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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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**中國國際航空股份有限公司**  
**AIR CHINA LIMITED**

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

**(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES;**  
**(2) CONNECTED TRANSACTION:**  
**SUBSCRIPTION OF NEW A SHARES BY CNAHC**  
**AND**  
**(3) MAJOR TRANSACTION IN RELATION TO THE INTRODUCTION OF A**  
**TOTAL OF 96 A320NEO SERIES AIRCRAFT FOR THE COMPANY AND**  
**SHENZHEN AIRLINES**

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



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A letter from the Board is set out on pages 6 to 31 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 32 to 33 of this circular.

A letter from Gram Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 34 to 48 of this circular.

Notices of the EGM and the H Shareholders' Class Meeting setting out the resolutions to be approved at the EGM and the H Shareholders' Class meeting, together with the relevant forms of proxy have been despatched by the Company to the Shareholders on 5 August 2022.

25 August 2022

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## DEFINITIONS

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

“Administrative Measures”	the Administrative Measures for the Issuance of Securities by Listed Companies (Revised in 2020) 《上市公司證券發行管理辦法》(2020年修正) issued by CSRC
“A Shareholders”	holders of A Shares
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be convened by the Company to consider and, if thought fit, approve, among other things, the Non-public Issuance of A Shares on 20 September 2022
“A Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“AIE”	Air China Import and Export Co., Ltd. (國航進出口有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Airbus S.A.S.” or “Airbus Company”	Airbus S.A.S., a company incorporated in Toulouse, France
“Air China Aircraft Purchase”	the purchase of 64 Airbus A320NEO series aircraft by the Company pursuant to the Air China Aircraft Purchase Agreement
“Air China Aircraft Purchase Agreement”	the agreement dated 1 July 2022 entered into among the Company, AIE and Airbus Company, pursuant to which the Company has agreed to purchase and Airbus Company has agreed to sell 64 Airbus A320NEO series aircraft
“Airbus Aircraft”	the 64 Airbus A320NEO series aircraft to be acquired by the Company and/or the 32 Airbus A320NEO series aircraft to be acquired by Shenzhen Airlines
“Articles of Association”	the articles of association of the Company
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited, an associate of the Company
“Class Meetings”	the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting

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## DEFINITIONS

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“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company, which directly holds approximately 10.72% of the Company’s issued share capital as at the Latest Practicable Date
“CNAHC”	China National Aviation Holding Corporation Ltd., a PRC state- owned enterprise and the controlling shareholder of the Company, which directly and indirectly holds an aggregate of approximately 51.70% of the Company’s issued share capital as at the Latest Practicable Date
“CNAHC A Share Subscription”	the proposed subscription of new A Shares by CNAHC pursuant to the Share Subscription Agreement as part of the Non-public Issuance of A Shares
“COMAC”	中國商用飛機有限責任公司 (Commercial Aircraft Corporation of China, Ltd.)
“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“core connected person”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 20 September 2022 to consider and, if thought fit, approve, among other things, the Non-public Issuance of A Shares and the Transaction
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“H Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange

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## DEFINITIONS

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“H Shareholders”	holders of the H Shares
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be convened on 20 September 2022 by the Company to consider and, if thought fit, approve, among other things, the Non-public Issuance of A Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Implementation Rules”	Detailed Implementation Rules for the Non-Public Issuance of Stocks of Listed Companies (Revised in 2020) (《上市公司非公開發行股票實施細則》(2020年修正)) issued by CSRC
“Independent Board Committee”	a board committee comprising Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi, all being the independent non-executive Directors of the Company
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the CNAHC A Share Subscription
“Independent Shareholders”	the shareholders of the Company, other than CNAHC and its associates
“Issue Price”	the issue price of the Non-public Issuance of A Shares
“Latest Practicable Date”	22 August 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-public Issuance of A Shares”	the proposed non-public issuance of not more than 4,357,444,555 new A Shares to no more than 35 (inclusive) specified investors (including CNAHC) by the Company at the Issue Price with an expected proceeds (before deducting relevant issuance expenses) of no more than RMB15.0 billion
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

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## DEFINITIONS

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“Pricing Benchmark Date”	the first day of the issuance period of the Non-public Issuance of A Shares
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State Asset Supervision and Administration Commission of the State Council of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Trading Day”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
“Share Subscription Agreement”	the conditional subscription agreement in respect of the 2022 Non-public Issuance of A Shares entered into between the Company and CNAHC on 2 August 2022, pursuant to which, the Company has agreed to issue, and CNAHC has agreed to subscribe for A Shares at the Issue Price in the amount of not less than RMB5.5 billion
“Shareholder(s)”	A Shareholders and H Shareholders
“Shenzhen Airlines”	Shenzhen Airlines Company Limited, a limited liability company incorporated in the PRC and a non-wholly owned subsidiary of the Company in which the Company holds 51% interest as at the Latest Practicable Date
“Shenzhen Airlines Aircraft Purchase”	the purchase of 32 Airbus A320NEO series aircraft by Shenzhen Airlines pursuant to the Shenzhen Airlines Aircraft Purchase Agreement
“Shenzhen Airlines Aircraft Purchase Agreement”	the agreement dated 1 July 2022 entered into between Shenzhen Airlines and Airbus Company, pursuant to which Shenzhen Airlines has agreed to purchase and Airbus Company has agreed to sell 32 Airbus A320NEO series aircraft
“Subscribers”	means not more than 35 (inclusive) specific investors (including CNAHC) in the Non-public Issuance of A Shares
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Transaction”	the introduction of a total of 96 A320NEO series aircraft for the Company and Shenzhen Airlines

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## DEFINITIONS

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“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent
“14th Five-Year”	means from the year of 2021 to 2025

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LETTER FROM THE BOARD

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中國國際航空股份有限公司  
AIR CHINA LIMITED

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

*Executive Directors:*

Mr. Song Zhiyong (*Chairman*)  
Mr. Ma Chongxian (*President*)

*Non-executive Directors:*

Mr. Feng Gang  
Mr. Patrick Healy

*Independent non-executive Directors:*

Mr. Li Fushen  
Mr. He Yun  
Mr. Xu Junxin  
Ms. Winnie Tam Wan-chi

*Registered office:*

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

*Principal place of business in Hong Kong:*

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

25 August 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES;**

**(2) CONNECTED TRANSACTION:**

**SUBSCRIPTION OF NEW A SHARES BY CNAHC  
AND**

**(3) MAJOR TRANSACTION IN RELATION TO THE INTRODUCTION OF A  
TOTAL OF 96 A320NEO SERIES AIRCRAFT FOR THE COMPANY AND  
SHENZHEN AIRLINES**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 2 August 2022 in relation to, among others, the Non-public Issuance of A Shares and the CNAHC A Share Subscription.



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## LETTER FROM THE BOARD

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On 2 August 2022, the Board approved the Non-public Issuance of A Shares, pursuant to which the Company will issue no more than 4,357,444,555 A Shares to no more than 35 (inclusive) specific investors (including CNAHC) at the Issue Price with expected proceeds (before deducting relevant issuance expenses) of no more than RMB15.0 billion.

According to the proposal of the Non-public Issuance of A Shares, the Company and CNAHC entered into the Share Subscription Agreement on 2 August 2022, pursuant to which, the Company has agreed to issue, and CNAHC has agreed to subscribe for A Shares at the Issue Price in the amount of not less than RMB5.5 billion. Immediately upon the completion of the Non-public issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% of the total issued shares of the Company.

Reference is also made to the announcement of the Company dated 1 July 2022 in relation to, among other things, the Transaction.

The Company is to convene an EGM and Class Meetings for Shareholders to consider and approve the Non-public Issuance of A Shares, the CNAHC A Share Subscription and the Transaction. In this regard, resolutions to be proposed at the EGM consist (1) the proposal in relation to the satisfaction of the Company of the requirements for the Non-public Issuance of A Shares; (2) the proposal in relation to the proposal of the Non-public Issuance of A Shares by the Company in 2022; (3) the proposal in relation to the plan of the Non-public Issuance of A Shares by the Company in 2022; (4) the proposal in relation to the feasibility analysis report on the use of proceeds of the Non-public Issuance of A Shares in 2022; (5) the proposal in relation to the dilution of current returns, remedial measures and the corresponding undertakings of relevant entities for the Non-public Issuance of A Shares in 2022; (6) the proposal in relation to the report on use of proceeds from previous fund-raising activities of the Company; (7) the proposal in relation to the related (connected) transaction concerning the entering into of the conditional share subscription agreement with specific subscriber; (8) the proposal in relation to the authorization by the Shareholders to the Board's authorized person(s) to proceed with relevant matters in respect of the non-public issuance in their sole discretion; (9) the proposal in relation to future plan for dividend return to the Shareholders for the coming three years (2022-2024); and (10) the proposal in relation to the introduction of a total of 96 A320NEO series aircraft for the Company and Shenzhen Airlines. The above resolutions No. 1, No. 5, No. 6, No. 9 and No. 10 are ordinary resolutions; the remaining resolutions are special resolutions. The above resolutions No. 2, No. 3, No. 4, No. 7 and No. 8 are also subject to the Shareholders' consideration and approval by way of special resolutions at the Class Meetings.

The purpose of this circular is to provide you with further information on the abovementioned matters so that you may make an informed decision on voting in respect of the relevant resolutions at the EGM and/or the H Shareholders' Class Meeting.

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## LETTER FROM THE BOARD

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### II. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

#### 1. Proposal of the Non-public Issuance of A Shares

A summary of the proposal of the Non-public Issuance of A Shares is set out as follows:

- (1) Class and par value of Shares to be issued: A Shares with a par value of RMB1.00 each.
- The aggregate par value of the A Shares to be issued under the Non-public Issuance of A Shares will be not more than RMB4,357,444,555 (inclusive).
- The new A Shares to be issued pursuant to the Non-public Issuance of A Shares will rank pari passu with the existing A Shares and H Shares in all respects.
- (2) Method and time of issue: The Non-public Issuance of A Shares is undertaken by way of Non-public Issuance to specific Subscribers.
- The Company will issue A Shares to the Subscribers at an appropriate timing within the validity period upon obtaining the approval of the CSRC.
- (3) Target subscribers, method of subscription: The Subscribers under the Non-public Issuance of A Shares include not more than 35 (inclusive) specific investors (including CNAHC). CNAHC shall subscribe for A Shares in the amount of not less than RMB5.5 billion in cash, and immediately upon the completion of the Non-public issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% of the total issued shares of the Company. Other Subscribers include securities investment and fund management companies, securities companies, finance companies, insurance institutional investors, qualified foreign institutional investors and other qualified institutional that meet the requirements of the CSRC. Any securities investment and fund management company, securities company and qualified foreign institutional investor and Renminbi qualified foreign institutional investor subscribing for the shares through two or more products under their management shall be regarded as one Subscriber. Trust companies, as Subscribers, are limited to use their own funds to subscribe for the shares.

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## LETTER FROM THE BOARD

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Apart from CNAHC, other Subscribers shall be determined by the Board and its authorized persons, and upon discussions with the sponsor (the lead underwriter) (Note) based on the subscription quotations of the Subscribers within the authorization of the general meeting in accordance with Implementation Rules and other relevant provisions after obtaining the approval of the CSRC for the Non-public Issuance of A Shares. If the national laws, administrative regulations, departmental rules and normative documents provide new requirements on the subscriber of non-public issuance of shares, the Company will adjust accordingly according to the new requirements.

All Subscribers will subscribe for the A Shares under the Non-public Issuance of A Shares in cash and at the same price.

As CNAHC is the controlling shareholder of the Company as at the Latest Practicable Date, CNAHC A Share Subscription shall constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company shall comply with relevant regulatory rules and be subject to transaction approval and disclosure procedures accordingly.

It is expected that the Subscribers (other than CNAHC) and their respective ultimate beneficial owners are and will continue to be third parties independent of the Company and its connected persons of the Company after the completion of the Non-public Issuance of A Shares. If any Subscriber (other than CNAHC) is a connected person of the Company, the Company will take all reasonable measures to comply with the relevant requirements under Chapter 14A of the Listing Rules.

*Note:* As at the Latest Practicable Date, the Company has not engaged any sponsor or underwriter. The sponsor (the lead underwriter) will be engaged and the sponsor agreement will be entered into by the Board or its authorized persons as appropriate in their sole discretion pursuant to the authorization granted by the Shareholders at the EGM on normal commercial terms.

- (4) Issue Price and pricing method: The Pricing Benchmark Date of the Non-public Issuance of A Shares shall be the first day of the issuance period of the Non-public Issuance of A Shares. The issuance period shall be determined by the Company upon satisfaction of all conditions precedent to the Non-public Issuance of A Shares.

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## LETTER FROM THE BOARD

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The Issue Price of the Non-public Issuance of A Shares shall not be lower than 80% of the average trading price of A Shares (*Note 1*) in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date (excluding the Pricing Benchmark Date, the same below), and the Company's audited net assets per share attributable to ordinary shareholders of the parent company (*Note 2*) as at the end of the most recent period prior to the Pricing Benchmark Date, whichever is higher (i.e. the "**Base Issue Price**", with two decimal places according to the "round up method").

*Notes:*

1. The average trading price of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date = the total trading value of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date/the total trading volume of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date.
2. The net assets per share attributable to ordinary shareholders of the parent company = equity attributable to the shareholders of the parent company/number of total issued ordinary shares of the Company.

For illustration purpose only:

- (i) at the Latest Practicable Date, the closing price per A Share quoted on the Shanghai Stock Exchange was RMB10.26 and the closing price per H Share quoted on the Hong Kong Stock Exchange was HK\$6.290.
- (ii) the Company's audited net assets per share attributable to ordinary shareholders of the parent company as at the end of the most recent period prior to the Latest Practicable Date, (i.e. as at 31 December 2021) is RMB4.23 prepared in accordance with China Accounting Standards for Business Enterprises as disclosed in the annual report of the Company for the year ended 31 December 2021.

The above pricing principle of the Issue Price was determined mainly based on the requirements of the Administrative Measures and the Implementation Rules.

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## LETTER FROM THE BOARD

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The net price to the Company of each new A Share to be issued will be determined and disclosed upon completion of the Non-public Issuance of A Shares and the relevant expenses incurred or to be incurred in relation to the Non-public Issuance of A Shares in accordance with the requirements of the Listing Rules.

In the event that the Company distributes dividends, grants bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the balance sheet date of the latest unaudited financial report prior to the Pricing Benchmark Date to the issuance date, the above net assets per share attributable to ordinary shareholders of the parent company shall be adjusted accordingly. In the event that the Company distributes dividends, grants bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the Pricing Benchmark Date to the issuance date, the Issue Price shall be adjusted on ex-right or ex-dividend basis.

On the basis of the aforementioned Base Issue Price, the final Issue Price shall be determined by the Board and its authorized persons, pursuant to the authorization of the Shareholders, with the sponsor (the lead underwriter) through negotiations based on the subscription quotations of the Subscribers in accordance with the laws and regulations and requirements of regulatory departments after obtaining the approval documents of the CSRC.

CNAHC will directly accept the final Issue Price determined based on the results of the bidding without taking part in the bidding. If no offer is made or the Issue Price cannot be determined through bidding, CNAHC will subscribe for the shares at the Base Issue Price to continue to participate in the Non-public Issuance of A Shares, at a total subscription amount of not less than RMB5.5 billion.

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## LETTER FROM THE BOARD

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- (5) Issue number: The number of A Shares to be issued under the Non-public Issuance of A Shares, shall be calculated by dividing the total raised proceeds by the Issue Price (rounded down to the nearest integer, with the corresponding subscription amount to the fractional part deducted accordingly) and shall not be more than 30% of the total issued shares of the Company immediately prior to the Non-public Issuance of A Shares. As at the Latest Practicable Date, the total share capital of the Company is 14,524,815,185 Shares. Based on which, the number of shares to be issued under the Non-public Issuance of A Shares will not exceed 4,357,444,555 shares (inclusive).

In the event that the Company grants bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities or any other events leading to changes in the total share capital of the Company takes place during the period from the date of the announcement of Board resolution for the Non-public Issuance of A Shares to the issuance date, the number and maximum number of shares to be issued under the Non-public Issuance of A Shares shall be adjusted accordingly.

Subject to the above maximum number of A Shares to be issued, the final number of A Shares to be issued will be determined by the Board or its authorized person(s), pursuant to the authorization granted by the Shareholders at the EGM and Class Meetings, with the sponsor (the lead underwriter) through negotiations based on the actual circumstances at the time of issuance in accordance with the requirements of the relevant laws, administrative regulations, departmental rules or normative documents after obtaining the approval of the CSRC for the Non-public Issuance of A Shares. The final number shall also be subject to the adjustments by regulatory departments including CSRC (if any).

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## LETTER FROM THE BOARD

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- (6) Lock-up Arrangement: Upon completion of the Non-public Issuance of A Shares, the shares subscribed by CNAHC under the Non-public Issuance of A Shares shall not be transferred within eighteen (18) months from the date of completion of the issuance, and the shares subscribed by other Subscribers under the Non-public Issuance of A Shares shall not be transferred within six (6) months from the date of completion of the issuance. Upon expiration of the lock-up period, the decrease in holding of the Shares by the Subscribers un shall be handled in accordance with the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, other laws, regulations, departmental rules and normative documents and the Articles of Association of the Company.
- Within the lock-up period, shares derived from events such as the grant of bonus shares and conversion of capital reserve into share capital by the Company for the shares obtained by the Subscribers under the Non-public Issuance of A Shares shall also comply with the above lock-up arrangement.
- (7) Listing Venue: Upon expiration of the lock-up period, the A Shares to be issued under the Non-public Issuance of A Shares will be listed and traded on the Shanghai Stock Exchange. The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued pursuant to the Non-public Issuance of A Shares.
- (8) Arrangement relating to the accumulated undistributed profits prior to this Issuance: Both new Shareholders and existing Shareholders are entitled to the accumulated undistributed profits of the Company prior to the Non-public Issuance of A Shares upon completion of the Non-public Issuance of A Shares according to their respective shareholdings.
- (9) Amount and use of proceeds: Gross proceeds to be raised from the Non-public Issuance of A Shares will be no more than RMB15.0 billion (before deducting relevant issuance expenses), which are intended to be used in the following ways:

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## LETTER FROM THE BOARD

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No.	Name of Project	Proposed proceeds to be applied (RMB in 100 million)
1	Purchasing 22 aircraft	108.00
2	Replenishing working capital	42.00
	Total:	150.00

The Company proposed to use RMB10.8 billion to purchase 22 aircraft, including 9 ARJ21 aircraft, 4 A320 NEO aircraft and 9 A350 aircraft, expected to be delivered in 2022-2023, and RMB4.2 billion to replenish the working capital which will be invested according to the fund need of the Company during its daily operation.

If the actual amount of net proceeds after deducting relevant issuance expenses of the Non-public Issuance of A Shares is less than the above proposed amount of proceeds to be applied, the Company will, based on the actual amount of net proceeds and schedule of the projects and in compliance with relevant laws and regulations, determine the application details including the priority and specific amount of proceeds to be applied to each project, and the shortage of funds will be self-financed by the Company through internal resources.

In order to ensure a smooth implementation of the fund-raising investment, and to protect the interest of all shareholders of the Company, before receiving the proceeds of the Non-public Issuance of A Shares, the Company will use its own funds or self-raised funds depending on the progress of the investment projects, and replace such funds according to relevant prescribed procedures upon receiving the proceeds.

Please refer to Appendix I to this circular for the “Feasibility Analysis Report on the Use of Proceeds of the Non-public Issuance of A Shares in 2022” for details of the use of proceeds of the Non-public Issuance of A Shares.



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## LETTER FROM THE BOARD

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- (10) Validity Period of the Resolution of this issuance: The resolutions in relation to the Non-public Issuance of A Shares shall remain valid for twelve (12) months from the date on which relevant resolutions are considered and approved by the Shareholders. If the national laws, administrative regulations, departmental rules and normative documents provide new requirements on the non-public issuance of shares, the Company will adjust accordingly according to the new requirements.

Matters relating to the Non-public Issuance of A Shares have been approved by the Board on 2 August 2022. The independent directors of the Company have expressed their prior approval and concurring independent opinions.

The proposal on the Non-public Issuance of A Shares is subject to the approval of the Shareholders at the EGM and Class Meetings, the approval of the body performing the functions of supervision and management of state-owned assets and the CSRC. After obtaining the approval of the CSRC, the Company will apply to the Shanghai Stock Exchange and CDS Shanghai for the issuance, registration and listing of shares in accordance with the relevant law.

If one or some of the resolutions proposed at the EGM and Class Meetings in relation to the Non-public Issuance of A Shares has or have been voted down, the Non-public Issuance of A Shares shall not proceed. The actual issue price, size, timing of issue and gross and net proceeds raised shall be announced separately upon the completion of the Non-public Issuance of A Shares.

### **2. CNAHC A Share Subscription**

According to the proposal of the Non-public Issuance of A Shares, the Company and CNAHC entered into the Share Subscription Agreement on 2 August 2022, pursuant to which, the Company has agreed to issue, and CNAHC has agreed to subscribe for A Shares at the Issue Price in the amount of not less than RMB5.5 billion. Upon completion of the Non-public Issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% of the total issued shares of the Company.

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## LETTER FROM THE BOARD

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The principal terms of the Share Subscription Agreement are set out as follows:

- (1) Parties: (i) the Company (as issuer); and  
(ii) CNAHC (as Subscriber).
- (2) Date: 2 August 2022
- (3) Subscription Price and Payment: CNAHC shall subscribe for new A Shares at the final Issue Price for the Subscribers to be determined by the Board and its authorized persons in the manner as set forth in the paragraph “(4) Issue Price and pricing method” under the section headed “1. Proposal of the Non-public Issuance of A Shares” above.
- CNAHC will commit not less than RMB5.5 billion in cash, which, upon the satisfaction of all the conditions precedent stipulated in the Share Subscription Agreement, will be paid by CNAHC, in cash to the designated account within five business days upon receipt of the payment notice of the subscription.
- If no offer is made or the Issue Price cannot be determined through bidding, CNAHC will subscribe for the shares at the Base Issue Price to continue to participate in the Non-public Issuance of A Shares.
- (4) Number of A Shares to be subscribed for: The number of A Shares to be subscribed by CNAHC under the Non-public Issuance of A Shares is calculated by dividing the total commitment of CNAHC by the Issue Price and rounded down to the nearest integer.
- The final number of A Shares to be issued is subject to adjustment in the manner as set forth in the paragraph “(5) Issue number” under the section headed “1. Proposal of the Non-public Issuance of A Shares” above.
- CNAHC shall subscribe in the amount in cash of not less than RMB5.5 billion. Upon completion of the Non-public Issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% (inclusive) of the total issued shares of the Company.
- (5) Conditions precedent for the Share Subscription Agreement: The Share Subscription Agreement will be established upon executed and sealed by the legal representative or authorized representative of the parties and take effect when all the following conditions are met:

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- (i) matters relating to the Non-public Issuance of A Shares have been approved by Directors at the Board meeting and Shareholders at the EGM and the Class Meetings;
- (ii) matters relating to the subscription of A Shares by CNAHC under the Non-public Issuance of A Shares have been approved by CNAHC through internal decision procedures;
- (iii) matters relating to the Non-public Issuance of A Shares have been approved by the body performing the duty of supervision and management of state-owned assets or by its authorized body; and
- (iv) matters relating to the Non-public Issuance of A Shares have been approved by the CSRC.

The date of effectiveness of the Share Subscription Agreement shall be the date when all above conditions are satisfied. Neither the Company nor CNAHC has the right to waive any of the conditions above.

As at the Latest Practicable Date, the Non-public Issuance of A Shares has been considered and approved by the Board and CNAHC. None of the other conditions under the Share Subscription Agreement has been fulfilled.

- (6) Others: The arrangement relating to the lock-up and entitlement to accumulated undistributed profits of the Company prior to the Non-public Issuance of A Shares shall be in the same manner as set out under the section headed “1. Proposal of the Non-public Issuance of A Shares” above.

### **3. Proposals to be Proposed at the EGM and Class Meetings**

#### ***3.1 The proposal in relation to the satisfaction of the Company of the requirements for the Non-public Issuance of A Shares***

Pursuant to laws, regulations and normative documents such as the Company Law of the PRC, the Securities Law of the PRC, the Administrative Measures, the Implementation Rules and the Issue Regulation Q&A – Regulatory Requirements for Guiding and Regulating the Financing Activities of Listed Companies (Revised), the Board considers that the Non-public Issuance of A Shares by the Company satisfies the qualifications and conditions of non-public offering of A shares after itemized verification of the actual situation and relevant matters of the Company.

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## LETTER FROM THE BOARD

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The above proposal will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

**3.2 *The proposal in relation to the Proposal of the Non-public Issuance of A Shares by the Company in 2022***

For details of the proposal of the Non-public Issuance of A Shares, please refer to the section headed "1. Proposal of the Non-public Issuance of A Shares by the Company in 2022" above.

The above proposal will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM and Class Meetings.

**3.3 *The proposal in relation to the Plan of the Non-public Issuance of A Shares by the Company in 2022***

For details of the plan of the Non-public Issuance of A Shares, please refer to the overseas regulatory announcement of the Company dated 2 August 2022.

The above proposal will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM and Class Meetings.

**3.4 *The proposal in relation to the feasibility analysis report on the use of proceeds of the Non-public Issuance of A Shares in 2022***

Please refer to Appendix I to this circular for the "Feasibility Analysis Report on the Use of Proceeds of the Non-public Issuance of A Shares in 2022".

The above proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM and Class Meetings.

**3.5 *The proposal in relation to the dilution of current returns, remedial measures and the corresponding undertakings of the relevant entities for the Non-public Issuance of A Shares in 2022***

Please refer to Appendix III to this circular for the "Dilution of Current Returns, Remedial Measures and the Corresponding Undertakings of the Relevant Entities for the Non-public Issuance of A Shares in 2022" for details.

The above proposal will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

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## LETTER FROM THE BOARD

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**3.6 *The proposal in relation to the report on use of proceeds from previous fund-raising activities of the Company***

Please refer to Appendix II to this circular for the “Report on Use of Proceeds from Previous Fund-raising Activities” of the Company.

The above proposal will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

**3.7 *The proposal in relation to the related (connected) transaction concerning the entering into of the conditional share subscription agreement with specific subscriber***

The above proposal will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM and Class Meetings.

**3.8 *The proposal in relation to the authorization by the Shareholders to the Board’s authorized persons to proceed with relevant matters in respect of the Non-public Issuance in their sole discretion***

For the smooth implementation of the Non-public Issuance of A Shares, it is proposed to the EGM and Class Meetings to authorize the Board and its authorized persons to, in their sole discretion, proceed with the matters related to the Non-public Issuance, including but not limited to:

- (i) to authorize the Board to handle all matters relating to the proposal of the Non- public Issuance of A Shares, including but not limited to, determining the method of issuance, number of shares to be issued, issue price, pricing policy, subscribers and time of issuance, etc.;
- (ii) to authorize the Board to handle matters in relation to the filing and obtaining approval from the domestic and overseas authorities for the purpose of the application of the Non-public Issuance of A Shares, formulate, prepare, amend, improve and execute all documentary materials relating to the Non-public Issuance of A Shares, executing contracts, agreements and documents (including but not limited to agreements for engagement or appointment of intermediaries) and approve and handle the information disclosure relating to the Non-public Issuance of A Shares (including but not limited to announcement, circular and other disclosure documents);
- (iii) to authorize the Board to adjust the specific arrangements for the projects to be funded with the raised proceeds within the scope of the approval of the Shareholders;
- (iv) in case of any new requirements of non-public issuance of shares by the laws, regulations and securities regulatory departments, to authorize the Board to adjust and continue to handle the proposal of Non-public Issuance of A Shares and the

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## LETTER FROM THE BOARD

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application of the raised proceeds in accordance with the national regulations and the requirements of governmental departments and securities regulatory departments (including the review feedbacks to the application of the Non- public Issuance of A Shares) except for those subject to re-consideration and approval of the Shareholders in accordance with the applicable laws and regulations and the Articles of Association;

- (v) to authorize the Board to open a special deposit account for the raised proceeds and proceed with the capital verification procedures related to the Non-public Issuance of A Shares;
- (vi) to authorize the Board to sign, submit, report and execute the material contracts during the implementation of the investment projects funded by the raised proceeds, including but not limited to the subscription agreement, supplemental agreements to the subscription agreement and all other documents to be executed for the completion of the transactions thereunder, the sponsor agreement, the underwriting agreement, the proceed supervision agreement and the intermediaries' engagement agreement, etc.;
- (vii) to authorize the Board to handle matters on the share registration, share lock-up and listing submission of relevant documents after the completion of the Non- public Issuance of A Shares;
- (viii) to authorize the Board to amend the relevant articles in the Articles of Association and carry out relevant approval procedures, and carry out relevant registration procedures of the change of registered capital of the Company;
- (ix) to authorize the Board to handle all other matters in relation to the Non-public Issuance of A Shares;
- (x) to authorize the Board to re-authorize the chairman of the Board and his authorized persons to carry out the above matters;
- (xi) the authorization shall remain valid for twelve (12) months from the date on which the resolution of this authorization is approved by the Shareholders at the EGM and Class Meetings.

The above proposal will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM and Class Meetings.

### ***3.9 The proposal in relation to future plan for return to the Shareholders for the coming three years (2022-2024)***

Please refer to Appendix IV to this circular for the "Future Plan for Return to Shareholders for the Coming Three Years (2022-2024)" of the Company.

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## LETTER FROM THE BOARD

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The above proposal will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

#### 4. Dilutive Effects of the Non-public Issuance of A Shares on the Shareholding Structure of the Company

For illustration purpose only, set out below is the respective dilutive implication of the Non- public Issuance of A Shares on the shareholding structure of the Company based on different subscription scenarios, assuming that (i) the total amount of proceeds raised from the Non-public Issuance of A Shares is RMB15.00 billion; (ii) the Issue Price is RMB4.23 per share, being the Company's audited net assets per share attributable to ordinary shareholders of the parent company as at the end of the most recent period prior to the Latest Practicable Date; and (iii) no additional Shares will be issued after the Latest Practicable Date until the completion of the Non-public Issuance of A Shares.

**4.1 CNAHC subscribes A Shares in the amount of RMB6.466 billion, that is, following the completion of the subscription, the total number of Shares held by CNAHC and its wholly-owned subsidiaries reaches 50.01% of the total issued shares of the Company, and the Subscribers (other than CNAHC) are not and will not become core connected persons of the Company after the completion of the Non-public Issuance of A Shares:**

Shareholders	As at the Latest Practicable Date		Immediately Upon Completion of the Non-public Issuance of A Shares	
	Number of shares held	Approximate percentage of the total number of shares in issue	Number of shares held	Approximate percentage of the total number of shares in issue
<b>1. CNAHC and its associates</b>	7,508,571,617	51.70%	9,037,264,329	50.01%
(i) CNAHC	5,952,236,697 (A Shares)	40.98%	7,480,929,409 (A Shares)	41.40%
(ii) CNACG	1,332,482,920 (A Shares)	9.17%	1,332,482,920 (A Shares)	7.37%
	223,852,000 (H Shares)	1.54%	223,852,000 (H Shares)	1.24%
<b>2. Cathay Pacific</b>	2,633,725,455 (H Shares)	18.13%	2,633,725,455 (H Shares)	14.57%
<b>3. Public Shareholders</b>	4,382,518,113	30.17%	6,399,924,691	35.42%
(i) Public A Shareholders	2,677,412,204	18.43%	4,694,818,782	25.98%
(ii) Public H Shareholders	1,705,105,909	11.74%	1,705,105,909	9.44%
Sub-total (H Shares)	4,562,683,364	31.41%	4,562,683,364	25.25%
Sub-total (A Shares)	9,962,131,821	68.59%	13,508,231,112	74.75%
<b>Total</b>	14,524,815,185	100%	18,070,914,476	100%

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### 4.2 CNAHC (as the sole Subscriber) subscribes in the total amount of RMB15.00 billion:

Shareholders	As at the Latest Practicable Date		Immediately Upon Completion of the Non-public Issuance of A Shares	
		<i>Approximate percentage of the total number of shares in issue</i>		<i>Approximate percentage of the total number of shares in issue</i>
	<i>Number of shares held</i>		<i>Number of shares held</i>	
<b>1. CNAHC and its associates</b>	7,508,571,617	51.70%	11,054,670,908	61.17%
(i) CNAHC	5,952,236,697 (A Shares)	40.98%	9,498,335,988 (A Shares)	52.56%
(ii) CNACG	1,332,482,920 (A Shares)	9.17%	1,332,482,920 (A Shares)	7.37%
	223,852,000 (H Shares)	1.54%	223,852,000 (H Shares)	1.24%
<b>2. Cathay Pacific</b>	2,633,725,455 (H Shares)	18.13%	2,633,725,455 (H Shares)	14.57%
<b>3. Public Shareholders</b>	4,382,518,113	30.17%	4,382,518,113	24.25%
(i) Public A Shareholders	2,677,412,204	18.43%	2,677,412,204	14.82%
(ii) Public H Shareholders	1,705,105,909	11.74%	1,705,105,909	9.44%
Sub-total (H Shares)	4,562,683,364	31.41%	4,562,683,364	25.25%
Sub-total (A Shares)	9,962,131,821	68.59%	13,508,231,112	74.75%
<b>Total</b>	14,524,815,185	100%	18,070,914,476	100%

*Notes:*

- The percentages shown are rounded to the nearest 2 decimal places.
- Upon completion of the Non-public Issuance of A Shares, the Company is expected to comply with the minimum public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange (being 24.20%) in both scenarios above.
- The Subscribers are allowed to subscribe 5% or more of the enlarged total issued Shares, and the Company does not expect any Subscribers (other than CNAHC) to become a substantial shareholder of the Company upon completion of the Non-public Issuance of A Shares.

## 5. Listing Rules Implications

### *CNAHC A Share Subscription*

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, CNAHC A Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements. An Independent Board Committee comprising the independent non-executive Directors has been formed to advise



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## LETTER FROM THE BOARD

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the Independent Shareholders on the terms of the Share Subscription Agreement. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

### *Non-public Issuance of A Shares*

The new A Shares under the Non-public Issuance of A Shares will be issued pursuant to a specific mandate to be sought from the Shareholders at the EGM and the Class meetings. According to the relevant requirements of Chapter 19A of the Listing Rules, the Company will proceed with the Non-public Issuance of A Shares after obtaining approvals from the Independent Shareholders at the EGM by way of special resolution and from the A Shareholders at the A Shareholders' Class Meeting and from the H Shareholders at the H Shareholders' Class Meeting to be convened in accordance with the Articles of Association by way of special resolutions.

The Directors (including the independent non-executive Directors) consider that although the CNAHC A Share Subscription is not entered into in the ordinary and usual course of business of the Group, the terms and conditions of the issue of new A Shares under the Non-public Issuance of A Shares and the Share Subscription Agreement are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole.

Mr. Song Zhiyong, Mr. Ma Chongxian and Mr. Feng Gang are considered to have a material interest in CNAHC A Share Subscription and therefore have abstained from voting on the relevant Board resolutions concerning (i) the proposal in relation to the proposal of the Non-public Issuance of A Shares by the Company in 2022; (ii) the proposal in relation to the plan of the Non-public Issuance of A Shares by the Company in 2022; (iii) the proposal in relation to the related (connected) transaction concerning the entering into of the conditional share subscription agreement with specific subscriber; and (iv) the proposal in relation to the authorization by the Shareholders to the Board's authorized person(s) to proceed with relevant matters in respect of the non-public issuance in their sole discretion. Save as mentioned above, none of the other Directors has a material interest in CNAHC A Share Subscription and the Non-public Issuance of A Shares and hence no other Director has abstained from voting on relevant Board resolutions.

### **6. Reasons for and benefit of the Non-public Issuance of A Shares and CNAHC A Share Subscription**

The proceeds to be raised from the Non-public Issuance of A Shares, after deducting relevant issuance expenses, will be used for introducing 22 aircraft and replenishing the working capital, which will help the Company to optimize its fleet structure, replenish long-term capacity and expand its carrying capacity, while relieving the pressure of daily operating funds and reducing its asset and liability ratio.

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To satisfy the above capital needs of the Group, the Company has considered and compared various fund-raising methods including debt financing and equity financing as follows and finally decides Non-public Issuance of A Shares as an appropriate financing method in line with the interests of the Company and its Shareholders as a whole after considering the following factors:

- debt financing: As opposed to equity financing, debt financing will (i) increase the gearing ratio (calculated by total liabilities divided by total assets) of the Group, especially considering that the gearing ratio of the Group has increased to approximately 80.95% as at 31 March 2022 following the issuance of six tranches super short-term commercial paper and one tranche medium term note in 2021 and one tranche super short-term commercial paper in 2022, and (ii) incur additional interest expenses to the Group;
- rights issue: It's not practicable to carry out rights issue for the Company at the current stage. Rights issue targets all existing Shareholders and shall be implemented to A Shareholders and H Shareholders simultaneously at the same price, however, it's impracticable to determine a suitable price given the substantial premium of the average closing price of A Shares over the closing price of H Shares during the recent one-year period immediately prior to the date of the Board meeting being 2 August 2022, and the different environment of capital markets of Hong Kong and Chinese mainland;
- public issuance of A Shares to unspecific investors: The Company is not able to carry out public issuance of A Shares due to failure of fulfillment of all requirements of the public issuance of A Shares such as profit making in the latest three consecutive financial years in light of the Group's financial performance for 2020 and 2021;
- issuance of H Shares: Given the abovementioned substantial premium of the average closing price of A Shares over the closing price of H Shares, issuance of H Shares will dilute the shareholding of existing Shareholders to a larger extent as the number of H Shares to be issued will be substantially more than that required under the Non-public Issuance of A Shares assuming the similar pricing bases and same issuance size as the Non-public Issuance of A Shares were adopted.

CNAHC A Share Subscription will enable the Company to obtain more support from the controlling Shareholder and further enhance its investment value. As one of the Subscribers of the Non-public Issuance of A Shares, CNAHC shows its confidence in the future development of the Company and its determination in continuously supporting the development of the Company, which will facilitate the enhancement of investment value of the Company, thereby maximizing the interests of the Shareholders and effectively safeguarding the interests of the minority Shareholders.

Based on the foregoing, the Directors (including the independent non-executive Directors) are of the opinion that although the CNAHC A Share Subscription is not entered into in the ordinary and usual course of business of the Group, the terms and conditions of the issue of new A Shares under the Non-public Issuance of A Shares and the Share Subscription Agreement are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 7. Fund-raising activities in the past twelve months

The Company has not conducted any equity fund raising activities during the twelve months immediately before the Latest Practicable Date.

### 8. General Information of the Parties

#### *The Company*

The Company is principally engaged in providing air passenger, air cargo and related services.

#### *CNAHC*

CNAHC directly holds 40.98% of the Company's shares and holds 10.72% of the Company's shares through its wholly-owned subsidiary CNACG, and is a controlling shareholder of the Company. As at the Latest Practicable Date, the SASAC of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

## III. MAJOR TRANSACTION

### 1. Background

On 1 July 2022, (i) the Company and AIE entered into the Air China Aircraft Purchase Agreement with Airbus Company, pursuant to which the Company has agreed to purchase 64 Airbus A320NEO series aircraft from Airbus Company; and (ii) Shenzhen Airlines, a subsidiary of the Company, entered into the Shenzhen Airlines Aircraft Purchase Agreement with Airbus Company, pursuant to which Shenzhen Airlines has agreed to purchase 32 Airbus A320NEO series aircraft from Airbus Company.

The details of the Transaction are summarized as follows:

### 2. Air China Aircraft Purchase Agreement

#### *Date:*

1 July 2022

#### *Parties:*

- (a) The Company, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;

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## LETTER FROM THE BOARD

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- (b) AIE, as the import agent for the Company which is responsible for the import and export related matters of the Company, including the purchase of aircraft from the foreign aircraft manufacturer; and
- (c) Airbus Company, as the vendor, one of whose principal business activities is aircraft manufacturing. Airbus Company is a subsidiary of Airbus SE, a company which is listed on the European stock exchanges in Paris, Frankfurt am Main, Madrid, Barcelona, Valencia and Bilbao.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Airbus Company and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

***Aircraft to be acquired:***

64 Airbus A320NEO series aircraft

***Consideration:***

The aircraft basic price comprises the airframe price, optional features price and engine price.

The basic price of the Airbus Aircraft to be acquired by the Company, in aggregate, is approximately US\$8.290 billion (equivalent to approximately HK\$65.077 billion at an exchange rate of US\$1 = HK\$7.85) (price quoted as at January 2020). The aircraft price is subject to price adjustment by applying a formula. Airbus Company has granted to the Company significant price concessions with regard to the Airbus Aircraft. These concessions will take the form of credit memoranda which may be used by the Company towards the final price payment of the Airbus Aircraft to be acquired by the Company or may be used for the purpose of purchasing goods and services from Airbus Company. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Air China Aircraft Purchase is lower than the aircraft basic price mentioned above.

The Air China Aircraft Purchase was negotiated and entered into in accordance with customary business practice. The Directors confirm that the extent of the price concessions granted to the Company in the Air China Aircraft Purchase is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between the Company and Airbus Company. The Company believes that there is no material impact of the price concessions obtained in the Air China Aircraft Purchase on the unit operating cost of the Group's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of the actual price, for aircraft acquisitions. Disclosure of the actual consideration will result in the loss of the significant price concessions and hence a significant negative impact on the Group's cost for the Air China Aircraft Purchase and will therefore not be in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance of Rule 14.58(4) and 14.66(4) of the Listing Rules in respect of disclosure of the actual consideration of the Air China Aircraft Purchase.

***Payment and delivery terms:***

The aggregate consideration for the Air China Aircraft Purchase is payable by cash in instalments. The Company is expecting to take delivery of the 64 Airbus A320NEO series aircraft in stages from 2023 to 2027.

***Source of funding:***

The Air China Aircraft Purchase will be funded through self-owned cash, commercial bank loans and other financing instruments of the Company (for the avoidance of doubt, the proceeds to be raised from the Non-public Issuance of A Shares will not be used to settle part of the consideration under the Air China Aircraft Purchase Agreement). The Air China Aircraft Purchase is expected to have no material impact on the cash flow and operation of the Company.

### **3. Shenzhen Airlines Aircraft Purchase Agreement**

***Date:***

1 July 2022

***Parties:***

- (a) Shenzhen Airlines, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services; and
- (b) Airbus Company, as the vendor, one of whose principal business activities is aircraft manufacturing.

***Aircraft to be acquired:***

32 Airbus A320NEO series aircraft

***Consideration:***

The aircraft basic price comprises the airframe price, optional features price and engine price.

The basic price of the Airbus Aircraft to be acquired by Shenzhen Airlines, in aggregate, is approximately US\$3.923 billion (equivalent to approximately HK\$30.796 billion at an exchange rate of US\$1 = HK\$7.85) (price quoted as at January 2020). The aircraft price is subject to price adjustment by applying a formula. Airbus Company has granted to Shenzhen

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Airlines significant price concessions with regard to the Airbus Aircraft. These concessions will take the form of credit memoranda which may be used by Shenzhen Airlines towards the final price payment of the Airbus Aircraft to be acquired by Shenzhen Airlines or may be used for the purpose of purchasing goods and services from Airbus Company. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Shenzhen Airlines Aircraft Purchase is lower than the aircraft basic price mentioned above.

The Shenzhen Airlines Aircraft Purchase was negotiated and entered into in accordance with customary business practice. The Directors confirm that the extent of the price concessions granted to Shenzhen Airlines in the Shenzhen Airlines Aircraft Purchase is comparable with the price concessions that Shenzhen Airlines had obtained in the previous aircraft purchase entered into between Shenzhen Airlines and Airbus Company. The Company believes that there is no material impact of the price concessions obtained in the Shenzhen Airlines Aircraft Purchase on the unit operating cost of the Group's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of the actual price, for aircraft acquisitions. Disclosure of the actual consideration will result in the loss of the significant price concessions and hence a significant negative impact on the Group's cost for the Shenzhen Airlines Aircraft Purchase and will therefore not be in the interest of the Company and the Shareholders as a whole.

The Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance of Rule 14.58(4) and 14.66(4) of the Listing Rules in respect of disclosure of the actual consideration of the Shenzhen Airlines Aircraft Purchase.

***Payment and delivery terms:***

The aggregate consideration for the Shenzhen Airlines Aircraft Purchase is payable by cash in instalments. Shenzhen Airlines is expecting to take delivery of the 32 Airbus A320NEO series aircraft in stages from 2024 to 2026.

***Source of funding:***

The Shenzhen Airlines Aircraft Purchase will be funded through self-owned cash, commercial bank loans and other financing instruments of Shenzhen Airlines. The Shenzhen Airlines Aircraft Purchase is expected to have no material impact on the cash flow and operation of Shenzhen Airlines.

#### **4. Reasons for and Benefits of the Aircraft Purchase**

The Transaction is in line with the development of the Company's 14th Five-Year Plan and the market demand, and is conducive to the Group's optimization of fleet structure and long-term supplement of fleet capacity. The Transaction will strengthen the fleet capacity of the Group. The fleet capacity of the Group will increase by approximately 10.4%, based on the number of available tonne kilometers of the Group as at 31 December 2021 without taking into account the adjustments as a result of aircraft withdrawal due to market condition and aircraft aging. The introduction of new

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Airbus aircraft is expected to concentrate after 2024, partly to meet the renewal needs due to the withdrawal of aging aircraft from the fleet. The actual net increase in fleet capacity will be in manageable pace. The Group expects that the Transaction will make the Group's operating costs more competitive in the market whilst providing high standards of passenger comfort and safety.

### 5. Listing Rules Implications

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules for the Transaction is above 25% but less than 100%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Transaction is also subject to the filing with the relevant competent authorities of the PRC.

The Directors believe that the Transaction is conducted in the ordinary and usual course of business of the Group on normal commercial terms and the terms of the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors had material interests in the Transaction and thus no Directors were required to abstain from voting on the board resolutions to approve the Air China Aircraft Purchase Agreement, the Shenzhen Airlines Aircraft Purchase Agreement and the Transaction at the board meeting.

## IV. FINANCIAL AND TRADING PROSPECTS

It is expected that there is no change in the fundamentals of the Chinese economy or in the basic trend of economic stability and long-term improvement, thereby the economy will achieve steady recovery. Leveraging the super large-scale domestic demand market formed with a population of 1.4 billion, including a middle-class group of more than 400 million, China is striving to build a new development paradigm which is based on domestic macro-circulation, along with the international and domestic dual-circulation under mutual promotion. Civil aviation demand in China will continue to rise and market potential will remain immense. The aviation market in China will continue its recovery. In the long run, the demand for air travel will remain strong with huge market potential. As the pandemic is brought under control, business travel and holiday tours continue to be growth drivers of the aviation industry, and air travel demand will become increasingly customized and popular. It is expected that the competitive pressure will be mitigated in the domestic aviation market. Regarding the demand side, as the national economy remains stable and improved and domestic pandemic prevention and control situation is under control generally, the foundation of industrial recovery and development will be more solid, envisaging the domestic market demand will continue its revival. Regarding the supply side, according to the analysis in the "14th Five-Year Plan" of civil aviation, 2021-2022 is the recovery and consolidation period of the industry, and the growth rate of capacity deployment of the industry will slow down, but this will help alleviate the short-term excess capacity pressure brought by the transfer of some aircraft from the international market to the domestic market. In addition, the Directors are of the view that the Transaction is not expected to have any material impact on earnings, assets and liabilities of the Group.

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### V. WORKING CAPITAL

Taking into account the financial resources available to the Group and the effect of the Transaction, the Directors are of the opinion that the Group will have sufficient working capital for the Group's present requirements for the next 12 months following the date of this circular.

### VI. EGM AND H SHAREHOLDERS' CLASS MEETING

The Company will convene the EGM and/or H Shareholders' Class Meeting at 11:00 a.m. on 20 September 2022 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC to consider and, if thought fit, to pass resolutions in respect of, among other things, the Non-public Issuance of A Shares (including the CNAHC A Share Subscription) and the Transaction.

CNAHC, being a Subscriber under the Non-public Issuance of A Shares, has a material interest in the Non-public Issuance of A Shares. As at the Latest Practicable Date, CNAHC directly holds 5,952,236,697 A Shares in the Company, representing 40.98% of the existing issued share capital of the Company; CNACG holds 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing 9.17% and 1.54% of the existing issued share capital of the Company, respectively. CNACG is a wholly-owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 51.70% of the existing issued share capital of the Company. CNAHC and its associates (including CNACG) shall therefore abstain from voting on the following resolutions at the EGM and the Class Meetings approving the Non-public Issuance of A Shares: (i) the proposal in relation to the proposal of the Non-public Issuance of A Shares by the Company in 2022; (ii) the proposal in relation to the plan of the Non-public Issuance of A Shares by the Company in 2022; (iii) the proposal in relation to the related (connected) transaction concerning the entering into of the conditional share subscription agreement with specific subscriber; and (iv) the proposal in relation to the authorization by the Shareholders to the Board's authorized person(s) to proceed with relevant matters in respect of the non-public issuance in their sole discretion. Other than CNAHC and its associates, no Shareholders are required to abstain from the resolutions at the EGM and the Class Meetings on matters relating to the Non-public Issuance of A Shares.

In addition, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Transaction. As such, no Shareholders is required to abstain from voting at the EGM in respect of the resolutions to approve the Air China Aircraft Purchase Agreement, the Shenzhen Airlines Aircraft Purchase Agreement and the Transaction.

The notices of the EGM and the H Shareholders' Class Meeting together with the respective forms of proxy to be used at the EGM and the H Shareholders' Class Meeting have been despatched to the Shareholders on 5 August 2022. The relevant notices and forms of proxy are also published on the relevant website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Shareholders who intend to appoint a proxy to attend the EGM/H Shareholders' Class Meeting shall complete and return the form(s) of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the meetings or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM/H Shareholders' Class Meeting or any adjourned meeting and voting in person if you so wish.



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## LETTER FROM THE BOARD

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The H Share register of members of the Company will be temporarily closed from 13 September 2022 (Tuesday) to 20 September 2022 (Tuesday) (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Any holders of H Shares, whose names appear on the Company's register of members at the close of business on 9 September 2022 (Friday), are entitled to attend and vote at the EGM and the H Shareholders' Class Meeting after completing the registration procedures for attending such meeting.

### VII. RECOMMENDATION OF THE BOARD

The Board recommends the Shareholders to vote in favour of the resolutions which will be proposed at the EGM and/or the Class Meetings respectively.

### VIII. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out in this circular which contains its recommendation to the Independent Shareholders of the Company regarding the CNAHC A Share Subscription.

Your attention is also drawn to the letter from Gram Capital as set out in this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the CNAHC A Share Subscription 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.

**The Company advises its Shareholders and potential investors to note that the Non-public Issuance of A Shares and the CNAHC A Share Subscription are subject to certain conditions being satisfied, and consequently the Non-public Issuance of A Shares and the CNAHC A Share Subscription may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.**

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board  
**Song Zhiyong**  
*Chairman*

Beijing, the PRC

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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中國國際航空股份有限公司  
AIR CHINA LIMITED

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

*Independent Board Committee:*

Mr. Li Fushen

Mr. He Yun

Mr. Xu Junxin

Ms. Winnie Tam Wan-chi

25 August 2022

*To the Independent Shareholders of the Company*

Dear Sirs or Madams,

**CONNECTED TRANSACTION:  
SUBSCRIPTION OF NEW A SHARES BY CNAHC**

We refer to the circular of the Company dated 25 August 2022 (the “Circular”) issued 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 2 August 2022, CNAHC entered into the Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit not less than RMB5.5 billion in cash to subscribe for new A Shares at the Issue Price, which may be adjusted in the manner as described in the Circular. Upon completion of the Non-public Issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% of the total issued shares of the Company.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the CNAHC A Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders’ approval requirements as described in the Circular. The Circular describes such connected transaction entered into by the Company that is subject to the approval by the Independent Shareholders to be sought at the EGM and the Class Meetings respectively.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the terms of the CNAHC A Share Subscription are fair and reasonable so far as the Independent Shareholders are concerned and whether the CNAHC A Share Subscription is in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the CNAHC A Share Subscription and the terms and basis upon which their terms have been determined. We have also considered the key factors taken into account by Gram Capital in arriving at its opinion regarding the CNAHC A Share Subscription as set out in the letter from Gram Capital in this Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Gram Capital, considers that although the CNAHC A Share Subscription is not entered into in the ordinary and usual course of business of the Group, the terms and conditions of the issue of new A Shares under the Share Subscription Agreement are fair and reasonable, and the connected transaction contemplated thereunder is on normal commercial terms or better and is in the interests of the Company and the Shareholders as a whole (including the Independent Shareholders). Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant resolutions set out in the notices of the EGM and the H Shareholders' Class Meeting respectively.

Yours faithfully,

**Independent Board Committee**

**Mr. Li Fushen**

*Independent*

*non-executive director*

**Mr. He Yun**

*Independent*

*non-executive director*

**Mr. Xu Junxin**

*Independent*

*non-executive director*

**Ms. Winnie Tam Wan-chi**

*Independent*

*non-executive director*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the CNAHC A Share Subscription for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

25 August 2022

*To: The independent board committee and the independent shareholders  
of Air China Limited*

Dear Sirs,

### **CONNECTED TRANSACTION: SUBSCRIPTION OF NEW A SHARES BY CNAHC**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the CNAHC A Share Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 August 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 2 August 2022 (the “**Board Resolution Date**”), the Board approved the Non-public Issuance of A Shares, pursuant to which the Company will issue no more than 4,357,444,555 A Shares to no more than 35 (inclusive) specific investors (including CNAHC) at the Issue Price with expected proceeds (before deducting relevant issuance expenses) of no more than RMB15.0 billion.

According to the proposal of the Non-public Issuance of A Shares, the Company and CNAHC entered into the Share Subscription Agreement on 2 August 2022, pursuant to which, the Company has agreed to issue, and CNAHC has agreed to subscribe for A Shares at the Issue Price in the amount of not less than RMB5.5 billion.

With reference to Board Letter, the CNAHC A Share Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the CNAHC A Share Subscription are on normal

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## LETTER FROM GRAM CAPITAL

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commercial terms and are fair and reasonable; (ii) whether the CNAHC A Share Subscription is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the CNAHC A Share Subscription at the EGM and the H Shareholders' Class Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **INDEPENDENCE**

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to discloseable transactions and continuing connected transactions (details of which were set out in the Company's circular dated 14 September 2020). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial advisory engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Non-public Issuance of A Shares. We consider that we have taken sufficient and necessary steps (including the review of Company's latest annual report, the proposal of the Non-public Issuance of A Shares, the Share Subscription Agreement; the research and review of comparable transactions) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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## LETTER FROM GRAM CAPITAL

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The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNAHC or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-public Issuance of A Shares. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any A Shares or H Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the CNAHC A Share Subscription, we have taken into consideration the following principal factors and reasons:

**(1) Background and reasons for the CNAHC A Share Subscription**

*Information on the Company*

With reference of the Board Letter, the Company is principally engaged in providing air passenger, air cargo and related services.

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## LETTER FROM GRAM CAPITAL

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Set out below is a summary of the audited consolidated financial information on the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2020</b>	<b>Change from 2020 to 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	74,531,670	69,503,749	7.23
Loss for the year attributable to equity holders of the Company	(16,635,178)	(14,403,343)	15.50

As depicted by the above table, the Group recorded revenue of approximately RMB74,532 million for the year ended 31 December 2021 ("FY2021"), representing an increase of approximately 7.23% as compared to that for the year ended 31 December 2020 ("FY2020"). Among the Group's revenue for FY2021, air traffic revenue was RMB69,430 million, representing an increase of RMB5,150 million or 8.01% as compared to that for FY2020; other operating revenue was RMB5,102 million, representing a year-on-year decrease of RMB122 million or 2.33%.

The Group's air traffic revenue comprised air passenger revenue and air cargo and mail revenue.

During FY2021, the Group recorded air passenger revenue of approximately RMB58,317 million, representing an increase of RMB2,590 million over the previous year. Among the air passenger revenue, the decrease of capacity contributed a decrease of RMB1,291 million in the revenue, and the decrease of passenger load factor led to a decrease of RMB1,352 million in the revenue, while the increase of passenger yield resulted in an increase in revenue of RMB5,233 million. The Group's capacity (i.e. available seat kilometres), passenger load factor and yield per revenue passenger kilometres (RPK) in 2021 were approximately 152,445 million, 68.63% and RMB0.5574 respectively (in 2020: approximately 156,061 million, 70.38% and RMB0.5074 respectively).

During FY2021, the Group's air cargo and mail revenue was approximately RMB11,113 million, representing an increase of RMB2,560 million as compared with the previous year. Among which, the increase of capacity contributed an increase of RMB1,000 million in the revenue, while the increase of cargo and mail load factor resulted in an increase in revenue of RMB791 million, and the increase of yield of cargo and mail resulted in an increase of RMB769 million in the revenue. The capacity (i.e. available freight tonne kilometres), cargo and mail load factor and yield per revenue freight tonne kilometres (RFTK) in 2021 were approximately 10,761 million, 39.99% and RMB2.5828 respectively (in 2020: approximately 9,635 million, 36.93% and RMB2.4040 respectively).

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## LETTER FROM GRAM CAPITAL

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### *Information on CNAHC*

With reference to the Board Letter, CNAHC directly holds 40.98% of the Company's shares and holds 10.72% of the Company's shares through its wholly-owned subsidiary CNACG, and is a controlling shareholder of the Company. As at the Latest Practicable Date, the SASAC of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

### *Reasons for and benefits of the Non-public Issuance of A Shares and use of proceeds*

As stated in the 2021 Annual Report, the original competition landscape is expected to continue in the global aviation market. With the impact of the global pandemic, aviation companies around the world are suffering from operating difficulties attributable to cash shortfall. Governments of various countries have provided financial relief of varying degrees to their local aviation industry respectively. According to the IATA statistics, the overall financial losses of airlines decreased during Q3 of 2021. Certain airlines achieved their first profitable quarter since the pandemic crisis, among which airlines in North America performed the best, while the air passenger volume increased in Europe, promoting the market recovery. Along with further recovery and opening up of the market, the global market competition landscape is expected to resume and continue the previous trend of the strong growing stronger.

It is expected that the competitive pressure will be mitigated in the domestic aviation market. Regarding the demand side, as the national economy remains stable and improved and domestic pandemic prevention and control situation is under control generally, the foundation of industrial recovery and development will be more solid, envisaging the domestic market demand will continue its revival. Regarding the supply side, according to the analysis in the "14th Five-Year Plan" of civil aviation, 2021-2022 is the recovery and consolidation period of the industry, and the growth rate of capacity deployment of the industry will slow down, but this will help alleviate the short-term excess capacity pressure brought by the transfer of some aircraft from the international market to the domestic market.

### *Use of proceeds*

With reference to the Board Letter, the gross proceeds to be raised from the Non-public Issuance of A Shares, before deducting relevant issuance expenses, will be no more than RMB15.0 billion, which are intended to be used as to RMB10.8 billion for introducing 22 aircrafts (including ARJ21 aircraft, A320NEO aircraft and A350 aircraft) and as to RMB4.2 billion for replenishing the working capital, which will help the Company to optimize its fleet structure, replenish long-term capacity and expand its carrying capacity, while relieving the pressure of daily operating funds and reducing its asset and liability ratio.

CNAHC A Share Subscription will enable the Company to obtain more support from the controlling Shareholder and further enhance its investment value. As one of the Subscribers of the Non-public Issuance of A Shares, CNAHC shows its confidence in the future development of the



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## LETTER FROM GRAM CAPITAL

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Company and its determination in continuously supporting the development of the Company, which will facilitate the enhancement of investment value of the Company, thereby maximizing the interests of the Shareholders and effectively safeguarding the interests of the minority Shareholders.

The number of A Shares to be issued under the Non-public Issuance of A Shares will not be more than 30% of the total issued shares of the Company prior to the Non-public Issuance of A Shares. According to the 《發行監管問答—關於引導規範上市公司融資行為的監管要求（修訂版）》(Q&A on Issuance Supervision-Requirements for the Guidance and Standardisation of Fundraising Activities of Listed Companies (Revised)\*, the “2020 Q&A”) promulgated by CSRC on 14 February 2020, the number of new shares to be issued by way of non-public issuance will, in principle, not be more than 30% of the company’s total share capital before the issuance.

In the event that the actual amount of proceeds from Non-public Issuance of A Shares after deducting issuance expenses is less than the total proposed amount of proceeds to be applied for the project, in compliance with the relevant laws and regulations, the Company will, based on the actual amount of net proceeds, adjust the application arrangement such as the priority of the projects to be invested and the specific investment amount for each project in accordance with the importance and urgency of the projects. Any shortfall will be made up by the Company with its self-raised funds. In order to ensure a smooth implementation of the fund-raising investment, and to protect the interest of all shareholders of the Company, before the receipt of the proceeds from the Non-public Issuance of A Shares, the Company will firstly with its own funds or self-raised funds as required based on the actual progress of the projects to be invested. The Company will replace such funds according to relevant prescribed procedures upon receiving the proceeds.

We noted from the 《二零二二年度非公開發行A股募集資金使用可行性研究報告》(Feasibility Analysis Report on the Use of Proceeds of the Non-public Issuance of A Shares in 2022\*), the estimated total investment of the 22 aircrafts amounted to approximately RMB25.653 billion.

As mentioned above, revenue generated from airline operations segment (which mainly comprises the provision of air passenger and air cargo services) accounted for over 95% of the total revenue of the Group for each of the two years ended 31 December 2021. With reference to the 2021 Annual Report, during the year of 2021, the Group introduced a total of 43 aircraft, including four A350, 23 A320NEO, 11 A321NEO, four ARJ21-700 and one business jet, among which 29 were introduced under finance leases and 14 were introduced under operating leases. On the other hand, the Group phased out four aircraft, including one A330-200, two A321 and one business jet. As at 31 December 2021, the Group had a total of 746 passenger aircrafts including business jets, with an average age of 8.23 years. With the introduction of 22 aircrafts, the Company is able to further reduce the average fleet age and keep its fleet age structure young. The newly introduced aircrafts will replace certain aircrafts of old models, which could modernize the aircraft fleet and may reduce fuel consumption and maintenance costs effectively, enhancing the profitability and core competence of the Company accordingly.

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## LETTER FROM GRAM CAPITAL

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As also advised by the Directors, the introduction of aircrafts is in line with the development of the Company's 14th Five-Year Plan and the market demand, and is conducive to the Group's optimization of fleet structure and long-term supplement of fleet capacity. After the introduction of aircrafts, the Group's fleet capacity will be strengthened.

Based on the above factors, we concur with the Directors that the introduction of the 22 new aircrafts could (i) facilitate the expansion of fleet size and optimization of fleet structure of the Company; (ii) improve the Company's air transportation capacity; and (iii) newly introduced aircrafts will replace certain aircrafts of old models, which can modernize the aircraft fleet and may reduce fuel consumption and maintenance costs effectively, enhancing the profitability and core competence of the Company accordingly.

As mentioned above, the proceeds of RMB4.2 billion will be utilised for replenishment of working capital, which represented 28% to the maximum total amounts to be raised of RMB15.0 billion. We understood from the Directors that the Group's working capital will be improved after the aforesaid replenishment of general working capital, which will further improve the Group's financial and liquidity position.

According to the Comparable Transactions (as defined below), save for those which did not plan to use proceeds from the non-public issuance for the purpose of replenishment of working capital and repayment of debt, the portions relating to "proceeds for the replenishment of working capital and repayment of debt" to "maximum total amounts to be raised from the non-public issuance" ranged from approximately 5.25% to 30%.

Based on the above, we consider the proposed use of proceeds to be justifiable.

### ***Financing alternatives available to the Group***

With reference to the Board Letter, the Company has not conducted any equity fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

Upon our enquiry with the Directors, we understood that the Directors had considered various fund raising methods such as debt financing (including convertible bonds) and equity financing (such as rights issue, public issuance and non-public issuance of A Shares and H Shares) as fund raising methods for the Group from Hong Kong capital market and/or the PRC capital market based on the capital needs for the Group's development as a whole.

In relation to debt financing, the Company successfully issued six tranches super short-term commercial paper and one tranche medium term note in 2021 and one tranche super short-term commercial paper in 2022. The gearing ratio of the Group (calculated by total liabilities divided by total assets) was approximately 80.95% as at 31 March 2022, moving in a general increasing trend in recent three years (on a quarterly basis). The debt financing will lead a further increase in gearing ratio of the Group, which will also incur additional interest expenses to the Group.

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## LETTER FROM GRAM CAPITAL

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The Board believes that equity fund-raising is more in line with the long-term interests of the Company as opposed to debts financing. In relation to equity financing:

- the rights issue is targeted at the Company's existing Shareholders and shall be implemented to the holders of A Shares and H Shares simultaneously at the same price. The average closing price of A Shares during the recent one-year period immediately prior to the date of the Board Resolution Date represented a substantial premium to the closing price of H Shares during the same period. Given the substantial premium of the price of A Shares over the price of H Shares during the aforesaid period and the capital market environment of Hong Kong and the PRC are different, it is not practical to determine a price suitable for both classes of shares, and thus the Company did not consider rights issue as an appropriate fund-raising method for the Group.

Set out below is the premium of average closing price of A Shares over H Shares for Shareholders' reference:

	July 2021	August 2021	September 2021	October 2021	November 2021	December 2021
Premium of average closing prices of A Shares to H Shares (%)	63.85	64.96	73.35	79.60	89.63	99.89

  

	January 2022	February 2022	March 2022	April 2022	May 2022	June 2022	July 2022
Premium of average closing prices of A Shares to H Shares (%)	104.41	100.14	109.67	116.76	100.82	101.36	85.80

Having considered the above premium of monthly average closing prices of A Shares over H Shares being substantial, we concur with the Directors that it is not practical to determine a price suitable for both classes of Shares.

- the public issuance is the issuance of shares to unspecific investors. As advised by the Directors, in light of the Group's financial performance for FY2020 and FY2021, the Company could not fulfil all requirements of the public issuance of A Shares (e.g. profit making in the latest three consecutive financial years).
- as there was a substantial premium of the price of A Shares over the price of H Shares, should the Company conduct a fund raising exercise by issuance of new H Shares with proceeds of RMB15.0 billion, assuming similar pricing bases were adopted as those under the Non-public Issuance of A Shares, the number of H Shares to be issued will be substantially more than that required under the Non-public Issuance of A Shares, which will lead to a greater dilution on the shareholding of the existing shareholders.

Having considered the above, the Directors are of the opinion that the Non-public Issuance of A Shares, including the CNAHC A Share Subscription, is an appropriate fund raising method for the Group.

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## LETTER FROM GRAM CAPITAL

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Having also considered that (i) the Non-public Issuance of A Shares, including the CNAHC A Share Subscription, is an appropriate fund raising method currently available to the Group due to the reasons as set out above; (ii) the proposed use of proceeds from Non-public Issuance of A Shares is justifiable; and (iii) the CNAHC's, as the controlling Shareholder, participation in the Non-public Issuance of A Shares will demonstrate its confidence in the prospects of the Company, we consider that although the CNAHC A Share Subscription is not conducted in the ordinary and usual course of business of the Group, the CNAHC A Share Subscription is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### (2) **Principal terms of the CNAHC A Share Subscription**

Summarised below are the principal terms of the CNAHC A Share Subscription, details of which are set out under the section headed "CNAHC A Share Subscription" in the Board Letter:

#### **Date**

2 August 2022

#### **Parties**

- (1) The Company, as the issuer; and
- (2) CNAHC, as the Subscriber

#### ***Number of A Shares to be subscribed for***

The number of A Shares to be subscribed by CNAHC under the Non-public Issuance of A Shares is calculated by dividing the total commitment of CNAHC by the Issue Price and rounded down to the nearest integer. The final number of A Shares to be issued is subject to adjustment in the manner as set forth in the paragraph "(5) Issue number" under the section headed "1. Proposal of the Non-public Issuance of A Shares" of the Board Letter.

CNAHC shall subscribe in the amount in cash of not less than RMB5.5 billion. Upon completion of the Non-public Issuance of A Shares, the total number of Shares held by CNAHC and its wholly-owned subsidiaries shall not be less than 50.01% (inclusive) of the total issued shares of the Company.

#### ***Subscription price and pricing method***

CNAHC shall subscribe for new A Shares at the final Issue Price for the Subscribers to be determined by the Board and its authorized persons in the following manners:

- The Pricing Benchmark Date of the Non-public Issuance of A Shares shall be the first day of the issuance period of the Non-public Issuance of A Shares.

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## LETTER FROM GRAM CAPITAL

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- The Issue Price of the Non-public Issuance of A Shares shall not be lower than 80% of the average trading price of A Shares (Note 1) in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date (excluding the Pricing Benchmark Date, the same below), and the Company's audited net assets per share attributable to ordinary shareholders of the parent company (Note 2) as at the end of the most recent period prior to the Pricing Benchmark Date, whichever is higher (i.e. the "**Base Issue Price**", with two decimal places according to the "round up method").

*Notes:*

1. The average trading price of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date = the total trading value of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date/the total trading volume of A Shares in the 20 Shanghai Trading Days prior to the Pricing Benchmark Date.
2. The net assets per share attributable to ordinary shareholders of the parent company = equity attributable to the shareholders of the parent company/number of total issued ordinary shares of the Company.
3. In the event that the Company distributes dividends, grants bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the balance sheet date of the latest unaudited financial report prior to the Pricing Benchmark Date to the issuance date, the above net assets per share attributable to ordinary shareholders of the parent company shall be adjusted accordingly.

The final Issue Price shall be determined by the Board and its authorized persons, pursuant to the authorization of the Shareholders, with the sponsor (the lead underwriter) through negotiations based on the subscription quotations of the Subscribers in accordance with the laws and regulations and requirements of regulatory departments after obtaining the approval documents of the CSRC.

CNAHC will commit not less than RMB5.5 billion, which, upon the satisfaction of all the conditions precedent stipulated in the Share Subscription Agreement, will be paid by CNAHC, in cash to the designated account within five business days upon receipt of the payment notice of the subscription.

CNAHC will directly accept the final Issue Price determined based on the results of the bidding without taking part in the bidding. If no offer is made or the Issue Price cannot be determined through bidding, CNAHC will subscribe for the shares at the Base Issue Price to continue to participate in the Non-public Issuance of A Shares at a total subscription amount of not less than RMB5.5 billion.

To further assess the fairness and reasonableness of the subscription price, we attempted to identify transactions regarding (i) non-public issuance of A shares by companies listed on the main board of Shanghai Stock Exchange (which are not involving in delisting risk caution or other risks caution raised by Shanghai Stock Exchange); and (ii) the pricing benchmark date will be the first day of issuance period (發行期), as first announced from 1 June 2022, being approximately two months immediately before the date of the Share Subscription Agreement (the "**Review Period**"), and up to and including the date of Share Subscription Agreement, for comparison purpose. We identified 12

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transactions (the “**Comparable Transactions**”) which met our aforesaid criteria and they are exhaustive. As (i) the Review Period is a recent period, which could illustrate recent market practice of non-public issuance of A shares by companies listed on the main board of Shanghai Stock Exchange; and (ii) the number of the Comparables Transactions are sufficient, therefore we are of the view that the Review Period is fair and reasonable for selecting Comparable Transactions. Despite that the businesses, operations and prospects of the Group are not exactly the same as the listed companies involving in the Comparable Transactions, the Comparables Transactions are adequate and appropriate to demonstrate the market practices regarding non-public issuance of A shares by companies listed on main board of Shanghai Stock Exchange.

Company name (A-share Stock Code)	Publication date of announcement	Basis for the determination of issue price	Lock-up period
Zhejiang Yongjin Metal Technology Co., Ltd. (浙江甬金金屬科技股份有限公司) (SH603995)	28 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Shanghai Putailai New Energy Technology Co., Ltd. (上海璞泰來新能源科技股份有限公司) (SH603659)	28 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Shanghai Shenda Co., Ltd. (上海申達股份有限公司) (SH600626)	23 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by the controlling shareholder of the listed issuer shall not be transferred for a 36-month period
Jinzhou Jixiang Molybdenum Co., Ltd. (錦州吉翔鎢業股份有限公司) (SH603399)	23 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Zhejiang Great Shengda Packing Co., Ltd. (浙江大勝達包裝股份有限公司) (SH603687)	21 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by (i) the controlling shareholder of the listed issuer shall not be transferred for an 18-month period; and (ii) other investors shall not be transferred for a six-month period.

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Company name (A-share Stock Code)	Publication date of announcement	Basis for the determination of issue price	Lock-up period
Guangdong Shaoneng Group Co., Ltd. (晶科電力科技股份有限公司) (SH601778)	21 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Jiangsu Dingsheng New Material Joint-Stock Co., Ltd. (江蘇鼎勝新能源材料股份有限公司) (SH603876)	21 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
BAIC BluePark New Energy Technology Co., Ltd. (北汽藍谷新能源科技股份有限公司) (SH600733)	16 July 2022	Not less than the higher of (i) 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period); and (ii) the company's latest audited net asset value per share	The shares which will be subscribed by (i) connected persons of the controlling shareholder of the listed issuer shall not be transferred for a 36-month period; and (ii) other investors shall not be transferred for a six-month period.
Shengda Resources Co., Ltd. (山東石大勝華化工集團股份有限公司) (SH603026)	15 July 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Snowsky Salt Industry Group Co., Ltd. (雪天鹽業集團股份有限公司) (SH600929)	25 June 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by investors shall not be transferred for a six-month period. (Note)
Epoxy Base Electronic Material Corporation Limited (宏昌電子材料股份有限公司) (SH603002)	25 June 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by (i) an entity controlled by the de facto controller of the listed issuer shall not be transferred for an 18-month period; and (ii) other investors shall not be transferred for a six-month period.

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Company name (A-share Stock Code)	Publication date of announcement	Basis for the determination of issue price	Lock-up period
Zhejiang Huayou Cobalt Co., Ltd. (浙江華友鈷業股份有限公司) (SH603799)	20 June 2022	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	The shares which will be subscribed by (i) the controlling shareholder of the listed issuer shall not be transferred for an 18-month period; and (ii) other investors shall not be transferred for a six-month period.

Source: [cninfo.com.cn](http://cninfo.com.cn)

*Note:* As at the date of proposal of non-public issuance, the listed issuer did not identify any specific investor or any specific investor who is a connected person to the listed issuer (as the case may be).

As depicted by the above table, the pricing terms of the Non-public Issuance of A Shares is not exceptional based on market comparison. With these being the case, we are of the opinion that the pricing terms under the Non-public Issuance of A Shares are in line with market practice.

As further advised by the Directors, the issue/subscription price and their determination basis were in compliance with the Administrative Measures and the Implementation Rules issued by CSRC. According to the Administrative Measures and the Implementation Rules, the issue price shall not be lower than 80% of the average trading price of company's shares for 20 trading days preceding the pricing benchmark date. In addition, we noted that the Pricing Benchmark Date of the Non-public Issuance of A Shares (being the first day of the issuance period of the Non-public Issuance of A Shares) is in compliance with the Administrative Measures and the Implementation Rules.

In light of the above factors, in particular (i) the basis of subscription price is in line with market practice; (ii) the pricing terms are in compliance with relevant regulations in the PRC; (iii) CNAHC will directly accept the final Issue Price determined based on the results of the bidding without taking part in the bidding should any offer being made or the Issue Price can be determined through bidding, we are of the view that the basis of subscription price is fair and reasonable.

### ***Lock-up period***

Pursuant to the Share Subscription Agreement, upon completion of the Non-public Issuance of A Shares, the shares subscribed by CNAHC under the Non-public Issuance of A Shares shall not be transferred within eighteen (18) months from the date of completion of the issuance.

As mentioned in the Administrative Measures, the shares which will be subscribed by (i) the listed companies' controlling shareholder, beneficial owner, or their controlled enterprise shall not be transferred for an 18-month period; and (ii) other investors shall not be transferred for a six-month period.



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In addition, the lock-up arrangement under the Share Subscription Agreement is generally in line with the lock-up arrangement for the subscribers (who are connected persons, controlling shareholders or de facto controllers of the listed issuers) under the Comparable Transactions.

Having considered that (i) a lock-up arrangement is required by relevant PRC regulation; and (ii) the lock-up arrangement for the CNAHC A Share Subscription will be stricter than the lock-up arrangement for independent investors' subscription (i.e. six months) and is generally in line with the market practice according to the Comparable Transactions, we consider that such arrangement is on normal commercial term and fair and reasonable.

### *Adjustment arrangement for Issue Price*

Pursuant to the Share Subscription Agreement, in the event that the Company distributes dividends, grants bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the Pricing Benchmark Date to the issuance date, the Issue Price shall be adjusted on ex-right or ex-dividend basis.

We also noted from the Comparable Transactions that the issue price thereunder will also be adjusted subject to the abovementioned circumstances.

Having considered the above, in particular, other than number of A Shares to be subscribed, the key terms of the CNAHC A Share Subscription will be similar or stricter than those applied to independent investors, we are of the view that the terms of the CNAHC A Share Subscription are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **(3) Dilution effect on the shareholding interests of the existing public Shareholders**

As illustrated by the table under the sub-section headed "4. Dilutive Effects of the Non-public Issuance of A Shares on the Shareholding Structure of the Company" of the Board Letter, the shareholding interests of the existing public Shareholders (including all of the public A Shareholders and H Shareholders) in the Company would be diluted by approximately 5.91 percent points immediately after completion of the Non-public Issuance of A Shares (assuming that (a) the total amount of proceeds raised from the Non-public Issuance of A Shares is RMB15.0 billion; (b) the Issue Price is RMB4.23 per share, being the Company's audited net assets per share attributable to ordinary shareholders of the parent company as at the end of the most recent period prior to the Latest Practicable Date; (c) no additional Shares will be issued after the Latest Practicable Date until the completion of the Non-public Issuance of A Shares; and (d) none of the subscriber is an existing public Shareholder). Nonetheless, in view of (i) the reasons for and the possible benefits of the Non-public Issuance of A Shares (i.e. (a) the Non-public Issuance of A Shares, including the CNAHC A Share Subscription, is an appropriate fund raising method currently available to the Group; (b) the proposed use of proceeds from Non-public Issuance of A Shares is justifiable; and (c) the CNAHC's, as the controlling Shareholder, participation in the Non-public Issuance of A Shares will demonstrate its confidence in the prospects of the Company); (ii) the terms of the CNAHC A Share Subscription being fair and reasonable (e.g. (a) our analyses on subscription price, pricing principle and lock-up period; (b) other

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than number of A Shares to be subscribed, the key terms of the CNAHC A Share Subscription will be similar or stricter than those applied to independent investors), we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the CNAHC A Share Subscription are on normal commercial terms and are fair and reasonable; and (ii) although the CNAHC A Share Subscription is not conducted in the ordinary and usual course of business of the Group, the CNAHC A Share Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM and the H Shareholders' Class Meeting to approve the CNAHC A Share Subscription and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.*

\* *For identification purposes only*

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**APPENDIX I            FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS OF  
THE NON-PUBLIC ISSUANCE OF A SHARES IN 2022**

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*The Feasibility Analysis Report on the Use of Proceeds of the Non-public Issuance of A Shares in 2022 is written in Chinese, with no official English translation. The English translation is provided solely for reference only. In case of any discrepancy between the two versions, the Chinese version shall prevail. The full version of the Feasibility Analysis Report on the Use of Proceeds of the Non-public Issuance of A Shares in 2022 is as follows:*

**I.        PLAN OF THE USE OF PROCEEDS**

The gross proceeds to be raised from the Non-public Issuance of A Shares of Air China Limited (hereinafter referred to as “Air China”, the “Issuer” or the “Company”) will not be more than RMB15.0 billion (inclusive). After deducting the relevant issuance expenses, the net proceeds are intended to be used in the following projects:

<b>No.</b>	<b>Name of project</b>	<b>Total investment amount (RMB100 million)</b>	<b>Proposed amount of proceeds to be applied (RMB100 million)</b>
1	Introducing 22 aircraft	256.53	108.00
2	Replenishing the working capital	42.00	42.00
Total		<u>298.53</u>	<u>150.00</u>

In the event that the actual amount of proceeds from the Non-public Issuance after deducting issuance expenses is less than the total proposed amount of proceeds to be applied for the projects above, in compliance with the relevant laws and regulations, the Company will, based on the actual amount of net proceeds, adjust the application arrangement such as the priority of the projects to be invested and the specific investment amount for each project in accordance with the importance and urgency of the projects. Any shortfall will be made up by the Company with its self-raised funds.

In order to ensure a smooth implementation of the fund-raising investment, and to protect the interest of all shareholders of the Company, before the receipt of the proceeds from the Non-public Issuance, the Company will firstly invest with its own funds or self-raised funds based on the actual progress of the projects to be invested. The Company will replace such funds according to relevant prescribed procedures upon receiving the proceeds.

## II. THE BACKGROUND AND PURPOSE OF THE NON-PUBLIC ISSUANCE

### (I) The Background of the Non-public Issuance

#### 1. *The aviation industry was noticeably impacted by the pandemic*

The civil aviation industry has been hard hit by the outbreak of the COVID-19 pandemic since 2020. On one hand, to contain the spread of the Omicron variants, nations worldwide successively imposed certain levels of restrictions on inbound flights. On the other hand, there was a sporadic outbreak of a pandemic in China with clusters of infected cases emerging in certain regions, which provoked instability in respect of personnel mobility. Both domestic and international routes were adversely affected to varying extents. At the executive meeting on 6 April 2022, the State Council recognized the civil aviation sector as a struggling industry and highlighted the need to step up efforts in alleviating prominent difficulties and providing targeted support. As a leading airline company in China, the Company is committed to safe production and providing high-quality services in the long run. It has been facing higher pressure on operation as a result of the pandemic, and hence has an objective need to raise funds for its business development.

#### 2. *The civil aviation market is expected to witness an accelerated recovery*

With the ramp-up of vaccination rates worldwide and the launch of COVID-19 oral drugs, the demand for air passenger transportation witnessed a gradual growth. In 2021, the total traffic volume of the civil aviation industry amounted to 85.7 billion tonne-kilometres, and the passenger traffic volume amounted to 440 million, representing year-on-year increases of 7.3% and 5.5%, respectively, as compared to the previous year. The figures have recovered to 66% and 67% of the level in 2019, respectively. There is a gradual growth in a number of flights since June 2022, which underpins the accelerated recovery of the civil aviation market. Since the Covid-19, the domestic routes have been recovering at a notably faster pace as compared to the international routes. In the Notice on Promulgation of a Series of Policies and Measures for Economic Stabilization (《關於印發紮實穩住經濟一攬子政策措施的通知》)

published in late May 2022, the State Council specified that “the number of international passenger flights shall be increased in an orderly manner”. Subsequently, the flight-specific suspension policy of the China Civil Aviation Administration and quarantine policies for inbound visitors in various regions were gradually relaxed, while international air travel also bounced back progressively.

#### 3. *There is a promising prospect for development of the civil aviation industry in China*

In the Chinese civil aviation market, there remains substantial room for improvement in terms of market penetration. Prior to the Covid-19 pandemic, the number of air trips per capita in China was only 0.47, which was significantly lower than the number of air trips per capita of over 2.5 in other countries with similar areas of land, such as the United States and Canada. Looking ahead, in tandem with the continuous development of airport infrastructure and route network in China, the civil aviation industry in China will continue to improve in terms of

network coverage and service quality. Driven by the rising per capita income, demand for business travel and tourism keeps on growing, which indicates a promising market demand in China's civil aviation industry. The Company's principal base is located at Beijing Capital International Airport, which is known as "the first gateway to China" and is also a place with the best business customer and traveller groups. The advantages in terms of both geographical location and customer structure are favourable to the Company for fully capturing the opportunities arising from the development of the civil aviation industry and maintaining a stronger position for market competition.

**4.     *The requirements for the Company's development are outlined in the Civil Aviation Development Plan***

According to the "14th Five-Year Plan" for Civil Aviation Development, the civil aviation industry in China will enter a period of growth and release from 2023 to 2025, with a focus on expanding the domestic market, restoring the international market and promoting the high-quality development of the civil aviation sector on all fronts. As one of the three state-owned major backbone aviation enterprise groups, the Company positions its brand as "professional and reliable in terms of both international quality and Chinese temperament" and pursues the high-quality development strategy in the long run. The proceeds will be used for rational expansion of the fleet size, which is conducive to further strengthening the aviation network of the Company and reinforcing its leading position in the industry, thereby further enhancing its capabilities in serving people's need for a better life and supporting the national strategies.

**(II)    Purpose of the Non-public Issuance**

**1.     *Enhance fleet strength and consolidate competitive advantages***

As the only national flag carrier in China, the Company bears the historical responsibility of establishing itself as a national brand of aviation company and implementing the "strategy of building a strong civil aviation country". Always adhering to the direction of high-quality development, the Company has given full play to its advantage of being the principal base of Beijing Capital International Airport, also known as "the first gateway to China", which has the most valuable business customer and traveller bases in China. As of the end of 2021, the Air China Group owned 746 aircraft (including corporate aircraft) in total, with an average age of 8.23 years. Through the Non-public Issuance, the Company intends to further optimize its fleet structure, rationally expand the fleet size, and consolidate its competitive advantages. A reasonable fleet size is a key prerequisite for the Company to further optimize the layout of its domestic and overseas route network in the future, and is also an important safeguard for the Company to improve its destination coverage and provide more comfortable and convenient air travel for domestic and overseas passengers.

**2.     *Improve capital structure and enhance financial stability***

As at the end of 2019, 2020 and 2021, the Company's gearing ratio was 65.55%, 70.50% and 77.93%, respectively. The Company's gearing ratio has remained at a relatively high level and has demonstrated an upward trend year after year. On the one hand, the civil aviation industry is capital-intensive, and aircraft purchase is mainly financed by bank loans, finance leases and other channels, resulting in relatively high operating leverage for and certain debt pressure on the Company. On the other hand, compared with debt financing methods such as finance leases, the purchase of aircraft through the proceeds from the Non-public Issuance is more conducive to the Company's control of the scale of interest-bearing liabilities, thereby reasonably controlling financial expenses, enhancing profitability and boosting the level of financial stability.

**3.     *Replenish working capital to ensure stable operation of the Company***

With the gradual recovery of the demand for air passenger transportation, the Company's investment in transport capacity and operation scale will be expanded accordingly, while the overall demand for liquidity will increase. Sufficient capital supply is a strong safeguard for the Company to expand its business scale and improve service quality. In addition, the continuous spread of the COVID-19 pandemic across the globe has made a certain adverse impact on the civil aviation industry in terms of profitability and cash flows, and has also posed certain challenges to the Company's liquidity. The Non-public Issuance will partially replenish the Company's working capital, which will be beneficial to the Company in effectively responding to the challenges brought by the pandemic and ensuring stable operations.

**III.    NECESSITY AND FEASIBILITY ANALYSIS OF THE USE OF PROCEEDS**

**(I)    *Introducing 22 aircraft***

**1.     *Basic Information***

The Company intends to use the proceeds from the Non-public Issuance of RMB10.8 billion to introduce 22 aircraft, including 9 ARJ21 aircraft, 4 A320 NEO aircraft and 9 A350 aircraft. According to the catalogue prices provided by the COMAC and the latest catalogue prices announced on the websites of Airbus S.A.S., the total investment amount of the aforesaid 22 aircraft amounts to USD3.806 billion (equivalent to approximately RMB25.653 billion). The Company intends to pay RMB10.8 billion by the proceeds from the Non-public Issuance. The 22 aircraft introduced are scheduled for delivery in the years from 2022 to 2023.

## 2. *Necessity and Feasibility Analysis of Project Implementation*

- (1) *The civil aviation industry is expected to recover rapidly with resilient demand for air travel*

The COVID-19 pandemic has had a significant impact on the civil aviation industry. According to the Civil Aviation Development Bulletin, the regular passenger load factor of China's civil aviation industry in 2020 was only 72.9%, representing a year-on-year decrease of 10.2% as compared with the pre-pandemic period, while the demand for passenger travel has dropped sharply, with the supply and demand of the international routes particularly hard hit.

With the ramp-up of vaccination rates worldwide and the launch of COVID-19 oral drugs, the demand for air passenger transportation registered a gradual growth. According to the statistics published by the Civil Aviation Administration of China, the total traffic volume, passenger traffic volume and cargo and mail traffic volume of the entire industry in 2021 amounted to 85.675 billion tonne-kilometres, 441 million and 7.3184 million tonnes, respectively, representing year-on-year increases of 7.3%, 5.5% and 8.2%, indicating that the civil aviation industry has embarked on a gradual recovery.

During those periods when the pandemic was well under control, the performance of the relevant industry demand indicators was close to the pre-pandemic level in 2019. In April and May 2021, the total domestic passenger traffic volume of the entire industry amounted to 51.095 million and 51.039 million, respectively, which are equivalent to 96.19% and 96.09% of the same period in 2019 before the pandemic, demonstrating that the passenger traffic volume has basically recovered, and the demand for China's civil aviation industry remained more resilient.

Entering 2022, the demand for the civil aviation industry in China is expected to recover rapidly and the industry is gradually stepping into a new phase of development. During the executive meeting of the State Council convened on 6 April 2022, it is pointed out that it is necessary to step up efforts in alleviating prominent difficulties faced by the civil aviation industry and providing targeted support. On 24 May, the State Council issued the Notice on Promulgation of a Series of Policies and Measures for Economic Stabilization (《關於印發扎實穩住經濟一攬子政策措施的通知》) which specified that "the number of international passenger flights shall be increased in an orderly manner". In June, the Civil Aviation Administration of China has marginally loosened the international flight-specific suspension regulation, while the inbound travel quarantine policies of various regions were adjusted and their quarantine periods were reduced accordingly, resulting in a gradual rebound in the number of international flights. According to the "14th Five-Year Plan" for Civil Aviation Development, the civil aviation industry in China will enter a period of growth and release in 2023 to 2025, pursuing expansion of the domestic market, restoration of the international market and promotion of high-quality development of the industry on all fronts as the focus for

the development of the entire industry. As the only national flag carrier of China, the Company will rationally expand its fleet size based on the 14th Five-Year Plan and adhere to its brand position of “professional and reliable in terms of both international quality and Chinese temperament”, with a view to practically enhancing its capabilities in serving people’s needs for a better life and supporting the national strategies.

(2) *A reasonable fleet size and configuration of aircraft model is an essential prerequisite for the provision of high-quality services*

In recent years, the Company has significantly slowed down the introduction of aircraft. During the years 2019, 2020 and 2021, Air China introduced 48 aircraft, 14 aircraft and 43 aircraft, respectively. As of the end of 2021, Air China operated a fleet of 746 passenger aircraft, including business jets, in total, with an average age of 8.23 years.

Against the backdrop of tight market supply of aircraft from 2024 to 2026 and the successive phase-out of the existing aircraft, the Company has made early efforts to satisfy the demand for replacements of old aircraft and guarantee a rational expansion of its fleet size in the next three to five years in response to the possible rapid growth in post-pandemic demand for civil aviation, which was critical for the Company to pursue high-quality development, implement brand strategies and consistently provide quality aviation services for the people.

(3) *There is substantial room for improvement in the penetration rate of the aviation industry in China, indicating a promising prospect for the passenger aviation market*

In terms of the number of air trips per capita, according to the “14th Five-Year Plan” for Civil Aviation Development published by the Civil Aviation Administration, it is anticipated that the number of air trips per capita per year in China will increase from 0.47 in 2019 to 0.67 in 2025, implying a huge growth potential in China’s aviation market. In terms of the penetration rate of the aviation market, according to the disclosure made by Travelsky, the cumulative number of domestic air passengers for the recent five years was only 343 million (in terms of the number of identification documents) while the cumulative penetration rate of the aviation market in the past five years was only 24.5%, which was calculated on the basis of the national population of 1.4 billion. For the number of domestic air passengers per year, there was only 154 million air passengers in 2019, representing a penetration rate of merely 11%.

Compared with the United States, which has an approximate area of land, the pre-pandemic cumulative penetration rate of the aviation market in the United States was approximately 90% with an annual penetration rate of approximately 50% recorded prior to the pandemic from 2015 to 2019. Given that China’s civil aviation industry is still in the growth stage, there remains a substantial room for growth in the penetration



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rate of air travel. As the demand for air travel is highly correlated to the economic development, with the steady increase in the GDP per capita, the demand for air travel will increase accordingly.

(4) *The Company is capable of absorbing new capacity by leveraging its sufficient customer base and the number of pilots*

In terms of customer base, the Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China", which has a unique and prime location advantage for establishing itself into a major international aviation hub in the Northeast Asia. The Company positioned itself for the mainstream market of mid-to-high-end government and business passengers, which is currently the most valuable passenger group in China. With the gradual recovery of the passenger aviation market, the advantages of Beijing in terms of both geographical location and customer structure of business travelers will create strong demand for air travel for the Company.

In terms of pilots, the Company has extensive experience in flying the Airbus A320NEO and other aircraft models with a reasonable pilot team size. As of the end of 2021, the Company had 10,644 pilots and 13,146 engineering and maintenance staff. The Company has established a corresponding support scheme for human resources based on the future fleet development plan, and thus it is capable of meeting the operational needs of the newly introduced aircraft every year.

**3. *Project investment budget estimate***

Based on the catalogue unit price provided by the COMAC and the latest release of product catalogue prices by Airbus S.A.S., the catalogue prices of the aircraft to be introduced by the Company are as follows:

<b>No.</b>	<b>Aircraft model</b>	<b>Manufacturer</b>	<b>Number (aircraft)</b>	<b>Catalogue price (USD100 million)</b>	<b>Catalogue price (RMB100 million)</b>
1	ARJ21	COMAC	9	0.38	2.56
2	A320 NEO	Airbus S.A.S.	4	1.16	7.83
3	A350	Airbus S.A.S.	9	3.33	22.46

*Note:* USD1 = RMB6.74

The total catalogue prices of the 22 aircraft to be introduced amount to USD3.806 billion. The actual consideration, after being determined by the contracted parties on an arm's length basis, is lower than the price contained in the catalogue. The Company will use not more than RMB10.8 billion of the proceeds from the Non-public Issuance of A Shares in the introduction of the 22 aircraft, and will make up for the shortfall from other channels.

**4.     *Basic information of aircraft proposed to be introduced***

The fundamental parameters of standard configurations of aircraft proposed to be introduced are as follows:

<b>Aircraft Model</b>	<b>ARJ21</b>	<b>A320 NEO</b>	<b>A350</b>
Length (meter)	33.46	37.57	66.80
Wing span (meter)	27.29	35.80	64.75
Height (meter)	8.52	11.83	17.21
Typical cruising speed (Mach)	0.74	0.82	0.85
Maximum flight altitude (Feet)	39,000	39,800	43,100
Maximum payload (Tonnes)	8	19	55
Seats	90	158	312

*(1)     ARJ21*

ARJ21 aircraft is the first medium- and short-range regional civil aircraft with new turbofan that is researched and developed by the PRC in accordance with International Civil Aviation Regulations and the PRC has its independent intellectual property rights. It is the first aircraft that the PRC applied for the U.S. FAA Type Certificate in accordance with FAR25.

The introduction of ARJ21 aircraft is a material measure of the Company to serve the domestically-produced civil aircraft manufacturing industry of the PRC, and will perfect the Company’s flight network, expanding the scale of our fleet and meeting the popularized need for air travel at the same time.

*(2)     A320 NEO*

A320 series aircraft is one of the globally best-selling medium- and short-range civil aircraft. Being the upgraded model of A320 series, A320 NEO is installed with new engine model and equipped with the most updated sharklets of Airbus S.A.S. and innovative cabin layout. Compared with the current model of A320 series aircraft, A320 NEO can reduce the fuel consumption per seat by 20%, the airframe maintenance cost by 5% and the operating costs in cash per seat by 14%.

The introduction of A320 NEO series aircraft will optimize the operating costs of our fleet, while benefiting the provision of safe, comfortable and high-quality services for the passengers.

(3)    *A350*

The technologically advanced A350 aircraft has superb performance in aspects such as materials, engines, pneumatic design and system. 70% of the structure of the body of aircraft is made of new materials, which can reduce the weight of the aircraft, enhance the cost-effectiveness of aircraft and minimize maintenance needs. The TRENT XWB engines that A350 aircraft are equipped with are quieter and more efficient. Meanwhile, A350 aircraft achieves maximum aerodynamic efficiency, reduces resistance and fuel consumption through the improvement of the load of the aircraft wings.

The flying range of A350 aircraft is up to 7,000 nautical miles and it has a larger number of seats. The introduction of A350 aircraft can fulfil the demand of long-haul flight operation and long-haul wide-body aircraft fleet expansion of the Company so as to position itself for hub markets.

**5.    *Project gains***

The introduction and putting into operation of the 22 aircraft will be able to enhance the transportation capacity of the Company and transportation volume of major routes, in order to increase flight revenue. Meanwhile, the newly introduced aircraft will replace certain aircraft of old models, which will help to optimize aircraft fleet structure and effectively reduce fuel consumption and maintenance costs, thereby enhancing the profitability and market competitiveness of the Company.

The aircraft proposed to be introduced will be included in the current aircraft fleet of the Company for centralized allocation and management.

**6.    *Approval and registration in relation to project***

The planning document for the introduction of aircraft using proceeds from the Non- public Issuance of A Shares has been approved by the CAAC.

**(II)   *Replenishment of liquidity***

**1.    *Basic information***

4.2 billion yuan of the proceeds is used for replenishment of liquidity, with an aim to optimize the financial structure, reduce the gearing ratio, and enhance the capital strengths of the Company.

**2.    *Necessity and feasibility analysis of implementing the projects***

As at the end of 2019, 2020 and 2021, the Company's gearing ratio was 65.55%, 70.50% and 77.93%, respectively. The Company's gearing ratio stood at a higher level and showed an upward trend year by year. On one hand, the civil aviation industry had a relatively large scale of expenditure in aircraft procurement and daily working capital due to its capital intensive nature; on the other hand, the Company was suffering from heavy operating losses due to the sharp decline in transportation capacity of international routes and notable fluctuation in transportation capacity of domestic routes under the repeated impact of the pandemic. In the years 2019, 2020 and 2021, net profits attributable to shareholders of the Company amounted to approximately RMB6,409 million, -RMB14,409 million and -RMB16,642 million, respectively. The Company has always been adhering to the high-quality development policy. Sufficient capital supply provides a strong safeguard for the Company to expand its business scale and improve its quality of services. The Company intends to apply part of the proceeds from this round of Non-public Issuance to replenish the working capital, in order to improve the Company's capital strength and its resilience against risks, and accordingly strengthen the Company's competitive edge in the industry.

In accordance with the relevant regulations of the CSRC and the Shanghai Stock Exchange, as well as the requirement of the proceeds management system of the Company, the Company will reasonably arrange the applied amount and applied progress regarding the portion of the proceeds in replenishing the working capital, so as to ensure the safe and efficient use of proceeds.

**IV.    IMPACT OF THIS ROUND OF ISSUANCE ON THE BUSINESS OPERATION AND FINANCIAL POSITION OF THE COMPANY**

**(I)    Impact of this round of issuance on the business operation of the Company**

The proceeds to be raised from the Non-public Issuance of A Shares, after deducting relevant issuance expenses, will be used for introducing 22 aircraft and replenishing the working capital.

The projects to be funded with the proceeds will facilitate the expansion of the fleet size and optimization of the fleet structure, improve the Company's air transportation capacity, provide the passengers with safer and more comfortable air travel demand, ensure the long-term and sound development of the Company's business, and promote the smooth implementation of the Company's development strategy. At the same time, the Company's scale of assets and capital structure will be improved and optimized, and thus the Company will be able to effectively respond to the adverse impact of the COVID-19 pandemic, ease the pressure on capital requirements for its daily operating activities, maintain its sustainable development and consolidate its industry position, thereby providing better investment returns for investors.

**(II) Impact of this round of issuance on the financial status of the Company**

Upon completion of this round of issuance, both the Company's total assets and net assets will be increased accordingly. It will enhance the Company's working capital, effectively reduce the Company's gearing ratio, and will be conducive to the Company in optimizing its capital structure, as well as enhancing its profitability and strengthening its resilience against financial risks.

**V. CONCLUSION ON THE FEASIBILITY OF THIS ROUND OF ISSUANCE**

Based on the foregoing, and after prudent analysis and demonstration, the board of directors of the Company is of the opinion that the plan of the use of proceeds from the Non-public Issuance of A Shares is in compliance with the relevant policies and laws and regulations. The projects to be funded with the proceeds will facilitate the expansion of the fleet size and optimization of the fleet structure, which is in line with the Company's strategic requirements, and is necessary and feasible. At the same time, the use of proceeds will help meet the Company's capital requirement for business development, enhance its core competitiveness, optimize its asset structure and improve its financial status, profitability and sustainable development capability, and is in line with the interests of the Company and all shareholders.

*The Report on Use of Proceeds from Previous Fund-Raising Activities is written in Chinese, with no official English translation. The English translation is provided solely for reference only. In case of any discrepancy between the two versions, the Chinese version shall prevail. The full version of the Report on Use of Proceeds from Previous Fund-Raising Activities is as follows:*

### I. BASIS OF PREPARATION

This Report on Use of Proceeds from Previous Fund-Raising Activities has been prepared in accordance with the Rules Concerning the Report on Use of Proceeds from Previous Fund-Raising Activities (Zheng Jian Fa Xing Zi [2007] No. 500) issued by the China Securities Regulatory Commission.

### II. AMOUNT, CREDITING DATE AND DEPOSIT OF PROCEEDS FROM PREVIOUS FUND-RAISING ACTIVITIES (THE “PREVIOUS PROCEEDS”)

According to the “Approval Reply regarding the Non-public Issuance of Shares by Air China Limited” (Zheng Jian Xu Ke [2016] No. 026) issued by the China Securities Regulatory Commission, Air China Limited (hereinafter referred to as the “**Company**”) conducted a non-public issuance of 1,440,064,181 RMB ordinary shares (A shares) at an issue price of RMB7.79 per share on 2 March 2017 on the Shanghai Stock Exchange. The total issue size amounted to RMB11,218,099,969.99. After deducting the underwriting fees, referral fees and online distribution fees of RMB14,763,349.93 in total, the Company actually received proceeds of RMB11,203,336,620.06 from the above-mentioned issuance of A Shares. After deducting other issue expenses (tax inclusive) paid by the Company, the actual net proceeds amounted to RMB11,200,418,471.06.

All the aforesaid proceeds were credited to a designated account on 2 March 2017, which was verified by KPMG Huazhen LLP, with a capital verification report (Bi Ma Wei Hua Zhen Yan Zi No. 1700304) issued in this regard.

As of 30 June 2022, the aforesaid proceeds from the non-public issuance of A shares had been utilized in full, and the aforesaid designated account for such proceeds had been cancelled. Details are as follows:

*Unit: RMB0'000*

Opening Bank	Bank Account Number	Crediting Date	Credited Amount (Note)	Date of Cancellation
Beijing Capital International Airport Branch of China Construction Bank	11050160510000000069	2017.03.02	421,810.00	2021.07.20
Beijing Tianzhu Road Branch of the Bank of China	341566212556	2017.03.02	698,523.66	2021.10.18
Total	/	/	1,120,333.66	/

*Note:* The credited amount above includes the outstanding issue expenses payable.

As of 31 December 2020, the report on the use of the aforesaid proceeds from the non-public issuance of A Shares has been audited by Deloitte Touche Tohmatsu Certified Public Accountants (LLP), with an audit report (De Shi Bao (He) Zi (21) No. E00101) issued in this regard.

### **III. STATEMENT OF THE USE OF THE PREVIOUS PROCEEDS**

As of 30 June 2022, the proceeds from the non-public issuance of A Shares had been utilized in full. For the statement of the use of the Previous Proceeds, please refer to the Schedule for the “Statement of the Use of the Previous Proceeds”.

### **IV. RECOGNITION OF REVENUE FROM INVESTMENT PROJECTS WITH THE PREVIOUS PROCEEDS**

Upon availability, all the proceeds from the non-public issuance of A Shares had been utilized to purchase 15 Boeing B787 aircraft, upgrade the direct selling e-commerce business, deploy on-board WIFI (phase I) and replenish the working capital of the Company. As the revenue of the Company is generated from the overall fleet operation, the revenue from the said projects cannot be accounted for separately.

### **V. ACTUAL USE OF THE PREVIOUS PROCEEDS IN COMPARISON WITH INFORMATION DISCLOSED IN THE ANNUAL REPORT OF THE COMPANY**

The Company had reconciled the actual use of the Previous Proceeds with the relevant information disclosed in the regular reports and other information disclosure documents of the Company on a case-by-case basis. The actual use of proceeds has been in line with the relevant information disclosed.

### **VI. UNUTILIZED PREVIOUS PROCEEDS**

As of 30 June 2022, the Previous Proceeds had been utilized in full.

**Air China Limited**

2 August 2022

Schedule:

## STATEMENT OF THE USE OF THE PREVIOUS PROCEEDS

Unit: RMB0'000

Total proceeds:	1,120,041.85	Total cumulative utilized proceeds:	1,120,041.85
Total proceeds with change in purposes: Nil		Total proceeds used in each year:	
Proportion of total proceeds with change in purposes: Nil		2017:	1,105,000.00
		2018:	4,363.00
		2019:	8,662.23
		2020:	2,016.62
		2021:	-
		January to June 2022:	-

No.	Investment projects		Total investment amount of proceeds		Cumulative investment amount of proceeds as of the closing date				Difference between actual investment amount and committed investment amount after the fund raising	Date on which the project is ready for its intended use (or project progress as at the closing date)
	Committed investment project	Actual investment project	Committed investment amount prior to the fund raising	Committed investment amount after the fund raising	Actual investment amount	Committed investment amount prior to the fund raising	Committed investment amount after the fund raising	Actual investment amount		
1	Purchasing 15 Boeing B787 aircraft	Purchasing 15 Boeing B787 aircraft	745,000.00	745,000.00	745,000.00	745,000.00	745,000.00	745,000.00	-	17 November 2017
2	Upgrading direct selling e-commerce business	Upgrading direct selling e-commerce business	80,000.00	10,000.00	10,000.00	80,000.00	10,000.00	10,000.00	-	21 August 2020
3	Deploying on-board WIFI (phase I)	Deploying on-board WIFI (phase I)	15,000.00	5,041.85	5,041.85	15,000.00	5,041.85	5,041.85	-	10 December 2019
	Sub-total of committed investment project		840,000.00	760,041.85	760,041.85	840,000.00	760,041.85	760,041.85	-	-
4	Replenishing working capital	Replenishing working capital	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	360,000.00	-	Not applicable
	Total		1,200,000.00	1,120,041.85	1,120,041.85	1,200,000.00	1,120,041.85	1,120,041.85	-	-

Note: The total interest income of RMB49,742,000 generated from the above-mentioned proceeds has been used to replenish the working capital of the Company.



Pursuant to the relevant requirements of laws, regulations and normative documents, including the Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), the Certain Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)) and the Guidelines on Matters concerning the Dilution of Current Returns of the Initial Offering, Refinancing and Major Asset Restructuring (China Securities Regulatory Commission Notice [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證券監督管理委員會公告[2015]31號)), in order to protect the interests of minority investors, the Company carefully analysed the impact on the dilution of current returns caused by matters in relation to the Non-public Issuance of A Shares, and proposed specific return remedial measures for the dilution of current returns based on the actual situation. Meanwhile, the controlling shareholders of the Company and all of the directors and senior management of the Company make undertakings for the effective implementation of the remedial measures for the dilution of current returns caused by the Non-public Issuance. The impacts of dilution of current returns as a result of the Non-public Issuance on key financial indicators of the Company and the remedial measures taken by the Company are currently announced as follows:

**I. IMPACTS OF THE DILUTION OF CURRENT RETURNS AS A RESULT OF THE NON-PUBLIC ISSUANCE ON THE KEY FINANCIAL INDICATORS OF THE COMPANY**

**(I) Assumed conditions for the projected calculations of diluted current returns**

1. It is assumed that there would be no significant adverse changes in the macro-economic environment, market conditions, industry policies, as well as production and operation of the Company and its subsidiaries.
2. It is assumed that the Non-public Issuance would be completed in December 2022, which, being an assumption and estimation, will only be used to calculate the impacts of dilution of current returns as a result of the Non-public Issuance on key financial indicators, and does not constitute a commitment to the actual completion date. The final date of completion shall be subject to the actual date of completion of the issuance upon the approval by the CSRC.
3. The estimation of the total share capital of the Company is based on 14,524,815,185 shares in the total share capital as of the date of the announcement of the issuance plan, and except for the impacts of the Non-public Issuance of shares, no other factors (such as bonus shares and conversion of capital reserve into share capital) are taken into account for changes in share capital.
4. The total proceeds to be raised from the Non-public Issuance would be no more than RMB15.0 billion (inclusive). It is assumed that the issue price will be at 80% of the average stock trading price of the shares of the Company over the 20 trading days prior

to 21 July 2022, i.e. RMB8.23 per share, and the estimated number of shares to be issued would be 1,822,600,243 shares. The calculation is as follows: the number of shares to be issued=the total proceeds from the Non-public Issuance/the issue price of the Non-public Issuance.

5. In 2021, the net profit of the Company attributable to the owners of the parent company was -RMB16.642 billion, and the net profit attributable to owners of the parent company after deducting non-recurring profits and losses was -RMB17.056 billion.

It is assumed that the net profit attributable to shareholders of the listed company and the net profit attributable to shareholders of the listed company after deducting non-recurring profits and losses in 2022 would be estimated based on four scenarios, namely remained flat, decreased by 50%, broke even, or recorded profit (the amount of profit remained flat as that of 2019), respectively, as compared with 2021. Such assumption and analysis are made in accordance with the relevant laws and regulations of the CSRC, and do not constitute the profit forecast of the Company under the relevant laws and regulations of the CSRC. Investors are advised not to make their decisions in investments based on these assumptions and analyses and the Company shall assume no responsibilities for compensations to any losses arising from the investment decisions made by investors based on these assumptions and analyses.

6. As of the date of the announcement of the issuance plan, the total share capital of the Company was 14,524,815,185 shares, of which 789,854,000 shares were eliminated for reciprocal shareholding by Cathay Pacific and the relevant portion of the share capital was deducted in calculating the earnings per share.
7. It is assumed that the owners' equity attributable to the listed company as at 31 December 2022=the owners' equity attributable to the listed company at the beginning of 2022 + the net profit attributable to shareholders of listed company for the year of 2022 + the total proceeds from the Non-public Issuance.
8. This estimation takes no issuance expenses into account; the number of shares and the actual date of completion of the Non-public Issuance are only estimates, and the final number of shares to be issued and the actual date of completion of the issuance shall be subject to approval by the CSRC. No consideration is given to the impacts on the production and operation, financial conditions (such as finance costs, investment income), etc., of the Company upon the receipt of proceeds from the Non-public Issuance. This estimation takes no consideration of the impacts of the cash dividends of the Company.

**APPENDIX III****DILUTION OF CURRENT RETURNS,  
REMEDIAL MEASURES AND THE CORRESPONDING  
UNDERTAKINGS OF RELEVANT ENTITIES FOR  
THE NON-PUBLIC ISSUANCE OF A SHARES IN 2022****(II) Impacts on the key indicators of the Company**

Under the premise of the above assumptions, the estimated impacts of the Non-public Issuance on the key financial indicators of the Company is as follows:

Items	31 December 2021/year 2021	31 December 2022/year 2022 (E)	
		Before the Non-public Issuance	After the Non-public Issuance
<b>Scenario 1: Net profit before and after deducting non-recurring profits and losses in 2022 remained flat as compared with 2021</b>			
Total share capital (10,000 shares) (Note 1)	1,373,496.12	1,373,496.12	1,550,174.56
Net profit attributable to shareholders of the listed company (RMB10,000)	-1,664,231.00	-1,664,231.00	-1,664,231.00
Net profit attributable to shareholders of the listed company after deducting non- recurring profits and losses (RMB10,000)	-1,705,646.20	-1,705,646.20	-1,705,646.20
Owners' equity attributable to the listed company (RMB10,000)	6,140,251.90	4,476,020.90	5,976,020.90
Basic earnings per share (RMB/share)	-1.21	-1.21	-1.07
Basic earnings per share (after deducting non- recurring profits and losses) (RMB/share)	-1.24	-1.24	-1.10
Weighted average return on net assets (%)	-23.95	-31.35	-27.47
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-24.54	-32.13	-28.15
<b>Scenario 2: Net profit before and after deducting non-recurring profits and losses in 2022 decreased by 50% as compared with 2021</b>			
Total share capital (10,000 shares) (Note 1)	1,373,496.12	1,373,496.12	1,550,174.56
Net profit attributable to shareholders of the listed company (RMB10,000)	-1,664,231.00	-832,115.50	-832,115.50
Net profit attributable to shareholders of the listed company after deducting non- recurring profits and losses (RMB10,000)	-1,705,646.20	-852,823.10	-852,823.10
Owners' equity attributable to the listed company (RMB10,000)	6,140,251.90	5,308,136.40	6,808,136.40
Basic earnings per share (RMB/share)	-1.21	-0.61	-0.54
Basic earnings per share (after deducting non- recurring profits and losses) (RMB/share)	-1.24	-0.62	-0.55

**APPENDIX III**

**DILUTION OF CURRENT RETURNS,  
REMEDIAL MEASURES AND THE CORRESPONDING  
UNDERTAKINGS OF RELEVANT ENTITIES FOR  
THE NON-PUBLIC ISSUANCE OF A SHARES IN 2022**

Items	31 December 2022/year 2022 (E)		
	31 December 2021/year 2021	Before the Non-public Issuance	After the Non-public Issuance
Weighted average return on net assets (%)	-23.95	-14.54	-12.85
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-24.54	-14.90	-13.17
<b>Scenario 3: Break-even is achieved in 2022 and the net profit is RMB0 both before and after deducting non-recurring profits and losses</b>			
Total share capital (10,000 shares) (Note 1)	1,373,496.12	1,373,496.12	1,550,174.56
Net profit attributable to shareholders of the listed company (RMB10,000)	-1,664,231.00	-	-
Net profit attributable to shareholders of the listed company after deducting non-recurring profits and losses (RMB10,000)	-1,705,646.20	-	-
Owner's equity attributable to the listed company (RMB10,000)	6,140,251.90	6,140,251.90	7,640,251.90
Basic earnings per share (RMB/share)	-1.21	-	-
Basic earnings per share (after deducting non-recurring profits and losses) (RMB/share)	-1.24	-	-
Weighted average return on net assets (%)	-23.95	-	-
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-24.54	-	-

**APPENDIX III**

**DILUTION OF CURRENT RETURNS,  
REMEDIAL MEASURES AND THE CORRESPONDING  
UNDERTAKINGS OF RELEVANT ENTITIES FOR  
THE NON-PUBLIC ISSUANCE OF A SHARES IN 2022**

Items	31 December 2022/year 2022 (E)		
	31 December 2021/year 2021	Before the Non-public Issuance	After the Non-public Issuance
<b>Scenario 4: Profit is recorded for year 2022 and the net profit before and after deducting the non-recurring profits and losses remained flat as that of 2019</b>			
Total share capital (10,000 shares) (Note 1)	1,373,496.12	1,373,496.12	1,550,174.56
Net profit attributable to shareholders of the listed company (RMB10,000)	-1,664,231.00	640,857.60	640,857.60
Net profit attributable to shareholders of the listed company after deducting non-recurring profits and losses (RMB10,000)	-1,705,646.20	617,387.20	617,387.20
Owner's equity attributable to the listed company (RMB10,000)	6,140,251.90	6,781,109.50	8,281,109.50
Basic earnings per share (RMB/share)	-1.21	0.47	0.41
Basic earnings per share (after deducting non-recurring profits and losses) (RMB/share)	-1.24	0.45	0.40
Weighted average return on net assets (%)	-23.95	9.92	8.89
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-24.54	9.56	8.56

*Note 1:* As of the date of the announcement of this plan, the total share capital of the Company was 14,524,815,200 shares, of which 789,854,000 shares were eliminated for reciprocal shareholding by Cathay Pacific and the relevant portion of the share capital was deducted in calculating the earnings per share, therefore the calculation is based on 13,734,961,200 shares.

*Note 2:* Basic earnings per share and diluted earnings per share are calculated in accordance with the "Compilation Rules for Information Disclosure of Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share".

## **II. SPECIAL RISK WARNING ON THE DILUTION OF CURRENT RETURNS AS A RESULT OF THE ISSUANCE**

After the completion of the Non-public Issuance, the total share capital and net assets of the Company will increase, which will help to enhance the Company's risk resistance capability and thus achieve its strategic goals, however, the use of proceeds and the realisation of the relevant benefits will take a certain period of time. Where both the total share capital and net assets of the Company increase, there may still be a risk that the Non-public Issuance may dilute the current returns of the Company for the year in which the issuance is completed if a corresponding growth does not occur in the Company's profit. In addition, once

there is any significant change in the assumed conditions of the above analysis or the operation of the Company, we cannot rule out the possibility that the issuance may result in changes in the dilution of current returns.

The Company hereby reminds investors to invest rationally and pay attention to the risks that the Non-public Issuance may dilute the current returns. In the medium to long-run, with the full utilization of the proceeds raised and further development of the Company's principal business, the Company's ability to sustain its profitability and core competence will be further enhanced, which will in turn boost the Company's indicators including earnings per share and return on net assets.

**III. RELATIONSHIP BETWEEN THE INVESTMENT PROJECTS OF PROCEEDS AND THE EXISTING BUSINESSES OF THE COMPANY AND THE COMPANY'S RESERVE STATUS OF, AMONG OTHERS, PERSONNEL, TECHNOLOGIES AND MARKETS INVOLVED IN THESE PROJECTS**

**(I) Investment projects of proceeds from the Non-public Issuance**

The gross proceeds from the Non-public Issuance (including issuance expenses) shall be no more than RMB15,000 million (inclusive). The net proceeds after deducting the issuance expenses shall be used in the following projects:

No.	Name of projects	Total investment amount <i>(RMB100 million)</i>	Proposed amount of proceeds to be applied <i>(RMB100 million)</i>
1	Introducing 22 aircraft	256.53	108.00
2	Replenishing the working capital	42.00	42.00
<b>Total</b>		<b>298.53</b>	<b>150.00</b>

**(II) Relationship between the investment projects of proceeds and the existing businesses of the Company**

The projects funded by the proceeds from the Non-public Issuance are related to the principal business of the Company. Upon completion of the investment projects of proceeds, the project in relation to the introduction of 22 aircraft will further expand the fleet size, optimize the fleet age structure, enhance its air transportation capacity, increase the frequency of existing flights and lay a foundation for introducing new routes; the project in relation to the supplement to working capital will help to enhance the financial condition, optimize the capital structure and enhance the risk resistance capability of the Company. The investments in relation to proceeds from the Non-public Issuance will focus on the principal business of the Company, and are in line with the scale of business, technology level and management capabilities of the Company.

**(III) Reserve status of, among others, personnel, technologies, resources and markets of the Company involved in investment projects of proceeds****1. Personnel reserve**

In terms of personnel reserve, the Company has nurtured a number of experienced and excellent management personnel and core technicians over the years. As at the end of 2021, Air China Limited had 10,644 pilots, 13,146 engineering and maintenance personnel, 11,698 ground service personnel, 23,382 cabin service personnel, 10,856 management and management support personnel, 5,337 marketing personnel, 4,531 production and operation personnel, 6,964 production support personnel and 809 information technology personnel.

Meanwhile, the Company places great emphasis on employee training. The Company closely focused on strategic work priorities and actively explored ways to carry out cadre education and training under normalized pandemic prevention and control. In terms of online training, in response to the growing demand for personalized and differentiated online learning among cadres and employees, the Company iterated and optimized the WeChat learning platform “CNAHC Leadership” by enriching training course content, improving platform functions and organizing innovative activities.

As for core technicians, the Company provided various types of qualification training for pilots, flight attendants, flight trainees, aircraft maintenance personnel, aviation dispatch personnel and ground service personnel during the pandemic. Through continuously optimizing the training content, actively developing course resources and flexibly using a variety of teaching methods to improve the quality and effectiveness of training, the relevance, practicality and effectiveness of training is constantly improved, providing a solid guarantee for the Company to achieve high-quality training.

As for backup talents, the Company paid attention to the establishment of a talent team. The Company has established a sound medium-to-long-term incentive mechanism to strengthen the positive incentives for core talents; dynamically optimized the pandemic subsidy policy, and implemented the subsidies for aircrew and front-line staff of pandemic prevention and control; established a sound salary benchmarking and analysis mechanism to promote differentiated and precise incentives, which effectively stimulated the vitality of the workforce.

**2. Technologies and resources reserve**

As the only national flag carrier in China, the Company bears the historical responsibility of building a national airline company and implementing the “strategy of building China into a strong civil aviation powerhouse”. Currently, the Company has an extensive international route and a balanced domestic and international network, and the fleet structure is continuously optimized. As at the end of 2021, the Company had a total of 746 passenger aircraft including business jets, with an average age of 8.23 years. Through years of

operation, the Company's core resources are better aligned with the market characteristics, established long-term development advantages of the fleet, and optimized the efficiency of flight and human resource allocation. With Beijing as the hub and based on the Yangtze River Delta, the Pearl River Delta and the Chengdu-Chongqing Economic Zone, the Company's route network connects domestic key routes and regional routes, provides comprehensive support for international routes, forms an extensive and balanced domestic and international route network covering the most economically-developed and densely-populated regions in China, and has an absolutely leading edge in respect of mainstream international routes including Europe and the United States.

### **3. *Markets reserve***

In line with the Company's hub network strategy, the Company targeted the mainstream market of mid-to-high-end government and business passengers, which is currently the most valuable passenger group in China. As at the end of 2021, the number of "Phoenix Miles" members has exceeded 72.0656 million. For the purpose of maintaining a stable premium membership base under the normalization of the pandemic, the Company timely launched an adaptive membership protection scheme in stages. The number of registered users of Air China APP has exceeded 14.2 million, demonstrating a stable yet rapid growth.

The Company's principal base is located at Beijing Capital International Airport, which ranks among the top in the world in terms of annual passenger throughput. It is located at the intersection of Europe, America and Asia and is also a place with large business passenger bases. The advantages of Beijing in terms of both geographical location and customer structure are favourable to the Company for maintaining a higher level of revenue. Upon the commencement of operation of Daxing International Airport in 2019, the operation model of "One Airport, Two Terminals" was officially launched by the Company in January 2021. As the principal base airline that currently operates in both airports and generates the largest business volume, the Company embraces the historic opportunities arising from the establishment of the Beijing Hub.

## **IV. SPECIFIC REMEDIAL MEASURES FOR DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

In order to protect the interests of general investors and reduce the impact of the possible dilution of current returns due to the Non-public Issuance of shares, the Company intends to adopt various measures to prevent the risk of dilution of current returns and achieve sustainable business development, so as to maximize future earnings. The specific measures the Company intends to take are as follows:



**(I) Enhance the operation management and internal control to improve the operation efficiency and profitability**

By focusing on its development objective of “accelerating the development of a world-class aviation and transportation group with global competitiveness”, the Company will adhere to the four strategic directions of “hub network, balanced development of cargo and passenger services, cost leadership and brand strategy”, and focus on such key areas including safety management enhancement, market layout optimization, resource structure adjustment, product service upgrade, digital innovation development, green and low-carbon development, and promote work implementation. At the same time, the Company will strengthen its daily operation management and internal control, establish the long-term development advantages of the fleet, optimize the efficiency of flight and human resource allocation, and continuously enhance the alignment between the maintenance and investment layout and the development layout of the principal businesses, so as to comprehensively improve the Company’s daily operation efficiency, reduce its operating costs and enhance operating performance.

**(II) Enhance the management and usage of the proceeds to prevent the risks in connection with the use of proceeds**

Upon the completion of the Non-public Issuance, pursuant to the Proceeds Management System and resolutions of the Board of the Company, the Company will set up a special account of proceeds for the proceeds from the Non-public Issuance. The Company, the account-opening bank and the sponsor will enter into a tripartite supervision agreement for proceeds, pursuant to which, the sponsor, the account-opening bank and the Company shall jointly manage the proceeds, and regularly examine the deposit and use of proceeds to ensure the reasonable and compliant use of proceeds.

**(III) Continuously improve corporate governance to provide an institutional safeguard for the development of the Company**

The Company will strictly comply with the requirements of the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Stock Listing Rules of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》) and other relevant laws, regulations and normative documents, continuously improve the corporate governance structure, and ensure that shareholders can fully exercise their rights, that the Board can exercise its functions and powers in accordance with the provisions of laws, regulations and articles of association, make scientific, prompt and prudent decisions, and ensure that independent directors can earnestly perform their duties. The Company will safeguard its overall interests, especially the legitimate rights and interests of minority shareholders, and ensure that the board of supervisors can independently and effectively exercise the right to supervise and inspect the directors, managers and other senior managers and the Company’s finance, so as to provide an institutional safeguard for the development of the Company.

Investors should note that formulating measures on recovering dilution of returns does not amount to a guarantee of the Company's future profits. The Company will continue to disclose the completion status of the measures on recovering dilution of current returns and the performance of the commitments by the relevant undertaking parties in the subsequent regular reports.

Given the above, upon completion of the Non-public Issuance, the Company will strengthen the internal management, consolidate its main business, rationally regulate the use of the proceeds raised, improve the fund utilization efficiency, take various measures to continuously improve operating performance, and actively promote the profit distribution to shareholders upon the satisfaction of the conditions for profit distribution, so as to improve the Company's ability to return to its investors, and effectively reduce the risks faced by the shareholders in connection with the dilution of current returns.

**V. UNDERTAKINGS TO ENSURE THE EFFECTIVE IMPLEMENTATION OF REMEDIAL MEASURES ON DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

**(I) Undertakings made by the directors and senior management of the Company**

To secure the effective implementation of measures on recovering dilution of current returns upon completion of the issuance of the Company, the directors and senior management of the Company make the following undertakings:

- “1. I hereby undertake to faithfully and diligently discharge my duties and protect the legitimate interests of the Company and all Shareholders;
2. I hereby undertake not to transfer any benefits to other entities or individuals unconditionally or unfairly nor otherwise take any actions which may damage the interests of the Company;
3. I hereby undertake that my own expenditures during my performance of duties shall be regulated;
4. I hereby undertake not to use any assets of the Company for any investment or expenditure which is unrelated to the performance of my duties;
5. I hereby undertake that the remuneration policy formulated by the Board or the remuneration committee shall be linked with the implementation of measures on recovering dilution of returns of the Company;
6. I hereby undertake that if the Company intends to implement any share incentive plan in the future, the conditions of the proposed share incentive plan of the Company shall be linked with the implementation of measures on recovering dilution of returns of the Company;

7. I hereby undertake to make any supplemental undertakings in accordance with the latest requirements of the CSRC if the above undertakings are not able to meet other new regulatory requirements of the CSRC issued in respect of the measures on recovering dilution of returns and related undertakings after the date of making these undertakings and before the completion of the Non-public Issuance of the Company;
8. I hereby undertake to earnestly implement the measures on recovering dilution of returns formulated by the Company and to perform my undertakings made in respect of the measures on recovering dilution of returns. If I violate the above undertakings and cause losses to the Company or investors, I undertake to assume the corresponding legal liabilities according to laws.”

**(II) Undertakings made by the controlling shareholder of the Company**

To secure the effective implementation of measures on recovering dilution of current returns upon completion of the issuance of the Company, CNAHC Group, being the controlling shareholder of the Company, makes the following undertakings pursuant to relevant requirements of the CSRC:

- “1. The Company will strictly comply with laws and regulations and relevant regulatory rules of the CSRC and the Shanghai Stock Exchange, will not exceed its power to intervene in the operation and management activities of the listed company and will not infringe the interests of the listed company;
2. The Company undertakes to make supplemental undertakings in accordance with the latest requirements of the CSRC if the above undertakings are not able to meet other new regulatory requirements of the CSRC issued in respect of the measures on recovering dilution of returns and related undertakings after the date of making these undertakings and before the completion of the Non-public Issuance;
3. The Company undertakes to earnestly implement the measures on recovering dilution of returns formulated by the listed company and to perform the undertakings made by the Company in respect of the measures on recovering dilution of returns. If the Company violates the above undertakings and cause losses to the listed company or investors, the Company undertakes to indemnify the Company or investors in respect of any losses incurred in accordance with the laws;
4. As one of the related persons-in-charge of the measures on recovering dilution of returns, if the Company violates the above undertakings or refuses to perform such undertakings, the Company consents to accept the execution of relevant punishment or adoption of relevant regulatory measures by securities regulatory authorities such as the CSRC and the Shanghai Stock Exchange pursuant to relevant requirements and rules formulated or issued by them.”

**VI. PROCEDURES OF CONSIDERATION FOR THE REMEDIAL MEASURES ON DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE AND THE UNDERTAKINGS THEREFOR**

The dilution of current returns, remedial measures and the corresponding undertakings of relevant entities for the Non-public Issuance of A Shares in 2022 have been considered and approved at the 6th ordinary meeting of the 6th session of the Board of the Company, and are subject to consideration at the general meeting.

The Company will continue to disclose the progress of implementation of the undertakings of the relevant undertaking parties in the periodic report.

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## **APPENDIX IV                      FUTURE PLAN FOR RETURN TO THE SHAREHOLDERS FOR THE COMING THREE YEARS (2022–2024)**

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In order to improve and enhance the shareholder return and dividend distribution systems of Air China Limited, establish a scientific, sustainable and stable dividend distribution decision-making and monitoring mechanism, as well as guiding investors towards long-term investment and reasonable investment principles, the Board of the Company has, based on the actual situation of the Company, formulated the Shareholder Dividend and Return Plan of the Company for the Coming Three Years (2022- 2024) (the “Plan”) according to the relevant requirements of the Notice on Further Implementing Matters

Regarding Distribution of Cash Dividends by Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and Regulatory Guidelines on Listed Companies No. 3 – Cash Dividends of Listed Companies (《上市公司監管指引3號——上市公司現金分紅》) issued by the CSRC, the Guidelines on the Distribution of Cash Dividends by Listed Companies of the Shanghai Stock Exchange (《上海證券交易所上市公司現金分紅指引》) and the Rules Governing the Listing of Stocks of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》) issued by the Shanghai Stock Exchange, and the provisions of the Articles of Association. Details of the Plan are as follows:

### **(I) FACTORS CONSIDERED BY THE COMPANY IN THE FORMULATION OF THE PLAN**

In order to achieve long-term and sustainable development, the Company considers various factors, such as the actual circumstances and development goals of the Company, wishes and desires of the shareholders, external financing costs, financing environment, together with the profit scale, cash flow, stage of development and current capital requirements, so as to achieve a balance between the short-term benefits and long-term returns of the shareholders. It has also established a sustainable, stable and scientific return plan and mechanism for investors and set up distinct systematic arrangements for profit distribution of the Company in order to ensure the continuity and stability of its profit distribution policy.

### **(II) PRINCIPLES IN THE FORMULATION OF THE PLAN**

The Plan was formulated under laws, regulations and normative documents, including the Company Law of the People’s Republic of China, and the Articles of Association. The Company implements a sustainable and stable profit distribution policy, while taking full account of the opinions of the shareholders, especially the minority shareholders and independent directors. As for profit distribution, the Company places emphasis on reasonable investment returns for investors, while taking into account of its sustainable development. Provided that the requirements of the Company’s production operations and sustainable development for funds are satisfied, priority shall be given to the distribution of cash dividends. The Company’s comprehensive cash dividend system maintains the consistency, rationality and stability of the cash dividend policy. Meanwhile, based on the current situation of the Company’s operation and business development goals, the Company shall give due consideration to the use of retained earnings after distributing cash dividends and its own funds so as to ensure further stable growth of operation and long-term investment returns for shareholders in the future.

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**APPENDIX IV                      FUTURE PLAN FOR RETURN TO THE SHAREHOLDERS  
FOR THE COMING THREE YEARS (2022–2024)**

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**(III) DETAILS OF THE SHAREHOLDER DIVIDEND AND RETURN PLAN FOR THE COMING THREE YEARS (2022-2024)**

**1. Profit distribution method of the Company**

The Company shall distribute dividends by way of cash, shares or a combination of cash and shares, or in other forms as permitted by laws, administrative regulations, departmental rules and regulatory rules of the places where the Company is listed. The Company shall give priority to dividend distribution by way of cash dividends according to the actual circumstance.

The Company may, when operating well, propose the dividend distribution plan by way of shares if the conditions for cash dividend distribution are satisfied, with the Board of Directors considering that the Company's share price is not compatible with the share capital scale of the Company and that the distribution of share dividends is in the interest of all shareholders of the Company as a whole. Having taken full account of the return to investors, the Company may distribute dividends to the shareholders on an annual basis in a fixed proportion out of the distributable profit realised for that year as shown in the financial statements of the parent company. The Company may distribute interim profit where the relevant conditions are satisfied.

**2. Profit distribution conditions and proportion**

*(1) Specific conditions, proportion and time interval for distribution of cash dividends*

Except for special circumstances, if the distributable profit (meaning the profits after covering losses, appropriating reserves and deducting other items from the after-tax profits as approved by the relevant state departments in accordance with the Articles of Association) achieved for the year as shown in the financial statements of the parent company prepared in accordance with applicable domestic and foreign accounting standards and regulations are positive, the Company shall adopt the cash dividend distribution method and distribute not less than 15% of the applicable distributable profit in cash each year.

Special circumstances refer to the view of the Board of Directors that the continuous operation and long-term development of the Company will be affected by the cash dividends distribution.

When the conditions for the distribution of cash dividends are satisfied, the Company shall generally distribute cash dividends once a year. The Board of Directors may propose the distribution of interim cash dividends by the Company according to the profitability status and financial requirements of the Company.

(2) *Conditions for distribution of stock dividends*

The Company may propose a stock dividend distribution plan when the aforesaid conditions for cash dividend distribution are satisfied and as the Company is operating well, the Board of Directors considers that the Company's stock price is not compatible with the equity scale of the Company and that the distribution of stock dividends is in the interest of all shareholders of the Company as a whole.

(3) *Differentiated cash dividend policy*

For the next three years, with the following circumstances identified, the Board of Directors shall propose a differentiated cash dividend policy after making an overall consideration of various factors, such as the characteristics of the industry in which the Company operates, the stage of development, its business model, profitability levels and whether major capital expenditure arrangements exist, in accordance with the procedures stipulated in the Articles of Association:

- ① where the Company is in a mature stage of development without significant capital expenditure arrangements, when distributing profits, cash dividends shall account for a minimum of 80% of the profits to be distributed;
- ② where the Company is in a mature stage of development with significant capital expenditure arrangements, when distributing profits, cash dividends shall account for a minimum of 40% of the profits to be distributed;
- ③ where the Company is in a growth stage of development with significant capital expenditure arrangements, when distributing profits, cash dividends shall account for a minimum of 20% of the profits to be distributed;

if it is not easy to identify the Company's stage of development but significant capital expenditure arrangements exist, profit distribution may be made in accordance with the previous provision.

The stage in which the Company is located before an actual distribution of dividends shall be determined by the Board of Directors according to the specific circumstances at the time.

**3. Profit distribution review procedures**

The Company's dividend distribution proposal prepared by the Company's management shall be submitted to the Board of Directors and the Supervisory Committee for consideration. The Board of Directors shall discuss fully the rationality of the profit distribution proposal while the independent directors shall express their independent opinions on the proposal. The Board of Directors shall, after making a special resolution, submit the proposal to the shareholders' general meeting for consideration.

When formulating the specific proposal for cash dividends, the Board of Directors shall carefully examine and deliberate various matters, such as the timing, conditions, minimum proportion, conditions for adjustment and requirements of its decision-making process in respect of the Company's distribution of cash dividends, while the independent directors shall express their opinion thereon. The independent directors may solicit the views of small and medium shareholders, propose a dividend distribution proposal and submit it directly to the Board of Directors for consideration.

**(IV) FORMULATION OF AND ADJUSTMENTS TO THE SHAREHOLDER RETURN PLAN**

1. The Company shall formulate and adjust the shareholder return plan in accordance with the requirements of laws, regulations, normative documents and regulatory authorities, as well as the actual circumstances of the Company and the opinions of the shareholders (especially small and medium shareholders).
2. Having taken full account of the profit scale, cash flow, stage of development and current capital requirements of the Company, as well as the opinions of the shareholders (especially small and medium shareholders), the Company shall formulate the shareholder return plan, while the Board of Directors shall review and deliberate matters relating to shareholder returns and the independent directors shall express their independent opinions thereon, and the plan will be submitted to the shareholder's general meeting for consideration and approval.
3. If it is really necessary for the Company to adjust its established shareholder return plan due to the external business environment or the Company's business needs, the Board of Directors shall discuss in detail the reasons for such adjustment, and compile a discussion report, which shall be considered by the independent directors first and then submitted to the shareholders' general meeting for approval by way of special resolution. In considering any changes to the dividend distribution policy, the Company may take the initiative in communicating and exchanging opinions with the shareholders, especially small and medium shareholders, through various channels (e.g. online voting and inviting small and medium shareholders to meetings) to fully listen to their views and appeals, and give a timely reply to their questions of concern.

**(V) OTHER MATTERS IN RELATION TO THE PLAN**

1. The Plan shall be effective from the date of consideration and approval at a shareholders' general meeting of the Company, and these provisions shall apply likewise to any revisions to the Plan.
2. Any matters not covered herein shall be handled in accordance with the requirements of relevant laws and regulations as well as normative documents and the Articles of Association.
3. The Plan shall be construed by the Board of Directors of the Company.



## 1. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out in this circular information for the last three financial years with respect to the profits and losses, financial record and position and the latest published balance sheet together with the notes to the consolidated financial statements of the Group for the last financial year.

The audited consolidated financial statements of the Group (i) for the year ended 31 December 2021 has been set out from page 84 to page 90 of the 2021 annual report of the Company published on 25 April 2022; (ii) for the year ended 31 December 2020 has been set out from page 87 to page 93 of the 2020 annual report of the Company published on 26 April 2021, and (iii) for the year ended 31 December 2019 has been set out from page 90 to page 96 of the 2019 annual report of the Company published on 27 April 2020. The financial statements have been published on the Stock Exchange's website at <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042502186.pdf>, <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042601958.pdf> and <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042702500.pdf>, and the Company's website at <http://www.airchina.com>.

## 2. INDEBTEDNESS

As at 30 June 2022, being the latest practicable date for the purpose of determining the indebtedness of the Group prior to the printing of this circular, except for the authorised or created but unissued debt securities and contingent liabilities, the Group had total outstanding indebtedness of RMB207,785 million, details of which are as follows:

	<i>Notes</i>	<b>RMB</b> <i>(in million)</i>
<b>Bank loans</b>		
– unsecured and unguaranteed		75,101
– secured and unguaranteed	(i)	<u>1,475</u>
		<u>76,576</u>
<b>Loans from the ultimate holding company</b>		
– unsecured and unguaranteed		<u>16,611</u>
<b>Loans from fellow subsidiaries</b>		
– unsecured and unguaranteed		<u>1,436</u>
<b>Corporate bonds</b>		
– unsecured and unguaranteed		9,314
– unsecured and guaranteed	(ii)	<u>6,684</u>
		<u>15,998</u>

	<i>Notes</i>	<b>RMB</b> <i>(in million)</i>
<b>Short-term commercial papers payable</b>		
– unsecured and unguaranteed		<u>4,061</u>
<b>Lease liabilities</b>		
– leases of aircraft containing a purchase option		
– unsecured and unguaranteed		59,059
– leases of aircraft not containing a purchase option		
– secured and unguaranteed	(iii)	22,854
– unsecured and guaranteed	(iv)	8,794
– secured and guaranteed	(v)	218
– unsecured and unguaranteed		<u>277</u>
		<u>32,143</u>
– leases of buildings and others		
– unsecured and unguaranteed		<u>1,901</u>
		<u>93,103</u>
<b>Total</b>		<b><u>207,785</u></b>

*Notes:*

- (i) The Group's bank loans with an aggregate amount of approximately RMB1,475 million as at 30 June 2022 were secured by charges over certain of the Group's assets, including aircraft, engines and flight equipment, other equipment, buildings and land use rights.
- (ii) The Group's corporate bonds with an aggregate amount of approximately RMB6,684 million as at 30 June 2022 were guaranteed by China National Aviation Holding Corporation Limited, the ultimate holding company of the Company.
- (iii) The Group's secured and unguaranteed lease liabilities with an aggregate amount of approximately RMB22,854 million as at 30 June 2022 were related to leases of aircraft not containing a purchase option and secured by rental deposits.
- (iv) The Group's unsecured and guaranteed lease liabilities with an aggregate amount of approximately RMB8,794 million as at 30 June 2022 were related to leases of aircraft not containing a purchase option and guaranteed by letters of guarantee.
- (v) The Group's secured and guaranteed lease liabilities with an aggregate amount of approximately RMB218 million as at 30 June 2022 were related to leases of aircraft not containing a purchase option and secured by rental deposits and guaranteed by letters of guarantee.

As at 30 June 2022, the Group had a total amount of authorised or created but unissued debt securities of RMB40,800 million, which was unsecured and unguaranteed, including RMB14,500 million with a validity period ending December 2022, RMB3,300 million with a validity period ending January 2023, RMB3,000 million with a validity period ending June 2024, and RMB20,000 million with a validity period ending June 2024, respectively.

### **Contingent liabilities**

As at 30 June 2022, the Group had the following significant contingent liabilities:

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

Except as disclosed above and apart from intra-group liabilities and normal trade payables, as at 30 June 2022, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, debentures, any other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, recognised lease obligations or hire purchase commitments, mortgages, charges, material contingent liabilities or guarantees.

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE**

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

As at the Latest Practicable Date, none of the Directors or Supervisors has any direct or indirect interest in any assets which have been, since 31 December 2021 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; none of the Directors or Supervisors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

Mr. Patrick Healy is a non-executive Director of the Company and is concurrently the chairman of the board of directors and an executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H Shares as at the Latest Practicable Date. Mr. Song Zhiyong, the chairman of the Company and an executive Director, and Mr. Ma Chongxian, an executive Director, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates airline services to certain destinations which are also served by the Company.

Save as mentioned above, as at the Latest Practicable Date, none of the Directors or Supervisors and their respective close associates (as defined under the Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder of the Company.

## 3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors were aware, the following persons (not being a Director or Supervisor or chief executive of the Company or their associate) had an interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

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

*Notes:*

1. By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A Shares and 223,852,000 H Shares directly held by CNACG.
2. By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 57.89% equity interest and 66.24% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 45.00% interest in Cathay Pacific as at the end of the Reporting Period, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.
3. The letter "L" denotes a long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, no other persons (not being a Director or chief executive of the Company or their associate) had any interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

#### **4. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

As at the Latest Practicable Date, none of the Directors or Supervisors 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).

#### **5. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS**

The followings are the particulars of Directors' and Supervisors' employment with substantial Shareholders (which have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO) as at the Latest Practicable Date:

##### **Directors**

Mr. Song Zhiyong, the chairman of the Board, an executive Director and the Secretary of the Communist Party Committee of the Company, serves as a non-executive director and the vice chairman of the board of directors of Cathay Pacific and the chairman of the board of directors of CNACG.

Mr. Ma Chongxian, an executive Director, the president and the Deputy Secretary of the Communist Party Committee of the Company, serves as a director, the general manager and the Deputy Secretary of the Communist Party Group of CNAHC. He is also a non-executive director of Cathay Pacific.

Mr. Feng Gang, a non-executive Director and the Deputy Secretary of the Communist Party Committee of the Company, serves as a director and the Deputy Secretary of the Communist Party Group of CNAHC.

Mr. Patrick Healy, a non-executive Director of the Company, is the chairman of the board of directors and an executive director of Cathay Pacific, a director of Swire Pacific Limited and a director and chairman of the charity committee of John Swire & Sons (H.K.) Limited.

##### **Supervisors**

Mr. He Chaofan, a Supervisor of the Company, serves as a director, the president and a member of the Party Committee of CNACG.

Ms. Lyu Yanfang, a Supervisor of the Company, serves as the general manager of the legal department of CNAHC.

Ms. Guo Lina, a Supervisor of the Company, serves as the general manager of the audit department of CNAHC.

## 6. MATERIAL ADVERSE CHANGE

Other than the impact brought by the sporadic outbreak of the pandemic and as disclosed in the profit warning announcement of the Company dated 15 July 2022, the Directors confirm that there has been no material adverse change in the Group's financial or trading position since 31 December 2021, being the date to which the latest published audited financial statements of the Group have been made up.

## 7. LITIGATION

As at the Latest Practical Date, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there were no litigation or claims of material importance pending or threatened against any member of the Group.

## 8. EXPERT

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

<b>Name</b>	<b>Qualification</b>
Gram Capital	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities under the SFO
(a)	As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited financial statements of the Group were made up);
(b)	As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group and had no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
(c)	Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

**9. MATERIAL CONTRACTS**

The Group has entered into the following material contracts within the two years immediately preceding the date of this circular:

- (a) the Share Subscription Agreement;
- (b) the aircraft purchase agreement dated 18 March 2021 entered into among the Company, Air China Import and Export Co., Ltd. (國航進出口有限公司) and AFS Investments I, Inc. in relation to the purchase of five new Airbus A320-200N aircraft and 13 new Airbus A321-200NX aircraft at a basic price (before price concessions) of approximately US\$2,236.5 million (equivalent to approximately HK\$17,355.2 million);
- (c) the Air China Aircraft Purchase Agreement; and
- (d) the Shenzhen Airlines Aircraft Purchase Agreement.

Except as disclosed above, no other material contract has been entered into by the Group within the two years immediately preceding the date of this circular.

**10. MISCELLANEOUS**

- (a) The joint company secretaries of the Company are Mr. Huang Bin and Mr. Huen Ho Yin. Mr. Huen Ho Yin is a practicing solicitor of the High Court of Hong Kong.
- (b) The registered address of the Company is at 1st Floor – 9th Floor 101, Building 1, 30 Tianzhu Road, Shunyi District, Beijing, the PRC. The head office of the Company is at No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC.
- (c) The H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**11. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.airchina.com.cn](http://www.airchina.com.cn)) before the EGM for a period of 14 days:

- (a) the Share Subscription Agreement;
- (b) the Air China Aircraft Purchase Agreement;
- (c) the Shenzhen Airlines Aircraft Purchase Agreement; and
- (d) this circular.



In respect of the Transaction, the Company has applied to the Hong Kong Stock Exchange for a waiver for the Transaction from strict compliance with Rule 14.66(10) and Appendix 1B paragraph 43(2)(b) to the Listing Rules, so that only the redacted version of the Air China Aircraft Purchase Agreement and the Shenzhen Airlines Aircraft Purchase Agreement will be available for display to the public. Subject to the Hong Kong Stock Exchange's approval, the Company will make further announcement(s) as appropriate.