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

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

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

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

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 753)**

**CONNECTED TRANSACTION:  
PURCHASE OF EQUITY INTEREST  
IN AIR CHINA CARGO FROM CAPITAL AIRPORTS HOLDING COMPANY**

**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 4 to 8 of this circular and a letter from the Independent Board Committee is set out on pages 9 to 10 of this circular. A letter of advice from Kingsway Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the independent Shareholders of the Company is set out on pages 11 to 17 of this circular.

15 April 2009

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## DEFINITIONS

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

“A Shares”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in RMB on the Shanghai Stock Exchange
“Air China Cargo”	Air China Cargo Co., Ltd., a company with limited liability incorporated in the PRC, the registered share capital of which was owned by the Company (including indirect interest held through CNAC) and the Capital Airports Holding Company by 76% and 24%, respectively, immediately prior to the completion of the Transaction and is wholly-owned by the Company (including indirect interest held through CNAC) upon completion of the Transaction
“Associate(s)”	has the meaning ascribed hereto under the Listing Rules
“Board”	the board of directors of the Company
“Capital Airports”	Capital Airports Holding Company, an enterprise established in the PRC
“CNAC”	China National Aviation Company Limited, a company incorporated under the laws of Hong Kong with limited liability
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this circular
“CNAHC”	China National Aviation Holding Company, a company incorporated under the laws of the People’s Republic of China
“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H Shares are listed on the Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“H Shares”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company
“Independent Board Committee”	the independent board committee of the Company comprising Hu Hung Lick, Henry, Wu Zhipan, Zhang Ke and Jia Kang, all being independent non-executive Directors
“Kingsway” or “Independent Financial Adviser”	Kingsway Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity as defined in Schedule 5 of the SFO, being the independent financial adviser to the Independent Board Committee and the independent Shareholders of the Company in respect of the Transaction
“Latest Practicable Date”	8 April 2009, being the latest practicable date prior to the printing of this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Sale and Purchase Agreement”	an agreement relating to the sale and purchase of 24% of the issued share capital of Air China Cargo dated 2 April 2009 entered into among the Company and Capital Airports pursuant to which, among other things, the Company has agreed to purchase and Capital Airports has agreed to sell 24% of the issued share capital of Air China Cargo
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	registered holder(s) of the shares of the Company

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Transaction”	the transaction contemplated under the Sale and Purchase Agreement

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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: 753)**

**Directors:**

*Non-executive Directors:*

Kong Dong (*Chairman*)  
Wang Yinxiang (*Vice Chairman*)  
Wang Shixiang (*Vice Chairman*)  
Christopher Dale Pratt  
Chen Nan Lok, Philip

*Executive Directors:*

Cai Jianjiang  
Fan Cheng

*Independent Non-Executive Directors:*

Hu Hung Lick, Henry  
Wu Zhi Pan  
Zhang Ke  
Jia Kang

**Registered address:**

9th Floor, Blue Sky Mansion  
28 Tianzhu Road, Zone A  
Tianzhu Airport Industrial Zone  
Shunyi District  
Beijing, PRC

**Principal place of**

**business in Hong Kong:**

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

15 April 2009

*To the Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTION

#### 1. INTRODUCTION

On 2 April 2009, the Company entered into the Sale and Purchase Agreement with Capital Airports, pursuant to which the Company has agreed to purchase from Capital Airports its 24% equity interest in the registered capital of Air China Cargo.

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## LETTER FROM THE BOARD

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The Transaction constitutes a connected transaction of the Company under the Listing Rules.

The Independent Board Committee has been established to consider and advise the independent Shareholders of the Company in respect of the Transaction contemplated under the Sale and Purchase Agreement. Pursuant to the Listing Rules, Kingsway has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the independent Shareholders of the Company as to whether or not the terms of the Sale and Purchase Agreement contemplated thereunder are fair and reasonable so far as the independent Shareholders of the Company are concerned and are in the interests of the Company and the Shareholders as a whole.

The purposes of this circular are:

- (i) to set out further details of the Transaction;
- (ii) to set out the views from the Directors and the Independent Board Committee with regard to the Transaction; and
- (iii) to set out the letter of advice from Kingsway to the Independent Board Committee and the independent Shareholders of the Company in relation to the terms of the Transaction.

## 2. THE SALE AND PURCHASE AGREEMENT

### (1) Date of the Transaction

2 April 2009

### (2) Parties to the Transaction

- (i) The Company, as the purchaser, the principal business activity of which is carrying air passenger, carrying air cargo and providing airline-related services; and
- (ii) Capital Airports, as the vendor, the principal business activity of which is providing ground handling services to domestic and international airlines, providing operations and management services to member airports and other member entities, counters and premises rental, management of car parking, housing rental and properties management.

Immediately prior to the completion of the Transaction, Capital Airports owns 24% of the equity interest in Air China Cargo. As Air China Cargo is a subsidiary of the Company and Capital Airports is a substantial shareholder of Air China Cargo within the meaning of the Listing Rules, Capital Airports is

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## LETTER FROM THE BOARD

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therefore regarded as a connected person of the Company within the meaning of the Listing Rules. Accordingly, the Transaction between the Company and Capital Airports constitutes a connected transaction of the Company within the meaning of the Listing Rules.

### **(3) Asset to be acquired by the Company under the Transaction**

Pursuant to the Sale and Purchase Agreement, 24% of the equity interest in Air China Cargo shall be transferred from Capital Airports to the Company. Consequently, upon completion of the Transaction, the Company's interest in Air China Cargo (including indirect interest held through CNAC) will increase from 76% to 100%.

Air China Cargo operates general cargo services, special cargo services for goods and materials that require special handling, and mail and express services, through scheduled and unscheduled cargo flights and rented bellyhold space of the Company's passenger aircraft. The net profits of Air China Cargo for the financial years ended 31 December 2006 and 2007 were approximately RMB10.15 million (adjusted according to the PRC Accounting Standards for Business effective as of 1 January 2007) and RMB522.4 million respectively.

### **(4) Consideration**

Upon the incorporation of Air China Cargo, Capital Airports made a capital contribution in aggregate of RMB528 million, which represents 24% of the equity interest in the registered capital of Air China Cargo.

Pursuant to the Sale and Purchase Agreement, the aggregate consideration payable by the Company for the Transaction is equal to RMB718,004,045 and will be settled by cash on completion of the Transaction.

The consideration for the Transaction was determined through arm's length negotiation and was mutually agreed between the parties. The consideration for the Transaction was determined with reference to the net asset value of Air China Cargo as at 30 September 2008 and the consideration of the acquisition of 25% of the equity interest of the share capital of Air China Cargo on 3 January 2008 by the Company as set out in the circular of the Company dated 24 January 2008.

### **(5) Reasons for and benefits of the Transaction**

The Directors expect further growth in Chinese air cargo business and plan to increase the Company's investment in that sector as a strategic move with a view to bringing into Air China Cargo more aviation industry related experience and resources possessed by the Company and so that the Company may plan, as a whole, matters relating to transportation capabilities and maintenance. Upon completion of the Transaction, the Company's interest in Air China Cargo (including indirect interest held through CNAC) will increase from 76% to 100%.



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## LETTER FROM THE BOARD

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The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **(6) Financial information on Air China Cargo**

The net profits of Air China Cargo for the financial years ended 31 December 2006 and 2007 were approximately RMB10.15 million (adjusted according to the PRC Accounting Standards for Business effective as of 1 January 2007) and RMB-522.4 million respectively. As at 31 December 2008, Air China Cargo's total assets was RMB5,143 million (unaudited), total liabilities was RMB3,191 million (unaudited), shareholders' equity was RMB1,952 million (unaudited). The revenue of Air China Cargo for the year 2008 is RMB7,067 million (unaudited) and net profits is RMB41 million (unaudited). The book value of the 24% equity interest held by Capital Airports in Air China Cargo is RMB468 million (unaudited).

### **(7) Written approval by independent Shareholders**

As the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Transaction are above 2.5%, the Transaction constitutes a connected transaction of the Company subject to independent shareholders' approval. As at the Latest Practicable Date, CNAHC directly owns 4,949,066,567 shares (accounting for approximately 40.40% of the total issued share capital of the Company) and CNAHC through its wholly-owned subsidiary CNACG indirectly owns 1,447,334,920 shares (accounting for approximately 11.81% of the total issued share capital of the Company). Each of CNAHC and its associates (as defined in the Listing Rules, including CNACG) does not have any interest in the Transaction other than as a shareholder of the Company (where applicable). To the best knowledge of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Transaction. Pursuant to Rule 14A.43 of the Listing Rules, the Transaction has been approved by CNAHC and CNACG by way of a written approval in lieu of a shareholders meeting of the Company.

## **3. VIEWS OF THE DIRECTORS AND THE INDEPENDENT BOARD COMMITTEE**

The Directors believe that the Transaction is in the interests of the Company and the Shareholders as a whole. In particular, the Board, including the Independent Board Committee, considers that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders (including the independent Shareholders of the Company) as a whole.

## **4. INDEPENDENT BOARD COMMITTEE**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 9 to 10 of this circular and the letter of advice from Kingsway to the Independent Board Committee and the independent Shareholders of the Company in relation to the Sale and

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## LETTER FROM THE BOARD

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Purchase Agreement and the Transaction contemplated thereunder, and the principal factors and reasons considered by it in concluding its advice set out on pages 11 to 17 of this circular.

### 5. ADDITIONAL INFORMATION

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

By Order of the Board  
**Kong Dong**  
*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: 753)**

*Independent Board Committee*

Hu Hung Lick, Henry

Wu Zhipan

Zhang Ke

Jia Kang

15 April 2009

*To the independent Shareholders of the Company*

Dear Sirs or Madams,

#### **CONNECTED TRANSACTION**

We refer to the circular dated 15 April 2009 issued by the Company to its Shareholders (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the independent Shareholders of the Company on whether the terms of the Sale and Purchase Agreement are fair and reasonable so far as the independent Shareholders of the Company are concerned and are in the interests of the Company and the Shareholders as a whole.

Kingsway has been appointed as independent financial adviser to advise the Independent Board Committee and the independent Shareholders of the Company on the terms, the fairness and reasonableness of the Sale and Purchase Agreement and the Transaction contemplated thereunder. The text of the letter of advice from Kingsway, which contains details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 11 to 17 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having discussed with the management of the Company the reasons and the terms of the Transaction contemplated under the Sale and Purchase Agreement and having taken into account the advice of Kingsway, we are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Our view related to fairness and reasonableness is necessarily based on information, facts and circumstances currently prevailing.

Yours faithfully,

The Independent Board Committee

**Hu Hung Lick, Henry**

**Wu Zhipan**

**Zhang Ke**

**Jia Kang**

*Independent non-executive Directors*

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## LETTER FROM KINGSWAY

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*The following is the full text of a letter received from Kingsway setting out its advice to the Independent Board Committee and the independent Shareholders of the Company in respect of the Transaction for inclusion in the Circular.*



5/F, Hutchison House  
10 Harcourt Road  
Central, Hong Kong  
Tel. No.: (852) 2877-1830  
Fax. No.: (852) 2283-7722

15 April 2009

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

Dear Sirs,

**CONNECTED TRANSACTION:  
PURCHASE OF EQUITY INTEREST IN AIR CHINA CARGO  
FROM CAPITAL AIRPORT HOLDING COMPANY**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the acquisition of 24% of the equity interest of the registered capital of Air China Cargo by Air China Limited (the “**Company**”) (the “**Transaction**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 15 April 2009 (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 April 2009, the Company entered into the Sale and Purchase Agreement with Capital Airports, pursuant to which the Company has agreed to purchase from Capital Airports its 24% equity interest in the registered capital of Air China Cargo for an aggregate cash consideration amounted to RMB718,004,045.

Immediately prior to the completion of the Transaction, the Company held (including indirect interest held through CNAC) 76% equity interest of the registered capital of Air China Cargo. Upon the completion of the Transaction, the Company’s interest in Air China Cargo (including indirect interest held through CNAC) will increase from 76% to 100%.

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## LETTER FROM KINGSWAY

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Air China Cargo is a subsidiary of the Company and Capital Airports is a substantial shareholder of Air China Cargo, Capital Airports is therefore regarded as a connected person of the Company under the Listing Rules. In addition, the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Transaction are above 2.5%. Hence, the Transaction amongst the Company and Capital Airports constitutes a connected transaction of the Company and subject to the independent shareholders' approval. CNAHC directly owns 4,949,066,567 shares (accounting for approximately 40.40% of the total issued share capital of the Company) and CNAHC through its wholly-owned subsidiary CNACG indirectly owns 1,447,334,920 shares (accounting for approximately 11.81% of the total issued share capital of the Company). Each of CNAHC and its associates (as defined in the Listing Rules, including CNACG) does not have any interest in the Transaction other than as a shareholder of the Company (where applicable). To the best knowledge of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Transaction. Pursuant to Rule 14A.43 of the Listing Rules, the Transaction has been approved by CNAHC and CNACG by way of a written approval in lieu of a shareholders' meeting of the Company.

An Independent Board Committee comprising the independent non-executive Directors has been established to consider and advise the independent Shareholders of the Company in respect of the Transaction. In our capacity as the independent financial adviser to the Independent Board Committee and the independent Shareholders of the Company, our role is to provide the Independent Board Committee and the independent Shareholders of the Company with an independent opinion and recommendation as to whether the entering into of the Transaction is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our view and recommendation to the Independent Board Committee and the independent Shareholders of the Company, we have relied on the information, opinions and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company, which the Directors consider to be complete, accurate and relevant. We have assumed that all the information, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate as at the date of the Circular. We have also assumed that all the statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance, which would render the information provided and representations and opinions made to us by the Company, the Directors and the management of the Company untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors have confirmed that no material facts or representations have been withheld or omitted from the information provided and referred to in the Circular. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group, Air China Cargo and Capital Airports or any of their associates.

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## LETTER FROM KINGSWAY

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the independent Shareholders of the Company in respect of the Transaction, we have considered the following principal factors and reasons:

#### 1. Reasons for and benefits of the Transaction

##### (a) *Information on the Group*

The Company is principally engaged in carrying air passenger, carrying air cargo and providing airline-related services. The Company and Air China Cargo together have a total of 259 routes which included 177 domestic routes, 70 international routes, and 12 regional routes. The regular flights of the Company have been connecting 32 countries and regions around the world, including 85 domestic cities, 44 international cities and regions.

For the year ended 31 December 2007, the Group's turnover was approximately RMB51.3 billion, of which approximately RMB4.1 billion or approximately 8.0% was generated by the provision of air cargo services, representing an increase of approximately RMB44.2 million or approximately 1.1% as compared to the previous year. For the six months ended 30 June 2008, the Group's turnover was approximately RMB25.6 billion, of which approximately RMB3.7 billion or approximately 14.5% was generated by the provision of air cargo services, representing an increase of approximately 90.8% as compared to the same period last year.

Air China Cargo operates general cargo services, special cargo services for goods and materials that require special handling, and mail and express services, through scheduled and unscheduled cargo flights and rented belly hold space of the Company's passenger aircraft.

As stated in the circular of the Company dated 24 January 2008 (the "**Previous Circular**") and the Letter from the Board, the Directors expected further growth in China's air cargo business and planned to increase the Company's investment in that sector as a strategic move with a view to bringing into Air China Cargo more aviation industry related experience and resources possessed by the Company and so that the Company might plan as a whole, matters relating to transportation capabilities and maintenance. Hence, the Group acquired 25% equity interest of Air China Cargo in early 2008 (the "**Previous Acquisition**") in addition to the 51% equity interest it already has held, and intends to acquire the remaining 24% equity interest of Air China Cargo.

For the year ended 31 December 2007, Air China Cargo's turnover was approximately RMB7.0 billion, representing an increase of approximately RMB248.5 million or approximately 3.7% as compared to the previous year.

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## LETTER FROM KINGSWAY

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However, net loss of approximately RMB522.4 million was recorded which, as confirmed by the Company, was mainly attributable to the impairment of assets and increase in operating cost.

As stated in the 2008 interim report of the Company, the Directors considered that the global aviation industry, in particular, the Chinese aviation industry, experienced an unprecedented challenge in the first half of 2008 due to the global economic downturn, increased inflationary pressure, soaring fuel prices and damaging natural disasters. Nevertheless, there was a significant improvement in the cargo services of Air China Cargo during the period and profit was recorded in the first half of 2008 as a result of adjustment in the allocation of traffic capacity, improvement in the linkage between the passenger and cargo aircraft as well as improvement in the utilisation rate of cabin space.

According to the unaudited financial statements of Air China Cargo for the year ended 31 December 2008, the revenue was approximately RMB7.1 billion. Despite the financial crisis in the 2nd half of 2008, it turned from loss-making in 2007 to profitable in 2008, recorded net profit of approximately RMB41.0 million.

*(b) Growth in the air cargo industry in China*

According to the statistics of the National Bureau Statistics of China, the freight traffic and freight flows by civil aviation in China in 2008 was approximately 4.1 million tons and approximately 12.0 billion ton-kilometers, representing a growth rate of approximately 1.4% and approximately 2.8% respectively from that in 2007. According to the statistics of the Civil Aviation Administration of China, the freight traffic and freight flows by civil aviation in China in January 2009 decreased by approximately 29.0% and 32.0% respectively as compared to that last year. Nevertheless, the year-on-year decline narrowed to approximately 0.9% and 11.0% respectively in February 2009.

The Directors advise that the Group recorded a decrease in terms of tons of cargo and mail carried in January 2009. However, such reduction has substantially narrowed in the remaining period of the first quarter of 2009.

The Directors hold a long term view on the Group's air cargo business. Despite that the air cargo industry is currently subject to fluctuation, air cargo traffic is an indispensable aspect of the global economy, which is expected to turn around when the global economy recovers from the recent global financial crisis. Thus, they are optimistic about the long term prospect of the air cargo business, especially considering the PRC economy and the direct cross-strait flights which brings new opportunities to the industry.

Having taking into account of (i) the business strategy of the Group; (ii) the operating performance of Air China Cargo; and (iii) the growth in the air cargo industry in China, we are of the view that the entering into of the Transaction is in line with the Group's business strategy and in the ordinary and usual course of business of the Group.



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## LETTER FROM KINGSWAY

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### 2. Basis of the Consideration and terms of the Transaction

The aggregate consideration payable by the Company for the Transaction is equal to RMB718,004,045 (the “**Consideration**”) and will be fully settled by cash upon completion of the Transaction.

The Consideration was determined after arm’s length negotiation and was mutually agreed between the parties with reference to the net asset value of Air China Cargo as at 30 September 2008 and the consideration of the Previous Acquisition as set out in the Previous Circular. The implied valuation of the Transaction represents a discount to the implied valuation of the Previous Acquisition.

To ascertain the fairness and reasonableness of the Consideration, we have considered to compare the price to book ratio (“**P/B**”) and price to earnings ratio (“**P/E**”) as represented by the Consideration with that of listed companies which engage in business similar with that of Air China Cargo.

The principal business of Air China Cargo mainly involves the provision of air cargo services. However, we are not able to identify listed companies in Hong Kong whose business is perfectly comparable with Air China Cargo. To implement our analysis, we have identified 9 listed airline companies in Hong Kong or the PRC whose business included the provision of air cargo services (the “**Comparables**”) for comparison as follows. As four of the Comparables have not yet published their results for the year 2008 and Air China Cargo recorded a net loss for the year ended 31 December 2007, P/E comparison is not applicable.

Company	Stock code	Market capitalisation as at the Latest Practicable Date (“A”) <i>HK\$ million</i>	Latest published net asset value (“NAV”) (“B”) <i>HK\$ million</i>	P/B (=A/B) <i>Times</i>
Air China Limited	753 HK / 601111 CH	67,080	36,008	1.86
Cathay Pacific Airways Limited	293 HK	35,759	38,445	0.93
China Southern Airlines Company Limited	1055 HK / 600029 CH	31,098	17,772	1.75
China Eastern Airlines Corporation Limited	670 HK / 600115 CH	21,636	3,789	5.71
Hainan Airlines Co., Ltd.	600221 CH	19,179	9,911	1.94
Sinotrans Air Transportation Development Co., Ltd	600270 CH	7,999	4,559	1.75
Shanghai Airlines Co., Ltd.	600591 CH	5,592	440	12.71
Hainan Meilan International Airport Company Limited	357 HK	1,969	2,091	0.94
Shandong Airlines Co., Ltd	200152 CH	1,008	639	1.58
		<b>All Comparables</b>	<b>Maximum</b>	<b>12.71</b>
			<b>Minimum</b>	<b>0.93</b>
			<b>Average</b>	<b>1.54*</b>
		<b>Hong Kong-listed Comparables</b>	<b>Maximum</b>	<b>5.71</b>
			<b>Minimum</b>	<b>0.93</b>
			<b>Average</b>	<b>1.37*</b>
		<i>RMB million</i>	<i>RMB million</i>	<i>Times</i>
<b>The Transaction</b>		<b>718</b>	<b>470.6</b>	<b>1.53</b>
		<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>

Source: Bloomberg

\* Excluding China Eastern Airlines Corporation Limited and Shanghai Airlines Co., Ltd., which are outliers.

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## LETTER FROM KINGSWAY

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*Notes:*

1. The Consideration of approximately RMB718 million represents the market capitalisation of the Transaction.
2. The figure is the amount of NAV attributable to 24% equity interest of Air China Cargo as at 30 September 2008.
3. The P/B of the Transaction is approximately 1.53 times, based on the NAV attributable to 24% equity interest of Air China Cargo as at 31 December 2008.

As shown in the table above, the P/B of the Comparables ranged from approximately 0.93 times to 12.71 times with an average of approximately 1.54 times. The P/B of the Hong Kong-listed Comparables ranged from approximately 0.93 times to 5.71 times with an average of approximately 1.37 times. The P/B of the Transaction of approximately 1.53 times is within the range and slightly lower than the average of the P/Bs among the Comparables but higher than the average of the P/Bs among the Hong Kong-listed Comparables.

Having considered that the P/B of the Transaction is within the range and slightly lower than the average of the P/Bs among the Comparables but higher than the average of the P/Bs among the Hong Kong-listed Comparables, and the implied valuation of the Transaction represents a discount to the implied valuation of the Previous Acquisition, we are of the opinion and concur with the Directors that the basis of the Consideration and the terms of the Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **3. Possible financial effects of the Transaction on the Group**

Upon completion of the Transaction, the Company's equity interest (including indirect interest held through CNAC) in the registered capital of Air China Cargo increased from 76% to 100%. As a result, the Company will consolidate the results of Air China Cargo as a wholly-owned subsidiary into the Group's financial statement.

*(a) Net asset value*

As at 30 June 2008, the unaudited net asset value of the Group was approximately RMB31.2 billion. As advised by the Directors, upon completion of the Transaction, the cash balance of the enlarged Group will be reduced by RMB718,004,045 whereas the enlarged Group's minority interest will be reduced by an amount equal to the net asset value attributable to 24% of the Air China Cargo. The Directors expected that the net asset value of the enlarged Group will be reduced by the amount of the Consideration over the net asset value attributable to 24% of the Air China Cargo and there will be no material effects on the net asset value and the net tangible asset value of the enlarged Group.

*(b) Earnings*

Upon completion of the Transaction, Air China Cargo will become a wholly-owned subsidiary of the Company and thus its entire earnings, instead of 76% of which, will be attributable to the equity holders of the Company.

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## LETTER FROM KINGSWAY

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(c) *Working capital*

As at 30 June 2008, the Group's cash and cash equivalents was approximately RMB4.6 billion. The Directors advise that the Consideration will be fully settled by cash mainly from the Group's internal resources. Hence, the working capital of the enlarged Group will be reduced by RMB718,004,045. Taking into account of the Directors' view on the prospects of the air cargo business in China and the business strategy of the Group to expand such business, the Directors consider that the reduction in working capital is acceptable.

(d) *Gearing ratio*

As at 30 June 2008, the Group's total assets and total liabilities was approximately RMB97.1 billion and approximately RMB65.5 billion, respectively. As no immediate material effect on the enlarged Group's total asset and total liabilities is expected by the Directors as abovementioned, the Directors do not expect any immediate material effect on the enlarged Group's gearing ratio (being total liabilities divided by total assets).

Taking into account that (i) no immediate material effect on the enlarged Group's net asset value and gearing ratio upon completion of the Transaction is expected; (ii) the Group plans to expand its business in air cargo industry which is in line with its business strategy; (iii) the entire earnings of Air China Cargo will become attributable to the equity holders of the Company; (iv) Air China Cargo turned from loss-making in 2007 to profitable in 2008 as abovementioned; and (v) the expected reduction in working capital of the enlarged Group is considered acceptable by the Directors in light of the prospects of the air cargo business and the Group's business strategy, we consider that the Transaction is in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the entering into of the Transaction is in the ordinary and usual course of business of the Group, and the terms of the Transaction are fair and reasonable, normal commercial and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,  
For and on behalf of  
**Kingsway Capital Limited**  
**Chu Tat Hoi**                      **Liu Kam Yin**  
*Executive Director*                      *Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

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

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

Save as above, none of the Directors or Supervisors of the Company and their respective Associates has any competing interests which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company.

None of the Directors or Supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2007 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, to any member of the Group.

None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

### 3. SERVICE CONTRACTS

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

### 4. NO MATERIAL ADVERSE CHANGE

The Company published its interim results for the six months ended 30 June 2008 on 27 August 2008 (which included management's discussion and analysis of financial conditions and results of operation for the first half of 2008), a profit warning announcement in relation to operating losses for the nine months ended 30 September 2008 on 15 October 2008, its third quarterly results for the quarter ended 30 September 2008 on 28 October 2008 (which disclosed significant events for the relevant reporting period), an announcement of trading statement on 21 November 2008, an announcement in relation to an update on its fuel hedging activities on 19 December 2008, an announcement in relation to fuel hedging activities and profit warning for the results of the year ended 31 December 2008 on 16 January 2009 and an announcement on fuel hedging activities on 27 February 2009. Save as disclosed by the Company, the Directors confirm that there has been no other material adverse change in the Group's financial or trading position since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

### 5. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Huang Bin and Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountant (AICPA), USA.
- (b) The registered address of the Company is at 9/F, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

### 6. EXPERT AND CONSENT

Kingsway, the Independent Financial Adviser to the Independent Board Committee and independent Shareholders of the Company in respect of the Transaction, is a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity as defined in Schedule 5 of the SFO.

As at the Latest Practicable Date, Kingsway was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or

not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, direct or indirect, in any assets which had been, since 31 December 2007 (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.

Kingsway issued a letter dated 15 April 2009 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the independent Shareholders in relation to the terms of Sale and Purchase Agreement. Kingsway has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.

## **7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House 12 Tung Fai Road, Hong Kong International Airport, Hong Kong up to and including 30 April 2009:

- (a) the articles of association of the Company;
- (b) the Sale and Purchase Agreement;
- (c) the letter from the Independent Board Committee to the independent Shareholders of the Company, the text of which is set out on pages 9 to 10 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders of the Company, the text of which is set out on pages 11 to 17 of this circular; and
- (e) the letter of consent referred to under the paragraph headed “Experts and consents” of this appendix.