THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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) CONTINUING CONNECTED TRANSACTIONS
(2) PROPOSED GUARANTEE OF LOANS

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

招商證券(香港)有限公司

CHINA MERCHANTS SECURITIES (HK) CO., LTD.

A letter from the Board is set out on pages 4 to 30 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 31 to 32 of this circular.

A letter from China Merchants Securities, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 33 to 40 of this circular.

6 November 2009

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In this circular, the following terms have the meanings set out below, unless the context requires otherwise:

"2006 Circular"	the circular issued by the Company on 1 December 2006 to its Shareholders in respect of certain continuing connected transactions
"2006 EGM"	the Company's extraordinary general meeting held on 28 December 2006
"Air China Cargo"	Air China Cargo Co., Ltd, a company with limited liability incorporated under the laws of People's Republic of China and with 76% of its registered capital owned by the Company as at the date of this circular
"Beijing Air Catering"	Beijing Air Catering Co., Ltd., a company incorporated under the laws of the PRC
"Board"	the board of Directors of the Company
"China Merchants Securities"	China Merchants Securities (HK) Co., Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571)
"CNAC"	China National Aviation Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company as at the date of this circular
"CNACD"	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC
"CNACG"	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this circular. CNACG is primarily engaged in managing the holding company of CNACG Group and the state-owned assets and equity in various companies

"CNACG Group"	CNACG and its associates
"Company"	Air China Limited, a company incorporated in the People's Republic of China, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
"Construction Project Management Agreement"	the framework agreement for basic construction project management entered into by the Company and CNACD on 27 October 2009. The annual amount payable by the Company under the Construction Project Management Agreement for each of the three years ending 31 December 2010, 2011 and 2012 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. Accordingly, such transaction will be exempt from announcement and independent shareholders' approval requirements for connected transactions
"Directors"	the directors of the Company
"EGM"	the Company's extraordinary general meeting to be held on 22 December 2009
"Group"	the Company, its subsidiaries and joint ventures
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	a board committee comprising Mr. Hu Hung Lick, Henry, Mr. Zhang Ke, Mr. Jia Kang and Mr. Fu Yang, all being the independent non-executive directors of the Company
"Independent Shareholders"	the independent shareholders of the Company
"Latest Practicable Date"	29 October 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"MRO Services"	aircraft maintenance, repair and overhaul services

"Non-exempt Continuing Connected Transaction"	the transactions under the Financial Services Agreement between the Company and CNAF
"Percentage Ratios"	the percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules, i.e. "assets ratio", "profits ratio", "revenue ratio", "consideration ratio" and "equity capital ratio"
"PRC"	The People's Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholders"	shareholders of the Company
"Southwest Air Catering"	Southwest Air Catering Company Limited, a company incorporated under the laws of the PRC

中國國際航空股份有限公司
AIR CHINA LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

Non-executive Directors:
Mr. Kong Dong
Ms. Wang Yinxiang
Mr. Wang Shixiang
Mr. Cao Jianxiong
Mr. Christopher Dale Pratt
Mr. Chen Nan Lok, Philip

Executive Directors:
Mr. Cai Jianjiang
Mr. Fan Cheng

Independent non-executive Directors:
Mr. Hu Hung Lick, Henry
Mr. Zhang Ke
Mr. Jia Kang
Mr. Fu Yang

Registered office:
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Principal place of business in Hong Kong:
5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

6 November 2009

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

I. CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the 2006 Circular in relation to the continuing connected transactions of the Company. At the 2006 EGM, the Independent Shareholders approved certain non-exempt continuing connected transactions of the Company and their relevant annual caps for the three years ended 31 December 2009. The Company expected the continuing connected transactions set out in the 2006 Circular will continue to be conducted after 31 December 2009. Therefore, the Company will continue to comply with Chapter 14A of the Listing Rules for the continuing connected transactions to be conducted in the next three years (i.e. from 1 January 2010 to 31 December 2012), including further disclosure of information herein and to seek Independent Shareholders' approval to the Non-exempt Continuing Connected Transaction (including relevant proposed caps).

On 27 October 2009, the Board approved the continuing connected transactions set out herein and the relevant annual caps for each of them for the three years ending 31 December 2010, 2011 and 2012. The Company will seek Independent Shareholders' approval to the Non-exempt Continuing Connected Transaction and its proposed annual caps for each of the three years ending 31 December 2010, 2011 and 2012 in accordance with the Hong Kong Listing Rules.

2. PARTIES AND CONNECTION OF THE PARTIES

The Company, whose principal business activity is air passenger, air cargo and airline-related services, has been conducting continuing connected transactions with the following parties:

- **China National Aviation Holding Company ("CNAHC") and its associates (excluding the Company) ("CNAHC Group")**

  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. CNAHC is primarily engaged in managing the state-owned assets of CNAHC and the equity it holds in various companies.

- **China National Aviation Media and Advertisement Co., Ltd. ("CNAMC")**

  CNAMC is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAMC is primarily engaged in media and advertising business.

- **China National Aviation Tourism Company ("CNATC")**

  CNATC is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNATC is primarily engaged in tourism.

- **China Aircraft Services Limited ("CASL")**

  CASL is a 40%-owned subsidiary of CNACG, a substantial shareholder of the Company, and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CASL is primarily engaged in providing aircraft line maintenance, cabin cleaning and ground support services at Hong Kong International Airport.

- **China National Aviation Finance Co., Ltd. ("CNAF")**

  CNAF is a 75.54% held subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAF is primarily engaged in providing financial services to the members of CNAHC Group.

- **Lufthansa and its associates ("Lufthansa Group")**

  Lufthansa holds 40% equity interest in and is a substantial shareholder of Aircraft Maintenance and Engineering Corporation ("Ameco"), a subsidiary of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Lufthansa is primarily engaged in passenger traffic, logistics, MRO Services, catering, leisure travel, etc.

3. CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL

3.1 Media and Advertising Services

The Company entered into an advertising services framework agreement (the "Advertising Services Framework Agreement") on 27 October 2009, with CNAMC.

Description of transaction:

Pursuant to the Advertising Services Framework Agreement, CNAMC will have the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;

- an exclusive operation right of the specific media of the Company, including the flight boarding passes, aircraft seat pillow sheets, paper cups, in-flight entertainment system and flight schedules;

- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;

- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (1) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the international e-commerce network check-in system and ticket envelops (including air ticket envelops and boarding pass envelops)) and (2) advertisements designed, produced and published by CNAMC, as commissioned by the Company directly or through public tender; and

- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

As a consideration, CNAMC agrees to:

- pay the Company RMB23.81 million, RMB25 million and RMB26.25 million, respectively, for each of the three years ending 31 December 2010, 2011 and 2012 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company at nil charge with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes, pillow sheets, flight schedules, and paper cups that meet the Company's requirements;

- pay the Company 20% of any revenue from any new advertising media of the Company which is not mentioned in the Advertising Services Framework Agreement but proposed to be developed by CNAMC on the basis of case by case discussion.

The Company agrees to pay immediately and directly to the independent entertainment programmes providers the purchasing price for those in-flight entertainment programmes provided or purchased by CNAMC for the Company. In the event that the relevant entertainment programmes are produced by CNAMC at the request of the Company, the Company will pay the corresponding production costs and expenses to CNAMC.

The term of the Advertising Services Framework Agreement is from 1 January 2010 to 31 December 2012.

Reasons for such transaction:

The Directors believe that it is in the best interest of the Company to enter into above transactions with CNAMC because:

- media and advertising business is not the core competency of the Company while CNAMC has extensive experience in in-flight advertising operation and has a proven network of advertising sponsors to draw upon; and

- CNAMC, being a company having engaged in the aviation media business for a long time, has a better understanding of the corporate culture and the brand of the Company and has certain advantages in entertainment programmes production and advertising agency business.

Historical Amounts and Proposed Caps:

The annual cap for the aggregate amount including in-flight entertainment programmes production fees and advertising agency fees, etc paid by the Company to CNAMC for each of the two years ended 31 December 2009 is RMB60 million, respectively. For each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009, the actual aggregate amount paid by the Company to CNAMC including in-flight entertainment production fees and advertising agency fees was approximately RMB12.53 million, RMB20.36 million and RMB6.49 million, respectively.

It is proposed that for each of the three years ending 31 December 2010, 2011 and 2012, the annual cap for the aggregate amount paid by the Company to CNAMC including in-flight entertainment production fees and advertising agency fees, etc shall be RMB60 million per annum.

The annual amount payable by CNAMC to the Company under the Advertising Services Framework Agreement for each of the future three years ending 31 December 2010, 2011 and 2012 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ending 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Amount paid by the Company to CNAMC under the Advertising Services Framework Agreement	N/A*	RMB60 million	RMB60 million	RMB12.53 million	RMB20.36 million	RMB6.49 million	RMB43 million	RMB60 million	RMB60 million	RMB60 million

* For the year of 2007, the maximum aggregate annual amount to be paid by the Company to CNAMC was expected to fall below the de minimus threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules and therefore no annual cap was set.

Basis for such caps:

The Company's service development strategy aims at continuously enhancing its service quality. Therefore, the Company will gradually increase its investment in the purchase and production of entertainment programmes as well as its investment in advertising on an annual basis. CNAMC will participate more in the Company's advertising promotion work in the next three years through tender. In addition, due to the increased number of aircraft of the Company, the need for entertainment programmes will increase correspondingly.

3.2 Property Leasing

The Company entered into a properties leasing agreement (the "Properties Leasing Agreement") with CNAHC on 27 October 2009.

Description of transaction:

Pursuant to the Properties Leasing Agreement, the Company will lease from CNAHC Group a number of properties for various uses including as business premises, offices and storage facilities.

The Company will lease to CNAHC Group a number of properties for various uses including as business premises and offices.

The rent payable under the Properties Leasing Agreement will be determined in accordance with the relevant PRC regulations or market rates and by entering into a specific properties leasing agreement. The annual increase in rental rate is expected not to exceed 5%.

The term of the Properties Leasing Agreement is from 1 January 2010 to 31 December 2012.

Reasons for such transaction:

In the ordinary course of business, the Company has entered into similar property leasing transactions with various parties including both connected persons and independent third parties.

Historical Amounts and Proposed Caps:

The annual cap for the aggregate amount of rent paid by the Company to CNAHC Group for each of the three years ended 31 December 2009 is RMB55 million, RMB85 million and RMB95 million, respectively. The actual aggregate amount of rent paid by the Company to CNAHC Group for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 was approximately RMB53.14 million, RMB70.75 million and RMB35.10 million, respectively.

It is proposed that the annual cap for the aggregate amount of rent payable by the Company to CNAHC Group for each of the three years ending 31 December 2010, 2011 and 2012 shall be RMB140 million, RMB147 million and RMB154.35 million, respectively.

The annual aggregate amount of rent payable by CNAHC Group to the Company for each of the next three years ending 31 December 2010, 2011 and 2012 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirements for connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ending 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Rent paid by us to CNAHC Group under the Properties Leasing Agreement	RMB55 million	RMB85 million	RMB95 million	RMB53.14 million	RMB70.75 million	RMB35.10 million	RMB90 million	RMB140 million	RMB147 million	RMB154.35 million

Basis for such caps:

As at the date hereof, the Company and its subsidiaries have leased a total of 15 premises with an aggregate area of 41,489.35 sq.m. from CNAHC Group. The Company expects the rent level will rise in the next three years.

Due to the operation needs of the southwest branch of the Company, the Company expects to lease a property from CNATC starting within the fourth quarter of 2009 and intends to lease an office premise of approximately 25,000 sq.m. in Chengdu from CNACD in 2010. Based on our needs for operation and development, the area to be leased from CNAHC Group will increase in the next three years. In arriving at the annual caps, the Company has taken into account the possible 5% overall annual rental increase and based on the rental expenditure of RMB70.75 million for the year of 2008. It is estimated the rental expenditure for 2010 will not exceed RMB140 million, with subsequent increase of 5% per year.

3.3 Tourism Co-operation Services

The Company entered into a tourism services cooperation agreement (the "Tourism Cooperation Agreement") with CNATC on 27 October 2009.

Description of transaction:

Pursuant to the Tourism Cooperation Agreement, the Company has agreed to provide the following services to CNATC:

- Package tours services: the Company and CNATC will design and the Company will sell the competitive "Air Tickets and Hotel" product combining (i) discounted airline tickets for certain routes offered by the Company and (ii) accommodation at hotels owned and operated by CNATC at preferential group rates. Out of the proceeds from package tours, the Company will pay CNATC for the hotel fee portion of the packages.

- Reciprocal frequent-flyer programme ("FFP") co-operation services: CNATC will join the Company's FFP under which our Companion card members are encouraged to stay at CNATC's hotels by receiving mileage credits for such stay. As consideration, CNATC will pay us the equivalent value represented by those mileage credits at market rates.

- Commercial charter flight services: the Company will provide commercial charter services to customers procured by CNATC at market rates.

Pursuant to the Tourism Cooperation Agreement, CNATC agreed to provide the following services to the Company:

- FFP co-operation services: under the FFP, our frequent flyers may redeem their mileage credits for discounted stay at CNATC's hotels, and the Company will make payment settlement with CNATC for the discount portion of such redemption according to similar pricing arrangements with our other FFP partners.

- Hotel accommodation services: CNATC will provide temporary hotel accommodation services to the Company's employees on duty and passengers affected by our flight delays, for which services the Company will pay hotel accommodation fees to CNATC as scheduled and at the actual amount incurred.

- Aviation tourist services with special features including but not limited to a newly launched service of ground transportation for passengers of two classes at market rates.

The term of the Tourism Co-operation Agreement is from 1 January 2010 to 31 December 2012.

Reasons for the transaction:

In the ordinary course of business, the Company has entered into similar transactions with various parties including both connected persons and independent third parties. CNATC, as a member of CNAHC Group, is specialized in tourism product development and tourism services, and has extensive experience in these areas and has hotel resources. In light of the business characteristics and market advantages of the Company and CNATC, it is expected that through such cooperation and effective resource consolidation, the Company and CNATC can both benefit from resources sharing and achieve a win-win situation.

Historical Amounts and Proposed Caps:

The annual cap for the aggregate amount paid by CNATC to the Company for each of the three years ended 31 December 2009 is RMB59.2 million, RMB69.04

million and RMB80.84 million, respectively. For the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009, the actual aggregate amount paid by CNATC to the Company was approximately RMB47.81 million, RMB29.09 million and nil, respectively.

It is proposed that the annual cap for the aggregate amount to be paid by CNATC to the Company for tourism cooperation for each of the three years ending 31 December 2010, 2011 and 2012 shall be RMB69 million per annum.

For each of the next three years ending 31 December 2010, 2011 and 2012, it is expected that the aggregate annual amount to be paid by the Company to CNATC will fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules; therefore, such transaction will be exempt from the announcement and independent shareholders' approval requirements for connected transactions.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ending 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Amount to be paid by CNATC to us under the Tourism Co-operation Services Agreement	RMB59.2 million	RMB69.04 million	RMB80.84 million	RMB47.81 million	RMB29.09 million	nil	RMB10 million	RMB69 million	RMB69 million	RMB69 million

Basis for such caps:

In arriving at the above caps, the Directors have considered the historical figures for the same type of transactions and have taken into account the positive prospects of such transactions.

Since the second half of 2008, the Company suspended the cooperation on commercial charter flight with CNATC, which resulted in substantial decrease in the actual transaction amount generated from tourism cooperation and nil transaction amount in the first six months of 2009. However, the Company is in discussion with CNATC regarding commercial charter flight cooperation in 2010 and thereafter, and both parties have shown their intention to resume charter flight cooperation for the less popular routes and to gradually restore their cooperation to the 2006 level. Based on the charter flight cooperation income for each of the years between 2006 and 2008 as well as the revenue generated from FFP and tour package cooperation, the Company estimates that the amount to be paid by CNATC to the Company for each of the years between 2010 to 2012 will not exceed RMB69 million.

3.4 Sales Agency Services of Airline Tickets and Cargo Space

The Company entered into a Sales Agency Services Framework Agreement (the "Sales Agency Services Framework Agreement") with CNAHC on 27 October 2009.

Description of transaction:

Pursuant to the Sales Agency Services Framework Agreement, certain subsidiaries of CNAHC acting as the Company's sales agents ("Sales Agency Companies") will:

- procure purchasers for the Company's air tickets and cargo spaces on a commission basis; or

- purchase air tickets (other than domestic air tickets) and cargo spaces from the Company and resell such air tickets and cargo spaces to end customers.

As for the air passenger agency services, the Company will continue to comply with the existing fee standards for air passenger sales agency services before the relevant competent authority promulgates administrative regulations on the fee range allowed for air passenger sales agency services. After the promulgation of such administrative regulations, the Company will consult with the Sales Agency Companies on a fair and voluntary basis and determine the agency service fee standards within the stipulated floating range. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding incentive plans for achieving such targets to the extent permitted by law and in accordance with the industry practice.

Regarding the air cargo agency services, the Company and the Sales Agency Companies will discuss and determine the applicable transportation prices based on the prevailing market prices, and the Sales Agency Companies may formulate the transportation prices charged to its customers (including the prices for extended services offered to its customers) based on the aforesaid transportation prices, with differences to be retained as commissions. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding price discounts for achieving such sales targets in accordance with the industry practice.

The term of the Sales Agency Services Framework Agreement is from 1 January 2010 to 31 December 2012.

Reasons for the transaction:

The Company has entered into similar transactions with various parties including both connected persons and independent third parties in its ordinary course of business. Air transportation sales agency is a highly marketized business. In view of the long-term amicable sales agency cooperation relationship between the Company and the Sales Agency Companies as well as the rich experience and sizable customer base of the latter in the air transportation agency business, the Company is willing to continue such cooperation on air transportation sales agency with the Sales Agency Companies.

Historical Amounts and Proposed Caps:

For each of the three years ended 31 December 2009, the annual cap for the aggregate sales of airline tickets and cargo space by the Company to CNAHC Group for resale to end customers in relation to the sales agency services is RMB357 million, RMB408 million and RMB459 million, respectively. For each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009, the actual annual aggregate sales of airline tickets and cargo space by the Company to CNAHC Group for resale to end customers in relation to the sales agency services were approximately RMB246.64 million, RMB192.59 million and RMB50.71 million, respectively.

It is proposed that the annual cap for the aggregate sales of airline tickets and cargo space by the Company to CNAHC Group for resale to end customers for each of the three years ending 31 December 2010, 2011 and 2012 shall be RMB270 million, RMB324 million and RMB388.8 million, respectively.

For each of the three years ending 31 December 2010, 2011 and 2012, the aggregate annual amount of agency commission to be paid by the Company to CNAHC Group is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules; therefore, such transaction will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

	Historical Caps			Historical Figures				Future Caps		
Transaction	**Annual cap for the year ended 31 December 2007**	**Annual cap for the year ended 31 December 2008**	**Annual cap for the year ended 31 December 2009**	**Actual annual amount for the year ended 31 December 2007**	**Actual annual amount for the year ended 31 December 2008**	**Unaudited historical amount for the period from 1 January to 30 June 2009**	**Estimated annual amount for the year ended 31 December 2009**	**Annual cap for the year ending 31 December 2010**	**Annual cap for the year ending 31 December 2011**	**Annual cap for the year ending 31 December 2012**
Sales of airline tickets and cargo space to CNAHC Group	RMB357 million	RMB408 million	RMB459 million	RMB246.64 million	RMB192.59 million	RMB50.71 million	RMB220 million	RMB270 million	RMB324 million	RMB388.8 million

Basis for such caps:

In arriving at the above caps, the Directors have considered the historical transaction amount and the expected growth of such transactions.

The bellyhold cargo space for Air China Cargo will increase with the expansion of the fleet of the Company (including Air China Cargo). As a result of the rapid expansion of our business in the past three years, the total number of aircraft of the Company (including Air China Cargo) increased from 220 in 2007 to 243 in 2008, and is expected to reach 263 at the end of 2009. The fleet of the Company (including Air China Cargo) is expected to expand at an annual rate of around 10% from 2010 to 2012.

Sale revenue of cargo space decreased from 2007 to 2009 because (1) Air China Cargo acquired shareholding of certain related parties engaged in air cargo agency services which resulted in the reduction of the business volume of connected transactions, and (2) the deteriorating market conditions had an adverse impact on the air transportation industry. Nevertheless, as the global economy begins to revive, the unit air transportation price is expected to rise in the future. Meanwhile, Air China Cargo is further integrating its businesses and increasing its transportation capacity. As such, based on the sale revenue of airline tickets and cargo space by the Company to CNAHC Group for resale to end customers of RMB192.59 million in 2008, it is expected that such sales revenue in 2010 will not exceed RMB270 million and will increase at an annual rate of 20% thereafter.

3.5 Comprehensive Services

The Company entered into a comprehensive services agreement (the "Comprehensive Services Agreement") with CNAHC on 27 October 2009.

Description of transaction:

Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned and controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business ("Ancillary Business Companies"), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, will primarily provide the following services to the Company:

  (i) supply of various items for in-flight services;

  (ii) manufacturing and repair of aviation-related ground equipment and vehicles;

(iii) cabin decoration and equipment;

(iv) properties management services;

(v) warehousing services;

(vi) airline catering services; and

(vii) printing of air tickets and other publications.

- The Company accepts the commission of CNAHC and provide welfare-logistics services for CNAHC's retired employees.

- The charges of the services provided by the Ancillary Business Companies to the Company shall not exceed the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate is available, a fair and reasonable price should be adopted through arm's length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services shall be settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.

The term of the Comprehensive Services Agreement is from 1 January 2010 to 31 December 2012.

Reasons for the transaction:

For the services to be provided by CNAHC Group, the Directors believe that CNAHC Group has special strengths that independent parties do not possess, including (1) knowledge of the aviation industry; (2) a proven track record of quality and timely service; and (3) the sites, where services are provided by CNAHC Group, are generally near to the site of the Company, and therefore CNAHC Group is in a position to offer efficient services. In light of these factors, the Directors believe that it is in the best interest of the Company to enter into the above transactions with CNAHC Group.

Historical Amounts and Proposed Caps:

For each of the three years ended 31 December 2009, the annual cap for the aggregate amount paid by the Company to CNAHC Group under the Comprehensive Services Agreement is RMB80 million, RMB650 million and RMB750 million, respectively. The actual aggregate amount paid by the Company to CNAHC Group for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 under the Comprehensive Services was approximately RMB79.21 million, RMB369.98 million and RMB192.386 million, respectively.

It is proposed that the annual cap for the aggregate amount to be paid by the Company to CNAHC Group under the Comprehensive Services Agreement for each of the three years ending 31 December 2010, 2011 and 2012 shall be RMB784 million, RMB862 million and RMB862 million, respectively.

For each of the three years ending 31 December 2010, 2011 and 2012, the aggregate annual amount to be paid by CNAHC to the Company for the provision of welfare-logistics services to the retired employees is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirements for connected transactions.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ending 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Amount to be paid by the Company to CNAHC Group under the Comprehensive Services Agreement	RMB80 million	RMB650 million	RMB750 million	RMB79.21 million	RMB369.98 million	RMB192.386 million	RMB700 million	RMB784 million	RMB862 million	RMB862 million

Basis for such caps:

In arriving at the above caps, the Directors have considered the historical transaction amount for the same type of transactions and have taken into account the expected growth of the Company's air passenger services in the next few years.

The transaction volume increased during the past three years primarily because CNACG acquired CNAC's subsidiaries, Beijing Air Catering and Southwest Air Catering, in June 2008, which have been the main suppliers of the Company's in-flight food and beverage. The catering transaction amount of Beijing Air Catering and Southwest Air Catering from January to June 2009 accounted for 85% of the total comprehensive services transaction amount. It is expected that the actual transaction amount generated by the Company in respect of its businesses under the Comprehensive Services Agreement in 2009 will not exceed RMB700 million.

As the Company has been continually increasing its transportation capacity and flights, and another company in which CNACG has recently invested will start to provide catering services to the Company in one or two years, the transaction amount under the Comprehensive Services Agreement is expected to increase consequently.

3.6 Subcontracting of Charter Flight Services

The Company entered into a government charter flight service framework agreement (the "Charter Flight Service Framework Agreement") with CNAHC on 27 October 2009.

Description of transaction:

Pursuant to the Charter Flight Service Framework Agreement, CNAHC shall resort to the Company's charter flight services so as to fulfil the government charter flight assignment. The Company's hourly rate of the charter flight service fee will be calculated on the basis of the following formula:

Hourly rate = Total cost per flight hour x (1 + 6.5%)

Total cost per flight hour includes direct costs and indirect costs.

The term of the Charter Flight Service Framework Agreement is from 1 January 2010 to 31 December 2012.

Reasons for the transaction:

As the national flag carrier of China, the Company has historically provided charter flights for government related travel services to State leaders, government delegations, national sports teams and cultural envoys. The Company has gained significant brand recognition by being the designated government charter flight carrier. Based upon the hourly rate formula under the Charter Flight Service Framework Agreement, it is expected that the Company will generate good revenue from such transaction.

Historical Amounts and Proposed Caps:

For each of the three years ended 31 December 2009, the annual cap for aggregate amount paid by CNAHC to the Company in respect of the charter flight services is RMB700 million, RMB812 million and RMB917 million, respectively. The actual aggregate amount paid by CNAHC to the Company in respect of the charter flight services for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 was approximately RMB448.75 million, RMB453.27 million and RMB341.004 million, respectively.

It is proposed that the annual cap for the aggregate amount of revenue derived from the Charter Flight Service Framework Agreement for each of the three years ending 31 December 2010, 2011 and 2012 shall be RMB750 million, RMB825 million and RMB900 million, respectively.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ending 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Amount of revenue derived from the Charter Flight Service Framework Agreement	RMB700 million	RMB812 million	RMB917 million	RMB448.75 million	RMB453.27 million	RMB341.004 million	RMB700 million	RMB750 million	RMB825 million	RMB900 million

Basis for such caps:

In arriving at the above caps, the Directors considered the historical and estimated transaction amount as set out in the table above of the same type of transactions and the following factors:

- The difference between the actual transaction amount of the government charter flight service and the cap for 2008 was caused by various factors including the 2008 Beijing Olympic Games. Nevertheless, as China's influence in the world is growing, the government charter flight services are expected to increase on a continuous basis during the period from 2010 to 2012; and

- Uncertainties such as the future jet fuel price could lead to an increase of flight-related costs.

3.7 Continuing Connected Transactions between the Company and the Lufthansa Group

Description of transaction:

The Company has entered into various transactions under separate agreements with different periods, some of which are more than three years, with Lufthansa Group in the ordinary course of its business, including, among others:

- MRO Services provided by the Company to the Lufthansa Group;

- mutual provision of catering services;

- mutual provision of ground handling services in China and Germany;

- mutual provision of ticket sales agency services;

- airline code sharing arrangement under which the actual carrier's flights can be marketed under the airline designator code of the partner carrier and revenues earned from these arrangements are allocated between the parties based on negotiated terms according to airline industry standards;

- special prorate arrangement under which a carrier agrees to accept passengers from another carrier and receive payment directly from that carrier; and

- other airline co-operation arrangements between the Lufthansa Group and the Company.

The above transactions have been entered into on normal commercial terms based on arm's length negotiations.

Reasons for the transaction:

The Company has entered into various transactions with Lufthansa Group in the ordinary course of the Company's business. Lufthansa is one of the leading airlines worldwide and is one of the founding members of the Star Alliance, which is the largest and most awarded airline alliance in the world. Through the co-operation with Lufthansa Group, the Company could further enhance the quality and attractiveness of its products and services.

Historical Amounts and Proposed Caps:

For each of the three years ended 31 December 2009, the annual cap for the aggregate amount of all expenses paid by the Company to Lufthansa Group is RMB775.20 million, RMB900 million and RMB1,017 million, respectively. The actual aggregate amount of all expenses paid by the Company to Lufthansa Group for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 was approximately RMB703.19 million, RMB549.45 million and RMB354.31 million, respectively.

For each of the three years ended 31 December 2009, the annual cap for the aggregate amount of all expenses paid by Lufthansa Group to the Company is RMB592.8 million, RMB687.7 million and RMB777 million, respectively. The actual aggregate amount of all expenses paid by Lufthansa Group to the Company for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 were approximately RMB591.49 million, RMB567.97 million and RMB276.23 million, respectively.

It is proposed that for each of the three years ending 31 December 2010, 2011 and 2012: (i) the annual cap for the aggregate amount of all expenses to be paid by the Company to Lufthansa Group for each of the three years ending 31 December

2010, 2011 and 2012 shall be RMB780 million, RMB858 million and RMB943.8 million, respectively; and (ii) the annual cap for the aggregate amount of all expenses to be paid by Lufthansa Group to the Company shall be RMB770 million, RMB847 million and RMB931.7 million, respectively.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ended 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Amount to be paid by the Company to Lufthansa Group	RMB775.2 million	RMB900 million	RMB1,017 million	RMB703.19 million	RMB549.45 million	RMB354.31 million	RMB700 million	RMB780 million	RMB858 million	RMB943.8 million
Amount to be paid by the Lufthansa Group to Company	RMB592.8 million	RMB687.7 million	RMB777 million	RMB591.49 million	RMB567.97 million	RMB276.23 million	RMB700 million	RMB770 million	RMB847 million	RMB931.7 million

Basis for such caps:

In arriving at the above caps, the Directors have considered (i) the historical and estimated transaction amounts as set out in the table above; and (ii) the discussion with Lufthansa Group about its planned flight schedules between Germany and China; and (iii) the Company's business plan about increased flight routes to Germany.

As the fleet of the Company (including Air China Cargo) is expected to expand at an annual rate of around 10% from 2010 to 2012, and number of routes to Europe especially Germany will continue to increase, it is expected that the aggregate amount paid by the Company to Lufthansa Group in 2010 will not exceed RMB780 million, and will increase at an annual rate of 10% afterwards. The aggregate amount paid by Lufthansa Group to the Company in 2010 will not exceed RMB770 million, and will increase at an annual rate of 10% afterwards.

3.8 Line Maintenance and Other Ground Services

The Company entered into a standard ground handling agreement (the "Standard Ground Handling Agreement") on 17 April 2004 with CASL, in which a 40% interest is owned by CNACG, for a term of one year and is renewable, which was recently renewed for one year in January 2009. Pursuant to the Agreement, CASL shall provide line maintenance and other ground services to the Company at the Hong Kong International Airport. Such services shall be charged at prevailing market rates.

As the Company entered into a framework agreement (the "CNACG Framework Agreement") dated 26 August 2008 in respect of the relevant agreements between the Company and CNACG Group. The CNACG Framework Agreement applies to the transactions entered into under the relevant agreements during the three years ending 31 December 2010. The transactions refer to those entered into between the Company (including its subsidiaries and joint ventures) (as one party) and CNACG Group companies (as the other party) in respect of ground handling services and engineering services, management services as well as the other services that the relevant parties may agree to undertake pursuant to the CNACG Framework Agreement (excluding the transactions contemplated under the framework agreements entered into by CNAHC Group). CASL is one of the members of the CNACG Group as defined in the Agreement. The transactions set forth in the Standard Ground Handling Agreement may also fall within the scope of CNACG Framework Agreement. Accordingly, the Company will cease to treat the Standard Ground Handling Agreement as a separate continuing connected transaction after 31 December 2009, but to include it in the CNACG Framework Agreement; and the transaction amount incurred under the Standard Ground Handling Agreement will also be included in the annual caps for the connected transactions, which have been set in the CNACG Framework Agreement.

4. NON-EXEMPT CONTINUING CONNECTED TRANSACTION

4.1 Financial Services

The Company entered into a financial services agreement (the "Financial Services Agreement") with CNAF on 27 October 2009.

Description of transaction:

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

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for debt issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;

- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other services provided by CNAF under the approval of the China Banking Regulatory Commission ("CBRC").

Pursuant to the Financial Services Agreement, CNAF is currently paid to provide the Company with bills acceptance services, letter of credit services, guarantee services, internet banking services, finance leasing services, discounting services and ticket collection services and charges fees incurred thereon. Such fees are charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company for financial services of similar type shall not be higher than those generally charged by commercial banks from the Company and those charged by CNAF to other group members.

With respect to the deposit and loan services, both parties agree:

- The interest rate applicable to the Company for its deposits with CNAF shall not be lower than the minimum interest rate specified by the People's Bank of China for deposits of similar type. In addition, the interest rate for the Company's deposits with CNAF shall not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and shall not be lower than the interest rate for similar type of deposit services provided by commercial banks to the Company generally; and

- The interest rate for loans (including other credit business) granted to the Company by CNAF shall not be higher than the maximum interest rate specified by the People's Bank of China for loans of similar type. In addition, the interest rate for loans granted to the Company by CNAF shall not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by commercial banks to the Company generally.

The Company agrees that it will under the same conditions accord priority to and use the financial services provided by CNAF. CNAF has treated the Company as its major client and undertook to provide financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company at the same time.

In order to ensure the security of the capital, CNAF is not allowed, at any time, to make use of the deposits of the Company other than making external loans. The prohibited use of the deposits of the Company includes, but not limited to, investment activities in equity securities and corporate bonds. CNAF, as a non-bank financial institution approved by the CBRC, shall strictly comply with the regulatory targets and other requirements of the CBRC to conduct its operation and business, establish effective and complete internal control and risk management systems and set up the credit review committee and investment committee in order to effectively manage risks and ensure the safety of all capital. If the Company intends to inspect the accounts of CNAF, CNAF shall make arrangement for such an inspection within 10 days thereof. Pursuant to provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergent event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, shall increase the capital of CNAF accordingly to meet the actual need to overcome such financial difficulties in making payments.

The unpaid services provided by CNAF to the Company include settlement services and financial information services ("Unpaid Services").

In addition to the specific services set out in the Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to other members of CNAHC Group as and when appropriate ("New Financial Services").

If CNAF charges fees for the Unpaid Services and New Financial Services during the period in which the Financial Services Agreement remains in force, such fees charged by CNAF shall comply with the standards stipulated by the People's Bank of China or the CBRC for services of similar type and shall not be higher than those charged by commercial banks to the Company for similar type of financial services and those charged by CNAF to other members of CNAHC Group.

The term of the Financial Services Agreement is from 1 January 2010 to 31 December 2012.

Reasons for the transaction:

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

- in respect of transactions between the Company and members of CNAHC Group, CNAF is able to provide more efficient settlement service compared with independent third party banks;

- CNAF is able to provide safe, convenient, fast, comprehensive and personalized financial services to the Company. With the improving professionalism of CNAF and its enhancing financial services, it is fully qualified for providing relevant services to inter-companies (in CNAHC Group). As a professional financial institution in CNAHC Group, it acts more actively to protect the interest of the Company than external institutions. A good cooperative relationship has been established between CNAF and the related departments of the Company over the years which make their cooperation more efficient; and

- since CNAF is 19.31% owned by the Company, the Company can ultimately benefit from the business development of CNAF.

Historical Amounts and Proposed Caps:

The annual cap for the aggregate amount of certain transactions between the Company and CNAF for each of the three years ended 31 December 2009 is as follows:

- Maximum daily balance of deposits (including accrued interest) placed by the Company with CNAF is RMB2.5 billion, RMB2.5 billion and RMB2.5 billion, respectively; and

- Maximum daily balance of loans and other credit services (including accrued interest) granted by CNAF to the Company is RMB2.5 billion, RMB2.5 billion and RMB2.5 billion, respectively.

The actual annual aggregate amount of certain transactions between the Company and CNAF for each of the two years ended 31 December 2007 and 31 December 2008 and the first six months of 2009 was as follows:

- Actual amounts of the maximum daily balance of deposits (including accrued interest) placed by the Company with CNAF were RMB1,053.07 million, RMB1,499.68 million and RMB2,269 million, respectively; and

- Actual amounts of the maximum daily outstanding balance of loans and other credit services (including accrued interest) granted by CNAF to the Company were RMB317.44 million, RMB1,111.02 million and RMB906 million, respectively.

It is proposed that the annual cap for the aggregate amount of certain transactions between the Company and CNAF for each of the three years ending 31 December 2010, 2011 and 2012 shall be as follows:

- Maximum daily balance of deposits (including accrued interest) placed by the Company with CNAF shall be RMB7 billion; and

- Maximum daily balance of loans and other credit services (including accrued interest) granted by CNAF to the Company shall be RMB3 billion.

The aggregate annual fees to be paid by the Company to CNAF for other financing services for each of the three years ending 31 December 2010, 2011 and 2012 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transactions will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

	Historical Caps			Historical Figures				Future Caps		
Transaction	Annual cap for the year ended 31 December 2007	Annual cap for the year ended 31 December 2008	Annual cap for the year ended 31 December 2009	Actual annual amount for the year ended 31 December 2007	Actual annual amount for the year ended 31 December 2008	Unaudited historical amount for the period from 1 January to 30 June 2009	Estimated annual amount for the year ended 31 December 2009	Annual cap for the year ending 31 December 2010	Annual cap for the year ending 31 December 2011	Annual cap for the year ending 31 December 2012
Financial Services (deposit)	RMB2.5 billion	RMB2.5 billion	RMB2.5 billion	RMB1,053.07 million	RMB1,499.68 million	RMB2,269 million	RMB2.5 billion	RMB7 billion	RMB7 billion	RMB7 billion
Financial Services (loan and other credit services)	RMB2.5 billion	RMB2.5 billion	RMB2.5 billion	RMB317.44 million	RMB1,111.02 million	RMB906 million	RMB2.5 billion	RMB3 billion	RMB3 billion	RMB3 billion

Basis for such caps:

In arriving at the caps for financial services to be provided by CNAF, the Directors have taken into account the historical and estimated transaction amounts set out in the above table, and the expected business growth of the Company including the continuous expansion of the fleet size of the Company (including Air China Cargo). In 2006, the Company (including Air China Cargo) operated a fleet of 207 aircraft. Subsequently, the operated fleet increased from 220 aircraft in 2007 to 243 aircraft in 2008. It is expected that the Company (including Air China Cargo) will operate a fleet of 263 aircraft as at the end of 2009. The fleet size is expected to continue to expand at a rate of around 10% annually from 2010 to 2012.

The Company expects that cash flow requirement will increase as a result of its business growth. At the same time, the Company expects that the cash inflow will also increase. Maintaining the above annual caps will make relevant financial arrangements to be carried out between the Company and CNAF with higher flexibility. In addition, with the expansion of the operational scale, the Company's financing through the issue of medium term notes reached RMB6 billion in 2009 and it is expected that the Company will continue to expand its financing scale in the coming years.

All in all, the Company's demand for financial services will continue to increase, including: (1) increasing demands for deposits arising from the gradual increase of cash flows and (2) increasing demands for loans due to the expansion of the fleet size and the air routes network of the Company.

5. LISTING RULES IMPLICATIONS

5.1 The Financial Services Agreement between the Company and CNAF falls under Rule 14A.35 of the Hong Kong Listing Rules. Such transaction is subject to reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by the Independent Shareholders in accordance with the requirements set out under Rules 14A.48 at the Company's EGM.

5.2 Except for the Non-exempt Continuing Connected Transaction, as each of the Percentage Ratios (other than the profits ratio) of the other continuing connected transactions (excluding the de minimis continuing connected transactions) set out above, on an annual basis, is higher than 0.1% and less than 2.5%, they therefore fall under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, these continuing connected transactions are subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, but are exempt from the requirements of Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

6. PRC LAW IMPLICATIONS

6.1 Pursuant to the Listing Rules of the Shanghai Stock Exchange, the following agreements shall be approved or ratified by the Shareholders at the EGM:

(a) Construction Project Management Agreement;

(b) Advertising Services Framework Agreement;

(c) Properties Leasing Agreement;

(d) Tourism Cooperation Agreement;

(e) Sales Agency Services Framework Agreement;

(f) Comprehensive Services Agreement;

(g) Charter Flight Service Framework Agreement; and

(h) Financial Services Agreement.

7. RECOMMENDATION OF THE BOARD

7.1 The Board (including the independent non-executive directors of the Company) considers that the abovementioned continuing connected transactions have been conducted on normal commercial terms or on terms no less favourable than those available to independent third parties and were entered into on a continuing and regular basis and in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the annual caps for each of the future three years ending 31 December 2010, 2011 and 2012 for the abovementioned continuing connected transactions are fair and reasonable.

7.2 The Board recommends that Shareholders vote to approve the Non-exempt Continuing Connected Transaction and its proposed annual cap for each of the three years ending 31 December 2010, 2011 and 2012 at the EGM and to approve the continuing connected transactions under the other agreements set out under section 6.1 above and their respective proposed annual caps at the EGM.

II. PROPOSED GUARANTEE OF LOANS

At the Board meeting held on 27 October 2009, the Board resolved to propose that the Company provide a guarantee of the loan of Sichuan SNECMA Aeroengine Maintenance Co., Ltd. ("SNECMA") in favour of CNAF, the creditor, in the amount of RMB26,181,840. SNECMA raised a bank loan of RMB60,000,000 to address the shortage of funds and ensure its normal production and operation. Guarantees will be provided by its shareholders pro-rata to their respective shareholdings. The Company will provide guarantee based on its 43.6364% shareholding in SNECMA in respect of the RMB60,000,000 bank loan. Therefore, the amount of the guarantee will be RMB26,181,840 with CNAF as the creditor. The aforesaid guarantee has been approved by the Board meeting held on 27 October 2009 and is still subject to the Shareholders' approval at the EGM. As at 27 October 2009, the external guarantees provided by the Company totaled RMB370,951,530.92 (including the guarantees for the benefit of the subsidiaries of the Company), which accounted for 1.63% of the latest audited net assets of the Company. No subsisting guarantees are made on overdue loans.

SNECMA is a Sino-foreign equity joint venture incorporated in the PRC. It is owned as to 51.7555% by Snecma Services France, 43.6364% by the Company and 4.6081% by Willis Lease & Finance (U.K.). SNECMA was established on 1 July 1999 with a registered capital of RMB31,900,000. SNECMA is located at Chengdu Shuangliu International Airport and its legal representative is He Li. Its scope of business comprises the repairs and maintenance of airplane engines and the manufacture of related parts; warehousing and customs clearance services for aero-facilities which are to be processed for exporting, temporary stored aero-facilities by overseas enterprises and other aero-facilities approved by the customs authorities. As at 31 December 2008, SNECMA had audited total assets of RMB553,377,692.05, total liabilities of RMB451,487,352.42, gearing ratio of 81.59%, owner's equity of RMB101,890,339.63 and net profits of RMB8,653,625.84. As at 30 September 2009, SNECMA had unaudited total assets of RMB533,784,623.68, total liabilities of RMB418,671,136.17, gearing ratio of 78.43%, owner's equity of RMB115,113,487.5 and net profits of RMB13,223,147.88.

III. EGM

The Company will convene the EGM at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:30 p.m. on 22 December 2009 to consider and, if thought fit, to pass resolutions in respect of the matters described under I and II of this circular that shall be approved by the Shareholders. A form of proxy and an attendance notice have been dispatched to the shareholders in accordance with Hong Kong Listing Rules on 6 November 2009. The notice of the EGM is set out in Appendix II.

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 H Share registrar of the Company on or before 2 December 2009.

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 adjourned meetings should you so wish and completion and return of the notice of attendance do not affect the right of a shareholder to attend the respective meeting.

Pursuant to Rule 14A.54 of the Hong Kong Listing Rules, any connected person and any Shareholder and their associates with a material interest in the Non-exempt Continuing Connected Transaction are required to abstain from voting on the relevant resolution at the EGM. At as the date of this circular, CNAHC is a substantial shareholder of the Company and CNAF is CNAHC's subsidiary. 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 Agreement. In addition, CNAHC and CNACG are also required to abstain from voting on the resolution in respect of the Construction Project Management Agreement, the Advertising Services Framework Agreement, the Properties Leasing Agreement, the Tourism Cooperation Agreement, the Sales Agency Services Framework Agreement, the Comprehensive Services Agreement and the Charter Flight Service Framework Agreement, respectively, which are required by the Listing Rules of Shanghai Stock Exchange to be approved by the Shareholders at the EGM.

IV. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 31 to 32 of this circular which contains its recommendation to the Independent Shareholders of the Company as to the voting at the EGM regarding the Non-exempt Continuing Connected Transaction.

Your attention is also drawn to the letter from China Merchants Securities set out on pages 33 to 40 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Non-exempt Continuing Connected Transaction as well as the principal factors and reasons considered by it in concluding its advice and the additional information set out in the appendices to this circular.

By Order of the Board
Kong Dong
Chairman

Beijing, the PRC

中國國際航空股份有限公司
AIR CHINA LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

Independent Board Committee:
Mr. Hu Hung Lick, Henry
Mr. Zhang Ke
Mr. Jia Kang
Mr. Fu Yang

6 November 2009

To the Independent Shareholders of the Company

Dear Sirs or Madams,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We refer to the circular dated 6 November 2009 ("**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 27 October 2009, the Board approved the continuing connected transactions as set out in the Circular, and the relevant annual caps for the three years ending 31 December 2010, 2011 and 2012.

The continuing connected transactions as set out in the Circular include the Non-exempt Continuing Connected Transaction. This connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Circular describes such connected transaction that the Company entered into subject to the approval by the Independent Shareholders to be sought at the EGM.

The terms and the reasons for the Non-exempt Continuing Connected Transaction are summarised in the Letter from the Board set out on pages 4 to 30 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the Non-exempt Continuing Connected Transaction are fair and reasonable so far as the independent shareholders are concerned. China Merchants Securities has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Non-exempt Continuing Connected Transaction.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Non-exempt Continuing Connected Transaction, its terms and the basis upon which its terms have been determined. We have also considered the key factors taken into account by China Merchants Securities in arriving at its opinion regarding the Non-exempt Continuing Connected Transaction as set out in the letter from China Merchants Securities on pages 33 to 40 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of China Merchants Securities, considers the terms of the Non-exempt Continuing Connected Transaction to be in the best interest of the Company and to be fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee also considers the Non-exempt Continuing Connected Transaction to be carried out in the usual and ordinary course of business, on normal commercial terms and the annual caps for the Non-exempt Continuing Connected Transaction to be fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolutions set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee

Mr. Hu Hung Lick, Henry	**Mr. Zhang Ke**	**Mr. Jia Kang**	**Mr. Fu Yang**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*	*Independent non-executive director*

The following is the text of a letter from China Merchants Securities for the purpose of incorporation in the Circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions.

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

48th Floor
One Exchange Square
Central
Hong Kong

6 November 2009

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the deposit and loan services transactions under the Financial Services Agreement (the "**Non-exempt Continuing Connected Transactions**"), details of which are set out in the letter from the Board contained in the circular dated 6 November 2009 (the "**Circular**") issued by the Company to the Shareholders, of which this letter forms part. Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Circular.

On 27 October 2009, the Company and CNAF entered into the Financial Services Agreement, pursuant to which CNAF has agreed to provide the Group with various financial services including, but not limited to, deposit services, loan and finance leasing services, settlement services, internet banking services and bills and payment collection services. CNAF is a subsidiary of CNAHC, the controlling shareholder of the Company. Therefore, CNAF is a connected person of the Company as defined under the Hong Kong Listing Rules. CNAF currently provides the financial services to the Group. Subject to the relevant requirements under the Hong Kong Listing Rules, CNAF will continue to provide the Group with such financial services. Such provision of financial services by CNAF to the Group will constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable Percentage Ratios (except for the profits ratio which is not applicable) in respect of the proposed annual caps for the Non-exempt Continuing Connected Transactions, on an annual basis, exceed 2.5% and have an annual consideration more than HK$10,000,000, thus, the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps are subject to reporting, announcement and independent shareholders' approval requirement under the Hong Kong Listing Rules.

An Independent Board Committee comprising all the Company's independent non-executive Directors, namely Mr. Hu Hung Lick, Henry, Mr. Zhang Ke, Mr. Jia Kang and Mr. Fu Yang, has been formed to consider and advise the Independent Shareholders in respect of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interest of the Group and its Shareholders as a whole. We, China Merchants Securities (HK) Co., Ltd., have been appointed as the independent financial adviser to advise the Independent Board Committee in these respects.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and the management of the Company and which have been considered to be complete and relevant. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were true, accurate and complete in all material respects at the time when they were made and will continue to be so as at the date of the Circular. We have also assumed that all statements and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company and we have been advised by the Directors and the management of the Company that no material fact has been omitted from the information and representations provided in and referred to in the Circular. We have no reason to suspect that any material information has been withheld by the Directors or the management of the Company. We have not, however, carried out any independent verification of the information provided to us neither by the Directors and the management of the Company, nor have we conducted any independent investigation into the affairs, the business and financial position and the future prospects of the Group, CNAF, CNAHC Group, their shareholders and associates. Our opinion is based on the information and representations available to us as of the date this letter. We have no obligation to update our advice and opinion to take into account the circumstances and events occurring after the date of this letter. As a result, the circumstances and events could occur prior to the approval of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps that, if known to us at the time when we had rendered our advice and opinion, would have altered our advice and opinion.

PRINCIPAL FACTORS CONSIDERED

In formulating and giving our independent advice and recommendation in respect of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps, we have taken into consideration the following principal factors:

1. Background of and reasons for the Financial Services Agreement

The Group is mainly engaged in the passenger and cargo air transportation business and airline-related businesses. The Group is the airline which carries national flag of the PRC and is a member of the world's largest airline alliance, namely Star Alliance.

CNAHC, which is a state-owned enterprise incorporated in the PRC, is the controlling shareholder of the Company. The principle activities of CNAHC Group comprise, among other things, investment holding in airline-related businesses, financial services, hotel operations, construction engineering, media and advertising.

CNAF is a non-bank finance company approved and regulated by the China Banking Regulatory Commission (the "**CBRC**") and the People's Bank of China (the "**PBOC**"). As at the Latest Practicable Date, CNAF is approximately 75.54% directly owned by CNAHC and approximately 19.31% owned by the Company.

According to the management of the Company, under the relevant PRC law, companies established in the PRC are not allowed to extend intra-group loan directly without going through a financial services agency. As such, it is common for sizable state-owned enterprises to establish their own financial services companies with a view to providing financial services within the group. Being the financial center of CNAHC Group, CNAF has provided various financial services within CNAHC Group (including the Group). Prior to the listing of the Company's shares on the Hong Kong Stock Exchange, the Company and CNAF entered into an agreement in order to regulate the ongoing financial services transactions between them. The term of the agreement commenced from 1 November 2004 and ended on 31 December 2006. On 10 November 2006, the Company and CNAF entered into a supplemental agreement in order to extend the term for 3 years. Given the fact that the said supplemental agreement will expire on 31 December 2009, the Company and CNAF entered into the Financial Services Agreement on 27 October 2009 with a view to persistently regulating the ongoing financial services transactions between the Group and CNAF for a term of 3 years expiring on 31 December 2012.

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

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for debt issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;

- internet banking services;
- bills and payment collection services;
- insurance agency services; and
- other services provided by CNAF under the approval of the CBRC.

Given the nature of the financial services as mentioned above, we consider that those financial services are indispensable to the Group's airline and airline-related business and the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of the Group's business.

As indicated in the letter from the Board, the Directors believed that it is in the best interest of the Company to enter into the Non-exempt Continuing Connected Transactions with CNAF having taken into account the following factors:

(i) in respect of transactions between the Group and CNAHC Group, CNAF is able to provide more efficient settlement service compared with external commercial banks;

(ii) CNAF is able to provide safe, convenient, fast, comprehensive and personalized financial services to the Group. With the improvement in the professionalism of CNAF and the capacity of its financial services, CNAF is fully qualified for providing relevant services to inter-companies (in CNAHC Group). As a professional financial institution within CNAHC Group, CNAF is in a position to act swiftly to protect the interest of the Group better than other external institutions. A good historical cooperative relationship has been established between CNAF and the related departments of the Group over the years; and

(iii) since the Company owns approximately 19.31% equity interest in CNAF, the Company can ultimately benefit from the business growth of CNAF.

We also noted that from the letter from the Board that CNAF is not allowed, at any time, to make use of the deposits of the Group other than making external loans. The prohibited use of the deposits of the Group includes, but not limited to, investment activities in equity securities and corporate bonds. CNAF, as a non-bank financial institution approved by the CBRC, shall strictly comply with the regulatory targets and other requirements of the CBRC to (i) conduct its operation and business; (ii) establish effective and complete internal control and risk management systems; and (iii) set up the credit review committee and investment committee in order to effectively manage its risks and ensure the safety of all capital. If the Company intends to inspect the accounts of CNAF, CNAF shall make arrangement for such an inspection within 10 days thereof. Pursuant to the provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergency event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, shall increase the capital of CNAF accordingly to overcome such financial difficulties in making payments.

Having considered (i) the aforementioned Directors' view; (ii) the long-standing and good cooperative relationship between the Group and CNAF; (iii) CNAF's better understanding in the Group's airline and airline-related businesses; (iv) the Group's satisfaction regarding the financial services provided by CNAF over the past several years; and (v) the aforementioned measures and requirements imposed by the CBRC on CNAF, we are of the view that the entering into the Financial Services Agreement is in the interest of the Company and the Shareholders as a whole.

2. Terms of the Financial Services Agreement

As advised by the management of the Company, except for the Non-exempt Continuing Connected Transactions, all other financial services contemplated under the Financial Services Agreement are subject to the reporting and announcement requirements, but are exempt from the requirements of independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules. Our discussion and analysis in relation to the terms of the Financial Services Agreement as set out below will be confined to the Non-exempt Continuing Connected Transactions.

Pursuant to the Financial Services Agreement, the fees and charges for the Non-exempt Continuing Connected Transactions as agreed by the Company and CNAF are set out as follows:

- the interest rate for loans (including other credit business) granted to the Group by CNAF shall not be higher than the maximum interest rate specified by the PBOC for loans of similar type. In addition, the interest rate for loans granted to the Group by CNAF shall not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by commercial banks to the Group generally; and

- the interest rate applicable to the Group for its deposits placed with CNAF shall not be lower than the minimum interest rate specified by the PBOC for deposits of similar type. In addition, the interest rate for the Group's deposits with CNAF shall not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and shall not be lower than the interest rate for similar type of deposit services provided by commercial banks to the Group generally.

Having considered (i) the interest rate for loans granted to the Group by CNAF shall not be higher than the interest rate for the similar type of loans granted by external commercial banks to the Group generally; (ii) the interest rate applicable to the Group for its deposits placed with CNAF shall not be lower than the interest rate for the similar type of deposit services provided by external commercial banks to the Group generally; (iii) the personalized financial services to be provided by CNAF; and (iv) the Group's satisfaction on the financial services provided by CNAF over the past several years, we concur with the Directors' view that the terms of the Financial Services Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

3. Annual caps

The table below sets out the historical annual caps for each of the 3 years ending 31 December 2009 and the actual/estimated figures of (i) the maximum daily outstanding balance of loans granted by CNAF and (ii) the maximum daily outstanding balance of deposit placed by the Group with CNAF for each of the 2 years ended 31 December 2008, the 6 months ended 30 June 2009 and the year ending 31 December 2009:

	Historical annual cap			**Historical figures**			
						Jan to Jun	
	2007	**2008**	**2009**	**2007**	**2008**	**2009**	**2009**
				(Actual)	**(Actual)**	**(Actual)**	**(Estimated)**
				Amounts in RMB billion			
Financial Services							
– Loan	2.50	2.50	2.50	0.32	1.11	0.91	2.50
– Deposit	2.50	2.50	2.50	1.05	1.50	2.27	2.50

As illustrated in the table above, we noted that the historical maximum daily outstanding balance of the loans granted by CNAF is expected to increase significantly from approximately RMB0.32 billion in 2007 to approximately RMB2.5 billion for the year ending 31 December 2009. As advised by the management of the Company that the significant increase in the maximum daily outstanding balance of loan granted by CNAF is mainly attributable to the fact that additional borrowings are needed to support the expansion of the Group's operation during the period. During the period, the Group's fleet size is expected to increase from 220 aircrafts in 2007 to 263 aircrafts as at the end of 2009.

In respect of the deposit services, the historical maximum daily outstanding balance increased from approximately RMB1.05 billion in 2007 to approximately RMB2.27 billion for the 6 months ended 30 June 2009, and the maximum daily outstanding balance for the year ending 31 December 2009 is expected to be RMB2.5 billion. As advised by the management of the Company that the significant increase in the maximum daily outstanding balance of deposit placed by the Group with CNAF during the period was mainly attributable to the expansion of the Group's operation through extension of its air routes network.

As stated in the letter from the Board, in determining the proposed annual caps for the 3 years ending 31 December 2012, the Directors have considered the following factors:

(i) the historical and estimated amounts as set out in the table above; and

(ii) the expected business growth of the Group including the continuous expansion of the fleet size of the Group.

The proposed annual caps for the Non-exempt Continuing Connected Transactions for the 3 years ending 31 December 2012 are set out as follows:

	2010	**2011**	**2012**
		Amounts in RMB billion	
Financial Services			
– Loan	3.00	3.00	3.00
– Deposit	7.00	7.00	7.00

As illustrated in the table above, the proposed annual cap for the deposit services for each of 2010 to 2012 will be RMB7 billion, which is significantly higher than the historical annual caps and the historical/estimated figures for the same services in the corresponding period from 2007 to 2009; whilst the proposed annual cap for the loan services will increase slightly from RMB2.5 billion for each of 2007 to 2009 to RMB3 billion for each of 2010 to 2012. We also noted that the Company estimated its annual cap for both of the loan services and deposit services will be fully utilized in 2009. Upon enquiry, we were given to understand that the Group has planned to further expand its air routes network since its joining of Star Alliance in 2007. The fleet size of the Group is expected to reach 263 aircrafts as at the end of 2009. In order to meet the further expansion of the Group's air routes network, the Group has planned to enlarge its fleet size at a rate of approximately 10% annually from 2010 to 2012. Therefore, the Company expects that the cash flow requirement will increase as a result of its business growth. Hence, the Company proposes the annual cap for the deposit services for each of 2010 to 2012 to increase to RMB7 billion. As advised by the management of the Company, the acquisition of additional aircrafts will be financed by loan arrangement and other means including, but not limited to, issuance of corporate bonds/notes. Having considered alternative means of financing and the expected increase in the cash inflow from the Group's operation, the Company decides to increase the proposed annual cap slightly for each of 2010 to 2012 for the loan services with CNAF to RMB3 billion.

Having discussed with the management of the Company in respect of (i) the Group's expected business growth including the continuous expansion of the fleet size; and (ii) future funding and cash flow requirements, we concur with the Directors' view that the proposed annual caps for the Non-exempt Continuing Connected Transactions for the 3 years ending 31 December 2012 are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

RECOMMENDATION

Taking into consideration of the above factors, we concur with the Directors' view that (i) the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of the Group's business and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Financial Services Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned; and (iii) the proposed annual caps for the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve, amongst other things, the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps.

Your faithfully,
For and on behalf of
China Merchants Securities (HK) Co., Ltd.

Ronald T.L. Wan	**Christine Au**
Managing Director	*Director*
Investment Banking Department	*Investment Banking Department*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company has interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notifiable to the Company and the Hong Kong Stock Exchange pursuant to SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notifiable to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

None of the Directors or supervisors or expert of the Company has any direct or indirect interest in any assets which have been, since 30 June 2009 (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, 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 date of this circular and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and executive director of Cathay Pacific Airways Limited ("Cathay Pacific"), which is a substantial shareholder of the Company and wholly owns Hong Kong Dragon Airlines Limited ("Dragonair"). Mr. Kong Dong is the chairman and a non-executive Director of the Company and is concurrently a non-executive director of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

3. SERVICE CONTRACTS

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

4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group's financial or trading position since 30 June 2009, being the date to which the latest published audited accounts 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**
China Merchants Securities	a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571), the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in respect of the Non-exempt Continuing Connected Transaction.

(a) at the Latest Practicable Date, China Merchants Securities is not beneficially interested in the share capital of any member of the Group and has no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) China Merchants Securities 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. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 84 of the Articles of Association of the Company, at any general meeting of shareholders of the Company a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

– by the chairman of the meeting;

– by at least two shareholders entitled to vote present in person or by proxy; or

– by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

The demand for a poll may be withdrawn by the person who makes such demand.

7. MISCELLANEOUS

(a) The joint company secretaries of the Company are Huang Bin and Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountant (AICPA), USA.

(b) The registered address of the Company is at 9/F, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.

(c) The Hong Kong branch 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.

8. 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 20 November 2009:

(a) the Construction Project Management Agreement;

(b) the Advertising Services Framework Agreement;

(c) the Properties Leasing Agreement;

(d) the Tourism Cooperation Agreement;

(e) the Sales Agency Services Framework Agreement;

(f) the Comprehensive Services Agreement;

(g) the Charter Flight Service Framework Agreement;

(h) the Financial Services Agreement;

(i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 31 to 32 of this circular;

(j) the letter from China Merchants Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 33 to 40 of this circular; and

(k) 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 IS HEREBY GIVEN that an extraordinary general meeting ("EGM") of Air China Limited ("Company") will be held at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:30 p.m. on 22 December 2009 to consider and, if thought fit, to pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the announcement of the Company dated 27 October 2009:

Ordinary Resolutions:

1. Consider and approve the Resolutions Concerning the Entry into Continuing Connected Transaction Agreements for the Years from 2010 to 2012 and their Respective Annual Caps:

   (1) Approve the Company to enter into with the following parties and effect the following connected transaction agreements: (1) with CNAHC, the Properties Leasing Agreement, the Sales Agency Services Framework Agreement, the Comprehensive Services Agreement and the Charter Flight Service Framework Agreement; (2) with CNAF, the Financial Services Agreement; (3) with CNATC, the Tourism Cooperation Agreement; (4) with CNAMC, the Advertising Services Framework Agreement; and (5) with CNACD, the Construction Project Management Agreement.

   (2) Agree that, for each of the three years ending 31 December 2010, 2011 and 2012,

      (a) the annual cap for the aggregate amount of rent payable to CNAHC Group by the Company under the Properties Leasing Agreement is RMB140 million, RMB147 million and RMB154.35 million, respectively;

      (b) the annual cap for the aggregate sales revenue of airline tickets and cargo space by the Company to CNAHC Group under the Sales Agency Services Framework Agreement is RMB270 million, RMB324 million and RMB388.8 million, respectively;

(c) the annual cap for the aggregate amount payable to CNAHC Group by the Company under the Comprehensive Services Agreement is RMB784 million, RMB862 million and RMB862 million, respectively;

(d) the annual cap for the aggregate amount receivable by the Company in respect of charter flight services under the Charter Flight Service Framework Agreement is RMB750 million, RMB825 million and RMB900 million, respectively;

(e) the maximum daily balance of deposits (including accrued interest) placed by the Company with CNAF shall be RMB7 billion and the maximum daily balance of loans and other credit services (including accrued interest) granted by CNAF to the Company shall be RMB3 billion under the Financial Services Agreement;

(f) the annual cap for the aggregate amount payable to the Company by CNATC under the Tourism Cooperation Agreement is RMB69 million per annum; and

(g) the annual cap for the aggregate amount payable to CNAMC by the Company under the Advertising Services Framework Agreement is RMB60 million per annum.

2. Consider and approve the Resolution Concerning the Provision of Guarantee for the Loan of Sichuan SNECMA Aeroengine Maintenance Co., Ltd.:

Approve the Company to provide a guarantee of the loan of Sichuan SNECMA Aeroengine Maintenance Co., Ltd. ("SNECMA") in favour of CNAF, the creditor, in the amount of RMB26,181,840 based on its 43.6364% shareholding in SNECMA, in respect of a RMB60,000,000 bank loan. Approve the Company's management to execute the relevant guarantee agreement.

By order of the Board
Air China Limited
Huang Bin **Tam Shuit Mui**
Joint Company Secretaries

Beijing, 5 November 2009

As at the date of this notice, the Directors of the Company are Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Wang Shixiang, Mr. Cao Jianxiong, Mr. Christopher Dale Pratt, Mr. Chen Nan Lok, Philip, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Hu Hung Lick, Henry, Mr. Zhang Ke*, Mr. Jia Kang* and Mr. Fu Yang*.*

* *Independent non-executive Director of the Company*

Notes:

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

Holders of H Shares of the Company are advised that the register of members of the Company will close from 23 November 2009 to 22 December 2009 (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 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 4:00 p.m. on 20 November 2009.

Shareholders of the Company whose names appear on the register of members of the Company at the close of business on 20 November 2009 are entitled to attend 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 Wednesday, 2 December 2009. 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 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 behalf at the EGM.

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointer 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 appointed 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. **Other businesses**

(i) The EGM is expected to last for one hour. 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:

Room 1806-1807
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990

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)

FORM OF PROXY FOR EXTRAORDINARY GENERAL MEETING

Number of shares to which this form of proxy relates *(Note 1)* ____________________

I/We *(Note 2)* ____________________

of ____________________

being the registered holder(s) of *(Note 3)* ____________________ H Shares in the share capital of Air China Limited (the "**Company**") HEREBY APPOINT *(Note 4)* the Chairman of the meeting and/or *(Note 4)* ____________________

of ____________________

as my/our proxy/proxies: (a) to act for me/us at the extraordinary general meeting (or at any adjournment thereof) of the Company to be held at 2:30 p.m. on Tuesday, 22 December 2009 at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC (the "**Meeting**") for the purpose of considering and, if thought fit, passing the resolutions (the "**Resolutions**") as set out in the notice convening the Meeting; and (b) at the Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Resolutions as hereunder indicated or, if no such indication is given, as my/our voting proxy thinks fit.

	ORDINARY RESOLUTIONS	**FOR** *(Note 6)*	**AGAINST** *(Note 6)*
1.	To consider and approve the Resolutions Concerning the Entry into Continuing Connected Transaction Agreements for the Years from 2010 to 2012 and their Respective Annual Caps		
2.	To consider and approve the Resolution Concerning the Provision of Guarantee for the Loan of Sichuan SNECMA Aeroengine Maintenance Co., Ltd.		

Dated this __________ day of _______________, 2009 Signature *(Note 7)* ____________________

Notes:

1. Please insert the number of shares registered in your name(s) to which this proxy form relates. If no number is inserted, this form of proxy will be deemed to relate to all shares registered in your name(s).
2. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
3. Please insert the total number of shares registered in your name(s).
4. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies of his own choice to attend and vote instead of him. A proxy need not be a member of the Company. If any proxy other than the Chairman of the Meeting is preferred, please strike out the words "the Chairman of the meeting and/or" and insert the name(s) and address(es) of the proxy/proxies desired in the space provided. In the event that two or more persons (other than the Chairman of the Meeting) are named as proxies and the words "the Chairman of the meeting...and/or" are not deleted, those words and references shall be deemed to have been deleted.
5. If you appoint more than one proxy, the voting rights may only be exercised by way of poll.
6. **IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK IN THE BOX MARKED "AGAINST"**. Failure to complete the boxes will entitle your voting proxy to cast his vote at his discretion. A member is entitled to one vote for every fully-paid share held and a member entitled to more than one vote need not use all his votes in the same way. A tick in the relevant box indicates that the votes attached to all the shares stated above as held by you will be cast accordingly. The total number of shares referred to in the two boxes for the same resolution cannot exceed the number of Shares stated above as held by you.
7. This form of proxy must be signed by you or your attorney duly authorised in writing, or in the case of a corporation, must be either under seal or under the hand of a director or attorney duly authorised. If this form of proxy is signed by your attorney, the power of attorney or other document of authorisation must be notarised.
8. In order to be valid, this form of proxy, together with the notarised copy of the power of attorney or other document of authorisation (if any) under which it is signed, for holders of H Shares, must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, Room 1806-1807, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours prior to the time appointed for holding the Meeting (or any adjournment thereof).
9. Completion and delivery of a form of proxy will not preclude you from attending and/or voting at the Meeting (or any adjournment thereof) if you so wish.
10. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.**
11. *To attend and represent the shareholder(s) at the Meeting, the proxy so appointed must produce beforehand his identification document and any power of attorney duly signed by his appointor(s) or the legal representative(s) of his appointor(s). The power of attorney must state the date of issuance.*

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)

EXTRAORDINARY GENERAL MEETING NOTICE OF ATTENDANCE

To: Air China Limited (the "**Company**")

I/We *(Note 1)* ____

of ____,

being the registered holder of *(Note 2)* ______________________________H Shares in the share capital of the Company hereby inform the Company that I/we intend to attend the Extraordinary General Meeting to be held at 2:30 p.m. on Tuesday, 22 December 2009 at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC or to appoint proxies to attend on my/our behalf.

Signature: ___________________________

Date: ___________________________2009

Notes:

1. Please insert the full name(s) and address(es) of the shareholder(s) as it is recorded in the register of members of the Company in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s).
3. Please duly complete and sign this Notice of Attendance, and deliver it to, for holders of H Shares, the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited on or before Wednesday, 2 December 2009.

Address of Computershare Hong Kong Investor Services Limited

Room 1806-1807
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990