Member of the Communist Party Group of CNAHC since December 2010. Mr. Song has been serving as President and Deputy Secretary of the Communist Party Committee of the Company to handle the comprehensive work of the Company since January 2014 as well as an executive Director of the Company since May 2014 and Secretary of the Communist Party Group of CNAHC from February 2016 to December 2016. He has been serving as Vice Chairman of the Company since June 2016 and Director, General Manager and Deputy Secretary of the Communist Party Group of CNAHC since December 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Wang Xiaokang, aged 62, graduated from Peking University majoring in law. He served as Chairman and Deputy Secretary of the Communist Party Committee of China Energy Conservation and Environmental Protection Group from May 2010 to December 2016. Since December 2011, he has been serving as the President of China Industrial Energy Conservation and Clean Production Association. He is also currently a Member of the Twelfth National Committee of the Chinese People's Political Consultative Conference and a Member of the Committee of Population, Resources and Environment of the Chinese People's Political Consultative Conference. He has been serving as an independent non-executive Director of the Company since May 2017.

Mr. Liu Deheng, aged 60, graduated from the School of Management of Xi'an Jiaotong University with a master's degree in industrial management engineering. He served as Deputy Director General of Statistics and Assessment Bureau (Asset and Capital Verification Office), Deputy Director General and Director General of Revenue Management Bureau of the SASAC from May 2003 to October 2016, and served as Professional External Director for Central State-owned Enterprises from October 2016 to April 2017. He has been serving as an independent non-executive Director of the Company since May 2017.

Mr. Stanley Hui Hon-chung, aged 67, holds the bachelor degree of Science from the Chinese University of Hong Kong. He joined Cathay Pacific in 1975 as a management trainee and had held a range of management positions in Hong Kong and overseas. From 1990 to 1992, Mr. Hui served in Cathy Dragon as General Manager-Planning and International Affairs and was appointed the Chief Representative of John Swire & Sons (China) Limited in Beijing in 1992. He later returned to Hong Kong in 1994 to assume the position of Chief Operating Officer of AHK Air Hong Kong Limited until 1997. Mr. Hui joined Cathy Dragon as its Chief Executive Officer from 1997 to 2006. During the period from February 2007 to July 2014, he served as the Chief Executive Officer of Hong Kong Airport Authority. Mr. Hui was appointed as member of the Greater Pearl River Delta Business Council twice by the Chief Executive of the HKSAR, and held civic duties including member of the Commission on Strategic Development of the HKSAR Government, member of the Hong Kong Government's Aviation Development Advisory Committee and member of the Hong Kong Tourism Board. Mr. Hui is currently the member of the 12th session of National Committee of Chinese People's Political Consultative Conference ("CPPCC") and the General Committee of the Hong Kong General Chamber of Commerce. In July 2006, Mr. Hui was appointed as a Justice of the Peace by the Chief Executive of the HKSAR. Mr. Hui has been serving as an independent non-executive Director of the Company since May 2015. Mr. Hui was appointed as executive Director and Vice CEO of NWS Holdings Limited in September 2015 and independent non-executive Director of Guangzhou Baiyun International Airport Co., Ltd. since December 2016.

Mr. Li Dajin, aged 59, graduated from Peking University majoring in law. He is currently the managing partner and attorney at East & Concord Partners. He has been a practicing lawyer since 1982, and was among the first batch of the lawyers who were qualified to engage in securities law business in 1994. He previously served as Vice President of the 6th session of All China Lawyers Association, President of the 7th session of Beijing Lawyers Association, and a member of Standing Committee and a member of Committee for Internal and Judicial Affairs of the 13th session of Beijing Municipal People's Congress. Currently, Mr. Li also holds, among others, the following positions: Deputy to the 12th session of National People's Congress, legislative consultant to the Standing Committee of Beijing Municipal People's

APPENDIX I**BIOGRAPHICAL DETAILS OF THE DIRECTOR
CANDIDATES FOR THE FIFTH SESSION OF THE BOARD**

Congress, invited Supervisor to the PRC Supreme People's Court, invited Supervisor to the Ministry of Public Security of the PRC, visiting professor to Lawyer College of Renmin University of China, lecturer for master candidate of Tsinghua University Law School, and visiting professor of Southwest University of Political Science & Law. Mr. Li has been serving as an independent non-executive Director of the Company since December 2015.

Save as disclosed above, none of the Director candidates for the fifth session of the Board has any relationship with any Director, senior management or substantial or controlling Shareholder of the Company, or has any interest in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, none of the Director candidates for the fifth session of the Board held any other positions in the Company or any of its subsidiaries, or any directorships in other listed companies in the last three years.

Save as disclosed above, the Company is not aware of any other matters that need to be brought to the attention of the Shareholders or any information in relation to the election of the Directors for the fifth session of the Board that need to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

The biographical details of the shareholder representative Supervisor candidates for the fifth session of the Supervisory Committee are as follows:

Mr. Wang Zhengang, aged 59, is a senior accountant who graduated from the Anti Chemical Command and Engineering Institute of the Chinese People's Liberation Army with a bachelor's degree in economics and management. He has been serving as a Director, the President and a member of the Communist Party Committee of CNACG since July 2011 and Chairman of the Board of Directors of Chinawings Aviation Technology Co., Ltd since September 2011. Mr. Wang has been an assistant General Manager of CNAHC since September 2014. Mr. Wang is currently a member of the Committee of the 12th session of the CPPCC of Beijing Municipality and a member of the Standing Committee of the 5th session the CPPCC of Shunyi District, Beijing Municipality. He has been serving as Chairman of the Supervisory Committee of the Company since August 2016.

Mr. He Chaofan, aged 55, graduated from Civil Aviation University of China majoring in operation management. Mr. He started his career in China's civil aviation industry in 1983. He served as an accountant at the Finance Department of Beijing Administration of Civil Aviation Administration of China (CAAC), and served various positions in Air China International Corporation, including the Section Chief, Deputy Director and Director of the finance department and General Manager of the revenue accounting centre of Air China International Corporation. From March 2003 to October 2008, he served as General Manager of CNAF. He served as General Manager of the finance department of CNAHC and a Supervisor of the Company concurrently from October 2008 to April 2011. He was appointed as Vice President of CNACG in May 2011, and has been concurrently served as a Director, General Manager, Party Committee member and Deputy Secretary to the Party Committee of Zhongyi Aviation Investment Co., Ltd. since July 2013. Mr. He has been serving as a Supervisor of the Company since October 2013.

Save as disclosed above, none of the shareholder representative Supervisor candidates for the fifth session of the Supervisory Committee has any relationship with any Director, senior management or substantial or controlling Shareholder of the Company, or has any interest in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, none of the shareholder representative Supervisor candidates for the fifth session of the Supervisory Committee held any other positions in the Company or any of its subsidiaries, or any directorships in other listed companies in the last three years.

Save as disclosed above, the Company is not aware of any other matters that need to be brought to the attention of the Shareholders or any information in relation to the election of shareholder representative Supervisors for the fifth session of the Supervisory Committee that need to be disclosed pursuant to the requirements to Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

Set out below are the details of the proposed amendments to the Articles of Association. The revisions have been underlined (if applicable) for the convenience of perusal.

Existing Articles	Revised Articles
CHAPTER 1 GENERAL PROVISIONS	CHAPTER 1 GENERAL PROVISIONS
<p>Article 8</p> <p>The “other management personnel” referred to in these Articles of Association mean the board secretary, chief accountant, chief pilot and other management personnel appointed by the board of directors of the Company.</p>	<p>Article 8</p> <p>The “other management personnel” referred to in these Articles of Association mean the board secretary, chief accountant, chief pilot, <u>general legal counsel</u> and other management personnel appointed by the board of directors of the Company.</p>
	<p><u>Article 11</u></p> <p><u>According to the Constitution of the Communist Party of China, the Company shall establish an organization of the Communist Party of China. The Party committee shall perform the core leading and political functions, control the directions, manage the situation and ensure the implementation. The Company shall set up the working organs of the Party, which shall be equipped with sufficient personnel to handle Party affairs and provided with sufficient funds to operate the Party organization.</u></p>
CHAPTER 8: SHAREHOLDERS’ GENERAL MEETINGS	CHAPTER 8: SHAREHOLDERS’ GENERAL MEETINGS
<p>Article 61</p> <p>The shareholders’ general meeting shall have the following functions and powers:</p> <p>(1) to decide on the Company’s operational policies and investment plans;</p> <p>(2) to elect and replace directors and to decide on matters relating to the remuneration of directors;</p> <p>(3) to elect and replace supervisors appointed from personnel who are not representatives of the employees and to decide on matters relating to the remuneration of supervisors;</p>	<p>Article 61<u>6+2</u></p> <p>The shareholders’ general meeting shall have the following functions and powers:</p> <p>(1) to decide on the Company’s operational policies and investment plans;</p> <p>(2) to elect and replace directors (<u>excluding the employee representative director</u>) and to decide on matters relating to the remuneration of directors;</p> <p>(3) to elect and replace supervisors appointed from personnel who are not representatives of the employees and to decide on matters relating to the remuneration of supervisors;</p>

Existing Articles	Revised Articles
	<p data-bbox="831 321 1369 348" style="text-align: center;"><u>CHAPTER 10 THE PARTY COMMITTEE</u></p> <p data-bbox="805 370 943 397"><u>Article 106</u></p> <p data-bbox="805 442 1396 1144"><u>The Company shall establish the Party committee. The Party committee is comprised of one secretary and several other members. The positions of Chairman and the secretary of the Party committee shall be assumed by the same person in principle, and a full-time deputy secretary of the Party committee shall be appointed to take charge of the Party building work. Eligible members of the Party committee are entitled to be admitted to the board of directors, the supervisory committee, and the management through legal procedures, and eligible Party members from the board of directors, the supervisory committee, and the management are entitled to be admitted to the Party committee in accordance with relevant rules and procedures. Meanwhile, a discipline inspection committee shall be established in accordance with appropriate requirements.</u></p>
	<p data-bbox="805 1166 943 1193"><u>Article 107</u></p> <p data-bbox="805 1238 1396 1381"><u>The Party committee of the Company shall perform its duties by the internal laws and regulations of the Party such as the Constitution of the Communist Party of China.</u></p> <p data-bbox="805 1425 1396 1791"><u>(1) To guarantee and supervise the Company's implementation of policies and guidelines of the Party and the State, implement major strategic decisions of the Central Committee of the Party and the State Council, as well as make deployment for the relevant material works of the Party committee of the State-owned Assets Supervision and Administration Commission of the State Council and the superior Party organisation.</u></p>

Existing Articles	Revised Articles
	<p><u>(2) To adhere to the principle of the Party exercising leadership over cadres, the selection of management by the board of directors, and the exercise of power as regards the right of cadres' appointment by the management in accordance with laws. The Party committee shall deliberate and give opinions on the candidates nominated by the board of directors or the general manager, or recommend nominees to the board of directors or the general manager. The Party committee of the Company, together with the board of directors, shall observe the proposed candidates and give opinions collectively.</u></p> <p><u>(3) To study and discuss the Company's material matters on its reform, development and stability, as well as major issues relating to the Company's operation and management and to the interests of the staff, and propose opinions and suggestions thereon.</u></p> <p><u>(4) To assume full responsibility for enforcing the strict discipline of the Party. Leading the Company's ideological and political work, the front unification work, building of spiritual civilization as well as building of corporate culture, and lead mass organizations such as the labour union and the Communist Youth League. Playing a leading role in the construction of the Party's working style and a clean and honest government, and support the discipline inspection committee in fulfilling its responsibility of supervision in practice.</u></p>

Existing Articles	Revised Articles
CHAPTER 10 BOARD OF DIRECTORS	CHAPTER 10 1 BOARD OF DIRECTORS
<p>Article 105</p> <p>The Company shall have a board of directors. The board of directors shall consist of 12 directors, at least half of which shall be outside directors (those who do not assume any position within the Company), and of which more than four shall be independent directors (meaning directors who are independent of the Company’s shareholders and do not hold offices within the Company). At least one independent director shall have appropriate professional qualification, or expertise in accounting or related financial management.</p> <p>The board of directors shall have one (1) Chairman and one (1) Deputy Chairman.</p>	<p>Article 1058</p> <p>The Company shall have a board of directors. The board of directors shall consist of 12 <u>7 to 13</u> directors, at least half of which shall be outside directors (those who do not assume any position within the Company), and of which <u>at least 1/3 of the overall directors</u> more than four shall be independent directors (meaning directors who are independent of the Company’s shareholders and do not hold offices within the Company). At least one independent director shall have an appropriate professional qualification or expertise in accounting or related financial management; <u>the board of directors shall have one (1) employee representative director.</u></p> <p>The board of directors shall have one (1) Chairman and one (1) Deputy Chairman.</p>
<p>Article 106</p> <p>Directors shall be elected at the shareholders’ general meeting each for a term of three (3) years (starting from the election date to the date on which a new board of directors is elected at a shareholders’ general meeting). At the expiry of a director’s term, the term is renewable upon re-election, provided that the term of reappointment of an independent director shall not be more than six (6) years.</p> <p>If the term of office of a director expires but re-election is not made promptly, the said director shall continue fulfilling the duties as a director under relevant laws, administrative regulations, departmental rules and the Articles of Association until a new director is elected.</p>	<p>Article 1069</p> <p>Directors <u>(excluding the employee representative director)</u> shall be elected at the shareholders’ general meeting <u>and the employee representative director shall be elected or dismissed by the employee representative meeting</u> each for a term of three (3) years (starting from the election date to the date on which a new board of directors is elected at a shareholders’ general meeting). At the expiry of a director’s term, the term is renewable upon re-election, provided that the term of reappointment of an independent director shall not be more than six (6) years.</p> <p>If the term of office of a director expires but re-election is not made promptly, the said director shall continue fulfilling the duties as a director under relevant laws, administrative regulations, departmental rules and the Articles of Association until a new director is elected.</p>

Existing Articles	Revised Articles
<p>The list of candidates for directors shall be submitted in the form of a motion to a shareholders’ general meeting for consideration. Candidates other than those for independent directors shall be nominated by the board of directors, supervisory committee or shareholder(s) holding, alone or together, more than three percent (3%) of the total amount of voting shares in the Company and elected at the shareholders’ general meeting.</p> <p>A written notice of the intention to propose a person for election as a director and a notice in writing by that person indicating his acceptance of such election shall have been given to the Company seven (7) days before the date of such shareholders’ general meeting. The shortest notice period for such written notice shall be 7 days.</p> <p>.....</p>	<p>The list of candidates for directors (<u>excluding the employee representative director</u>) shall be submitted in the form of a motion to a shareholders’ general meeting for consideration. Candidates other than those for independent directors <u>and the employee representative director</u> shall be nominated by the board of directors, supervisory committee or shareholder(s) holding, alone or together, more than three percent (3%) of the total amount of voting shares in the Company and elected at the shareholders’ general meeting.</p> <p>A written notice of the intention to propose a person for election as a director (<u>excluding the employee representative director</u>) and a notice in writing by that person indicating his acceptance of such election shall have been given to the Company seven (7) days before the date of such shareholders’ general meeting. The shortest notice period for such written notice shall be 7 days.</p> <p>.....</p>
<p>Article 107</p> <p>The following procedures shall be carried out prior to the election of the non-independent directors:</p> <p>(1) The nominator of a candidate for the non-independent directors shall seek the consent of such candidate prior to nomination and shall have a full understanding towards the profession, education, job position, detailed working experience and all other positions held concurrently as well as preparing written materials containing the said information to the Company. Candidates shall undertake to the Company in writing that they have agreed to accept the nomination and that all disclosed information relating to them are true and complete and shall guarantee that they will conscientiously perform the director’s responsibilities after being elected.</p>	<p>Article 10710</p> <p>The following procedures shall be carried out prior to the election of the non-independent directors:</p> <p>(1) The nominator of a candidate for the non-independent directors shall seek the consent of such candidate prior to nomination and shall have a full understanding towards the profession, education, job position, detailed working experience and all other positions held concurrently as well as preparing written materials containing the said information to the Company. Candidates shall undertake to the Company in writing that they have agreed to accept the nomination and that all disclosed information relating to them are true and complete and shall guarantee that they will conscientiously perform the director’s responsibilities after being elected.</p>

Existing Articles	Revised Articles
<p>(2) If the nomination of a candidate for the non-independent directors is taken place before the board meeting of the Company was convened and if the applicable law, regulations and/or the relevant listing rules contain relevant provisions, the written materials concerning the nominee set out in subparagraph (1) of this Article shall be publicly announced together with the resolutions of the board of directors in accordance with such provisions.</p> <p>(3) If a shareholder holding, alone or together, more than three percent (3%) of the total voting shares of the Company proposes an ex tempore motion on the election of non-independent directors at the shareholders’ general meeting of the Company, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept nomination together with the written materials and undertakings containing such particulars of the nominee as set out in subparagraph (1) of this Article shall be despatched to the Company within ten (10) days prior to the shareholders’ general meeting. Such notice shall commence no earlier than the day after the despatch of the notice of the meeting for the election of directors and end no later than seven (7) days before the date of such meeting.</p>	<p>(2) If the nomination of a candidate for the non-independent directors is taken place before the board meeting of the Company was convened and if the applicable law, regulations and/or the relevant listing rules contain relevant provisions, the written materials concerning the nominee set out in subparagraph (1) of this Article shall be publicly announced together with the resolutions of the board of directors in accordance with such provisions.</p> <p>(3) If a shareholder holding, alone or together, more than three percent (3%) of the total voting shares of the Company proposes an ex tempore motion on the election of non-independent directors <u>(excluding the employee representative director)</u> at the shareholders’ general meeting of the Company, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept nomination together with the written materials and undertakings containing such particulars of the nominee as set out in subparagraph (1) of this Article shall be despatched to the Company within ten (10) days prior to the shareholders’ general meeting. Such notice shall commence no earlier than the day after the despatch of the notice of the meeting for the election of directors and end no later than seven (7) days prior to the date of such meeting.</p>
<p>Article 108</p> <p>At a shareholders’ general meeting, the cumulative voting system shall be adopted for voting on the motions for the election of directors. In other words, when electing two or more directors at a shareholders’ general meeting, the number of voting rights carried by each of the shares held by a voting shareholder is the same as the number of directors to be elected such that a shareholder may exercise the voting rights in a way to concentrate all his votes on a particular candidate or to spread his votes on several candidates.</p>	<p>Article 10811</p> <p>At a shareholders’ general meeting, the cumulative voting system shall be adopted for voting on the motions for the election of directors <u>(excluding the employee representative director)</u>. In other words, when electing two or more directors at a shareholders’ general meeting, the number of voting rights carried by each of the shares held by a voting shareholder is the same as the number of directors to be elected such that a shareholder may exercise the voting rights in a way to concentrate all his votes on a particular candidate or to spread his votes on several candidates.</p>

Existing Articles	Revised Articles
	<p><u>Article 113</u></p> <p><u>The board of directors shall make inquiries with the Party committee before making decisions on major issues of the Company.</u></p>
<p>Article 115</p> <p>The Chairman of the board of directors shall exercise the following powers:</p> <p>(1) to preside over shareholders’ general meetings and to convene and preside over meetings of the board of directors;</p> <p>(2) to check on the implementation of resolutions passed by the board of directors at directors’ meetings;</p> <p>(3) to sign the securities certificates issued by the Company;</p> <p>(4) to exercise other powers conferred by the board of directors.</p> <p>The vice chairman of the board of directors shall assist the chairman of the board of directors with his/her duties. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall perform the said duties. Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall perform the said duties.</p>	<p>Article 1159</p> <p>The Chairman of the board of directors shall exercise the following powers:</p> <p>(1) to preside over shareholders’ general meetings and to convene and preside over meetings of the board of directors;</p> <p>(2) to check on the implementation of resolutions passed by the board of directors at directors’ meetings;</p> <p>(3) to sign the securities certificates issued by the Company;</p> <p>(4) <u>to convene Chairman’s office meeting;</u></p> <p><u>(5)</u> to exercise other powers conferred by the board of directors.</p> <p>The vice chairman of the board of directors shall assist the chairman of the board of directors with his/her duties. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall perform the said duties. Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall perform the said duties.</p>

Existing Articles	Revised Articles
<p>Article 118</p> <p>All the executive and outside directors must be notified about the important matters that shall be decided by the board of directors within the time limit stipulated in Article 117 of these Articles of Association and sufficient materials shall be provided at the same time in strict compliance with the required procedures. Directors may request for supplementary information. If more than one-fourth of the directors or more than two outside directors consider that the materials provided are not sufficient or supporting arguments are not clear, they may jointly propose to postpone the meeting or defer the discussion of certain matters on the agenda of the meeting and the board of directors shall accept such proposal.</p> <p>Notice of a meeting shall be deemed to have been given to any director who attends the meeting without protesting against, before or at its commencement, any lack of notice.</p> <p>Any regular or ad hoc meeting of the board of directors may be held by way of telephone conferencing or similar communication equipment so long as all directors participating in the meeting can clearly hear and communicate with each other. All such directors shall be deemed to be present in person at the meeting.</p>	<p>Article 118<u>22</u></p> <p>All the executive and outside directors must be notified about the important matters that shall be decided by the board of directors within the time limit stipulated in Article 117<u>20</u> of these Articles of Association and sufficient materials shall be provided at the same time in strict compliance with the required procedures. Directors may request for supplementary information. If more than one-fourth of the directors or more than two outside directors consider that the materials provided are not sufficient or supporting arguments are not clear, they may jointly propose to postpone the meeting or defer the discussion of certain matters on the agenda of the meeting and the board of directors shall accept such proposal.</p> <p>Notice of a meeting shall be deemed to have been given to any director who attends the meeting without protesting against, before or at its commencement, any lack of notice.</p> <p>Any regular or ad hoc meeting of the board of directors may be held by way of telephone conferencing or similar communication equipment so long as all directors participating in the meeting can clearly hear and communicate with each other. All such directors shall be deemed to be present in person at the meeting.</p>
<p>Article 124</p> <p>Subject to all relevant laws and administrative regulations, the shareholders' general meeting may remove any director by an ordinary resolution before the expiration of his term of office. However, the director's right to claim for damages arising from his removal shall not be affected thereby.</p>	<p>Article 124<u>8</u></p> <p>Subject to all relevant laws and administrative regulations, the shareholders' general meeting may remove any director <u>(excluding the employee representative director)</u> by an ordinary resolution before the expiration of his term of office. However, the director's right to claim for damages arising from his removal shall not be affected thereby.</p>

Existing Articles	Revised Articles
<p data-bbox="199 319 327 351">Article 125</p> <p data-bbox="199 393 782 691">A director may resign prior to the expiration of his term of office. If a director resigns from his office, he shall submit a written report of his resignation to the board of directors. Independent directors shall explain the circumstances which are relevant to his resignation and which in his opinion are necessary to bring to the attention of the shareholders and creditors of the Company.</p> <p data-bbox="199 734 782 1287">If the resignation of a director will result in the board of directors of the Company having less than the statutory minimum number of directors, then such director’s report of resignation shall only take effect after a new director has been appointed to fill the vacancy so caused by his resignation. The board of directors shall convene an ad hoc meeting as soon as possible during its remaining term to elect a director to fill up the vacancy arising from the resignation of the director. Before a decision is made at the shareholders’ general meeting regarding the election of the director, the functions and powers of the resigning director and the remaining board of director shall be restricted to a reasonable extent.</p> <p data-bbox="199 1372 255 1393">.....</p>	<p data-bbox="805 319 949 351">Article 1259</p> <p data-bbox="805 393 1396 691">A director may resign prior to the expiration of his term of office. If a director resigns from his office, he shall submit a written report of his resignation to the board of directors. Independent directors shall explain the circumstances which are relevant to his resignation and which in his opinion are necessary to bring to the attention of the shareholders and creditors of the Company.</p> <p data-bbox="805 734 1396 1330">If the resignation of a director will result in the board of directors of the Company having less than the statutory minimum number of directors, then such director’s report of resignation shall only take effect after a new director has been appointed to fill the vacancy so caused by his resignation. The board of directorsThe Company shall convene an ad hoc meeting <u>or employee representative meeting</u> as soon as possible during its remaining term to elect a director to fill up the vacancy arising from the resignation of the director. Before a decision is made at the shareholders’ general meeting <u>or the employee representative meeting</u> regarding the election of the director, the functions and powers of the resigning director and the remaining board of director shall be restricted to a reasonable extent.</p> <p data-bbox="805 1372 861 1393">.....</p>

Existing Articles	Revised Articles
<p>Article 135</p> <p>A director or senior management personnel other than the president or chief financial officer of the Company may also act as the secretary of the board of directors. The certified public accounting firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.</p> <p>Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.</p>	<p>Article 1359</p> <p>A director or other senior management personnel other than the president or chief financial officer of the Company may also act as the secretary of the board of directors. The certified public accounting firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.</p> <p>Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.</p>

Set out below are the details of amendments to the Rules and Procedures of Shareholders' Meetings and revisions have been underlined (if applicable) for the convenience of perusal.

Existing Articles	Revised Articles
<p>Article 16</p> <p>The powers exercisable by a general meeting are as follows:</p> <p>(1) to take a decision on the Company's business policy and investment plans;</p> <p>(2) to elect and replace directors and to decide on matters relating to the remuneration of directors;</p> <p>.....</p>	<p>Article 16</p> <p>The powers exercisable by a general meeting are as follows:</p> <p>(1) to take a decision on the Company's business policy and investment plans;</p> <p>(2) to elect and replace directors (<u>excluding the employee representative director</u>) and to decide on matters relating to the remuneration of directors;</p> <p>.....</p>
<p>Article 20</p> <p>In order to guarantee the stabilisation of the investment policies of the Company and to increase the daily operation efficiency, the decision-making and approval authority of the Company in relation to investment projects are as follows:</p>	<p>Article 20</p> <p>In order to guarantee the stabilisation of the investment<u>operation</u> policies of the Company, and to increase the daily operation efficiency, the <u>relevant</u> decision-making and approval authority of the Company in relation to investment projects are as follows:</p>

Existing Articles	Revised Articles
<p>Article 21</p> <p>The board of directors shall be authorized by the shareholders’ general meetings to dispose of any fixed assets of the Company where the estimated value of the consideration for the proposed disposal and the value of the consideration for any such disposal of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposal, on an aggregate basis exceeds 33% of the value of the Company’s fixed assets as shown in the latest balance sheet which was considered at a shareholders’ general meeting. If the above-mentioned ratio is lower than 0.2%, shareholders’ general meetings shall authorise the principal’s office meetings to approve the disposal of such fixed assets excluding disposals pertaining aircrafts, engines and basic infrastructures. When what’s provided above is inconsistent with that of the rules pertaining listing of corporate securities of the securities exchange, the latter shall prevail.</p> <p>The disposals of fixed assets provided in this article include acts of transferring certain asset equities while not include assurances based on fixed assets.</p>	<p>Article 21</p> <p>The board of directors shall be authorized by the shareholders’ general meetings to dispose of any fixed assets of the Company where the estimated value of the consideration for the proposed disposal and the value of the consideration for any such disposal of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposal, on an aggregate basis exceeds 33% of the value of the Company’s fixed assets as shown in the latest balance sheet which was considered at a shareholders’ general meeting. If the above-mentioned ratio is lower than 0.2%, shareholders’ general meetings shall authorise the president’s office meetings to approve the disposal of such fixed assets excluding disposals pertaining aircrafts, engines and basic infrastructures. When what’s provided above is inconsistent with that of the rules pertaining listing of corporate securities of the securities exchange, the latter shall prevail.</p> <p>The disposals of fixed assets provided in this article include acts of transferring certain asset equities while not include assurances based on fixed assets.</p>
<p>Article 34</p> <p>The list of candidates for supervisors and directors shall be submitted to the shareholders’ general meeting in the form of a motion for approval.</p> <p>Candidates for directors (excluding independent directors, the same hereafter) shall be nominated by the board of directors, the supervisory committee or shareholders who individually or jointly hold 3% or more of the Company’s voting shares. The proposal shall be submitted to the board of directors and will be announced after being reviewed by the board of directors.</p>	<p>Article 34</p> <p>The list of candidates for supervisors and directors shall be submitted to the shareholders’ general meeting in the form of motion for approval.</p> <p>Candidates for directors (excluding independent directors <u>and employee representative director</u>, the same hereafter) shall be nominated by the board of directors, the supervisory committee or shareholders who individually or jointly hold 3% or more of the Company’s voting shares. The proposal shall be submitted to the board of directors and will be announced after being reviewed by the board of directors.</p>

Existing Articles	Revised Articles
<p data-bbox="199 321 316 348">Article 63</p> <p data-bbox="199 400 786 576">At a shareholders' general meeting, the cumulative voting system shall be adopted for voting on the motions for election of directors and supervisors in compliance with the articles of association or resolutions of the shareholders' general meeting.</p> <p data-bbox="199 661 786 944">The above section means that, when electing directors or supervisors at a shareholders' general meeting, the number of voting rights carried by each of the shares held by a voting shareholder is the same as the number of directors or supervisors to be elected such that a shareholder may exercise the voting rights in a way to concentrate all his votes on a particular candidate.</p>	<p data-bbox="807 321 924 348">Article 63</p> <p data-bbox="807 400 1394 612">At a shareholders' general meeting, the cumulative voting system shall be adopted for voting on the motions for election of directors <u>(excluding the employee representative director)</u> and supervisors in accordance with the articles of association or resolutions of the shareholders' general meeting.</p> <p data-bbox="807 661 1394 944">The above section means that, when electing <u>two or more</u> directors or supervisors at a shareholders' general meeting, the number of voting rights carried by each of the shares held by a voting shareholder is the same as the number of directors or supervisors to be elected such that a shareholder may exercise the voting rights in a way to concentrate all his votes on a particular candidate.</p>
<p data-bbox="199 966 316 993">Article 66</p> <p data-bbox="199 1044 786 1257">At a shareholders' general meeting, in accordance with the requirements under the Articles of Association the cumulative voting system shall be adopted for voting on the motions for the election of directors. The content of the cumulative voting system is as follows: ...</p>	<p data-bbox="807 966 924 993">Article 66</p> <p data-bbox="807 1044 1394 1293">At a shareholders' general meeting, in accordance with the requirements under the Articles of Association the cumulative voting system shall be adopted for voting on the motions for the election of directors <u>(excluding the employee representative director)</u>. The main content of the cumulative voting system is as follows: ...</p>

APPENDIX V PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES OF MEETINGS OF THE BOARD

Set out below are the details of amendments to the Rules and Procedures of Meetings of the Board and revisions have been underlined (if applicable) for the convenience of perusal.

Existing Articles	Revised Articles
<p>Article 3</p> <p>The composition of the board of directors should be in accordance with the Articles of association, including appropriate proportion of independent directors and outside directors.</p>	<p>Article 3</p> <p>The composition of the board of directors should be in accordance with the Articles of association, including proper proportion of independent directors and outside directors, <u>and employee representative director.</u></p>
<p>Article 4</p> <p>Directors shall be elected or changed at the shareholders’ general meeting, each for a term of three (3) years. At the expiry of a director’s term, the term is renewable upon re-election, provided that the term of reappointment of an independent director shall not be more than six (6) years. Shareholders’ general meeting shall not dismiss a director’s office without reason before the expiry of a director’s term. A director’s term starts from the election date to the date on which a new board of directors is elected at a shareholders’ general meeting.</p>	<p>Article 4</p> <p>Directors <u>(excluding the employee representative director)</u> shall be elected or changed at the shareholders’ general meeting, <u>and the employee representative director shall be elected or changed by the employee representative meeting,</u> each for a term of three (3) years. At the expiry of a director’s term, the term is renewable upon re-election, provided that the term of reappointment of an independent director shall not be more than six (6) years. <u>Directors shall not be dismissed</u> without reason by a shareholders’ general meeting before the expiry of a director’s term. A director’s term starts from the election date to the date on which a new board of directors is elected at a shareholders’ general meeting.</p>

**APPENDIX V PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES
OF MEETINGS OF THE BOARD**

Existing Articles	Revised Articles
<p>Article 6</p> <p>The board of directors shall include one chairman and one vice chairmen, who are elected and removed by a majority of directors.</p> <p>The Chairman of the board of directors shall exercise the following powers:</p> <p>(1) to preside over shareholders’ general meetings and to convene and preside over meetings of the board of directors;</p> <p>(2) to check on the implementation of resolutions passed by the board of directors;</p> <p>(3) to sign the securities certificates issued by the Company;</p> <p>(4) to sign material documents of the board of directors and other documents which shall be signed by the legal representative of the Company;</p> <p>(5) to exercise power of the legal representative;</p> <p>(6) to exercise special disposal power as to the matters of the company on the basis of complying with laws and regulations and corporate interests in the situation of force majeure such as the occurrence of extraordinary natural disaster and subsequently report to the board of directors and the shareholder’s general meetings;</p>	<p>Article 6</p> <p>The board of directors shall include one chairman and two vice chairmen, who are elected and removed by a majority of directors.</p> <p>The Chairman of the board of directors shall exercise the following powers:</p> <p>(1) to preside over shareholders’ general meetings and to convene and preside over meetings of the board of directors;</p> <p>(2) to check on the implementation of resolutions passed by the board of directors;</p> <p>(3) to sign the securities certificates issued by the Company;</p> <p>(4) to sign material documents of the board of directors and other documents which shall be signed by the legal representative of the Company;</p> <p>(5) to exercise power of the legal representative;</p> <p>(6) to exercise special disposal power as to the matters of the company on the basis of complying with laws and regulations and corporate interests in the situation of force majeure such as the occurrence of extraordinary natural disaster and subsequently report to the board of directors and the shareholder’s general meetings;</p>

APPENDIX V PROPOSED AMENDMENTS TO THE RULES AND PROCEDURES OF MEETINGS OF THE BOARD

Existing Articles	Revised Articles
<p>(7) to exercise other powers conferred by the board of directors.</p> <p>The vice chairman shall assist the chairman in performing his duties. If the chairman is unable or fails to perform his duties, such duties shall be performed by the vice chairman. In the event that the vice chairman is unable or fails to perform his duties, a director shall be elected jointly by a majority of the directors to perform such duties.</p>	<p><u>(7) to convene Chairman’s office meeting and listen to reports on operation and management of the Company regularly or irregularly and conduct research on related issues;</u></p> <p><u>(8)</u> to exercise other powers conferred by the board of directors.</p> <p>The vice chairman shall assist the chairman in performing his duties. If the chairman is unable or fails to perform his duties, such duties shall be performed by the vice chairman. In the event that the vice chairman is unable or fails to perform his duties, a director shall be elected jointly by a majority of the directors to perform such duties.</p>
<p>Article 11</p> <p>The approval authority of the board of directors in relation to the Company’s investment projects as follows:</p>	<p>Article 11</p> <p>The approval authority of the board of directors <u>in relation to the decisions concerning transactions, investments and guarantees, etc.</u> as to the decision making of investment programs of the Company is as follows:</p>
	<p><u>Article 13</u></p> <p><u>The board of directors decides the establishment of the first-level management of the Company.</u></p>
<p>Article 30</p> <p>Principle of democracy shall be implemented throughout the meetings of board of directors when deciding the resolutions. Opinions of each director shall be respected.</p>	<p>Article 30<u>1</u></p> <p>Principle of democracy shall be implemented throughout the meetings of the board of directors when deciding the resolutions. Opinions of each director shall be respected. <u>The secretary of the discipline inspection committee shall attend the meetings of the board of directors and the meetings of board committees with no right to vote.</u></p>

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 executive 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 the 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name of company Relevant shareholder	Number of Shares				Shareholding percentage as at the Latest Practicable Date
	Personal interest	Interest of children under the age of 18 or spouse	Corporate interest	Total	
Cathay Pacific Airways Limited Ian Sai Cheung Shiu	1,000 (H shares)	–	–	1,000 (H shares)	0.00%
Air China Limited Shen Zhen	33,200 (A shares)	–	–	33,200 (A shares)	0.00%

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2016 (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. John Robert Slosar 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 the Latest Practicable

Date, and it wholly owns Cathay Dragon. Mr. Cai Jianjiang, who is the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, who is an executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Cathay Dragon compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Save as mentioned above, as at the Latest Practicable Date, none of the Directors or Supervisors of the Company and their respective close 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 as if each of them was a controlling shareholder of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company 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 as at the Latest Practicable Date, there has been no material adverse change in the Group's financial or trading position since 31 December 2016, 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
Octal Capital	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

- a. As at the Latest Practicable Date, Octal 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 2016 (the date to which the latest published audited financial statements of the Group were made up);
- b. As at the Latest Practicable Date, Octal 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. Octal 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 Zhou Feng and Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA).
- 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, Airport Industrial 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 21 September 2017:

- a. Air China Financial Services Agreement;
- b. CNAHC Financial Services Agreement;
- c. the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 27 to 28 of this circular;
- d. the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 29 to 44 of this circular; and
- e. 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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Air China Limited (the “Company”) will be held at 2:00 p.m. on 27 October 2017 at The Conference Room C313, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC to consider and, if thought fit, to pass the following resolutions.

Ordinary Resolutions

1. To consider and approve the emoluments of the directors of the fifth session of the board of directors of the Company (the “**Board**”):

The emoluments of Mr. Stanley Hui Hon-chung and Mr. Li Dajin be RMB150,000 per person per year, the emoluments of Mr. Wang Xiaokang and Mr. Liu Deheng be determined pursuant to relevant policies as prescribed by The State-owned Assets Supervision and Administration Commission of the State Council and the other proposed directors of the Company will not receive any emoluments for serving as a director of the Company.

2. To consider and approve that the supervisors of the fifth session of the supervisory committee of the Company (the “**Supervisory Committee**”) will not receive any emoluments from the Company.

Special Resolutions

3. To consider and approve the proposed amendments to the articles of association of the Company as set out in Appendix III of the circular despatched by the Company on 7 September 2017.
4. To consider and approve the proposed amendments to the Rules and Procedure of Shareholders' Meetings of the Company as set out in Appendix IV of the circular despatched by the Company on 7 September 2017.

5. To consider and approve the proposed amendments to the Rules and Procedure of Meetings of the Board of Directors of the Company as set out in Appendix V of the circular despatched by the Company on 7 September 2017.

Ordinary Resolutions

6. To consider and approve the renewal of the trademark licence framework agreement dated 28 October 2014 entered into between the Company and China National Aviation Holding Company (“CNAHC”) for a term of three years from 1 January 2018 to 31 December 2020.
7. To consider and approve the entry into of the financial services framework agreement dated 30 August 2017 between the Company and China National Aviation Finance Co., Ltd. (the “CNAF”) in relation to the provisions of a range of financial services by CNAF to the Company and its subsidiaries (the “Group”), including the provision of deposit services as stipulated thereunder and the proposed maximum daily balance of deposits (including accrued interests) placed by the Group with CNAF, being RMB12 billion, RMB14 billion and RMB15 billion for each of the three years ending 31 December 2018, 2019 and 2020, respectively.
8. To consider and approve the entry into of the financial services framework agreement dated 30 August 2017 between CNAF and CNAHC in relation to the provisions of a range of financial services by CNAF to CNAHC, its subsidiaries and their associates, companies falling within the definition of commonly held entity under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as well as any other CNAHC member company which, in accordance with the listing rules of the places where the shares of the Company are listed as in force and as amended from time to time, is a connected person or related party of the Company (excluding the Group) (the “CNAHC Group”), including the provision of loans, finance lease and other credit services (the “Credit Services”) as stipulated thereunder and the proposed maximum daily balance of Credit Services (including accrued interests) provided by CNAF to the CNAHC Group, being RMB8 billion, RMB9 billion and RMB10 billion for each of the three years ending 31 December 2018, 2019 and 2020, respectively.

Ordinary Resolutions (by cumulative voting method)

- 9.00. To consider and approve the election of the non-independent directors of the fifth session of the Board:
 - 9.01. to consider and approve the election of Mr. Cai Jianjiang as a non-executive director of the fifth session of the Board;
 - 9.02. to consider and approve the election of Mr. Song Zhiyong as an executive director of the fifth session of the Board;
 - 9.03. to consider and approve the election of Mr. John Robert Slosar as a non-executive director of the fifth session of the Board.

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10.00. To consider and approve the election of independent non-executive directors of the fifth session of the Board:

10.01. to consider and approve the election of Mr. Wang Xiaokang as an independent non-executive director of the fifth session of the Board;

10.02. to consider and approve the election of Mr. Liu Deheng as an independent non-executive director of the fifth session of the Board;

10.03. to consider and approve the election of Mr. Stanley Hui Hon-chung as an independent non-executive director of the fifth session of the Board;

10.04. to consider and approve the election of Mr. Li Dajin as an independent non-executive director of the fifth session of the Board.

11.00. To consider and approve the election of the supervisors of the fifth session of the Supervisory Committee:

11.01. to consider and approve the election of Mr. Wang Zhengang as a shareholder representative supervisor of the fifth session of the Supervisory Committee;

11.02. to consider and approve the election of Mr. He Chaofan as a shareholder representative supervisor of the fifth session of the Supervisory Committee.

“Cumulative voting” will be used in respect of all the sub-resolutions of Resolutions No. 9.00, No. 10.00 and No. 11.00. Please refer to note 4 for details.

By order of the Board
Air China Limited
Cai Jianjiang
Chairman

Beijing, PRC, 7 September 2017

As at the date of this notice, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Cao Jianxiong, Mr. Feng Gang, Mr. John Robert Slosar, Mr. Ian Sai Cheung Shiu, Mr. Wang Xiaokang, Mr. Liu Deheng*, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*

Notes:

1. Closure of register of members and eligibility for attending and voting at the EGM

Holders of H Shares of the Company are advised that the register of members of H shares of the Company will close from Wednesday, 27 September 2017 to Friday, 27 October 2017 (both days inclusive), during which time no transfer of H Shares of the Company will be effected and registered. In order to qualify for attendance and voting at the EGM,

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instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:30 p.m. on Tuesday, 26 September 2017.

H Share Shareholders of the Company whose names appear on the register of members of H shares of the Company at the close of business on Wednesday, 27 September 2017 are entitled to attend and vote at the EGM.

2. Notice of Attendance

H Share Shareholders who intend to attend the EGM should complete and lodge the accompanying notice of attendance and return it to the Company's H Share registrar on or before Monday, 9 October 2017. The notice of attendance may be delivered by hand, by post or by fax to the Company's H Share registrar. Completion and return of the notice of attendance do not affect the right of a shareholder to attend and vote at the EGM. However, the failure to return the notice of attendance may result in an adjournment of the EGM, if the number of shares carrying the right to vote represented by the shareholders proposing to attend the EGM by the notice of attendance does not reach more than half of the total number of shares of the Company carrying the right to vote at the EGM.

3. Proxy

Every shareholder who has the right to attend and vote at the EGM is entitled to appoint one or more proxies, whether or not they are members of the Company, to attend and vote on his/her behalf at the EGM.

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointor or his attorney duly authorised in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares not less than 24 hours before the time specified for the holding of the EGM. If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar.

4. Cumulative Voting

According to Article 108 of the articles of association of the Company, when electing two or more directors at a shareholders' general meeting, such directors will be elected through cumulative voting. The number of total votes that a shareholder can exercise is decided by the following factors: (i) the number of shares held by such shareholders, and (ii) the number of directors to be elected. For every share held by a shareholder who participates in the voting, the shareholder will have the same number of voting rights which equals the number of directors to be elected. A shareholder may give all his or her votes to one candidate or divide his or her votes among several candidates. Directors are elected at the EGM based on the total number of votes he or she receives. According to Article 146 of the articles of association of the Company, when electing two or more supervisors at a shareholders' general meeting, such supervisors will be elected through the same cumulative voting method.

5. Other business

- (i) The EGM is expected to last for two hours. Shareholders and their proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.
- (ii) The address of Computershare Hong Kong Investor Services Limited is:

17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990