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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: 00753)

#### CONTINUING CONNECTED TRANSACTIONS AND SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

**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 22 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 23 to 24 of this circular.

A letter from Asian Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 25 to 44 of this circular.

A supplemental notice convening the AGM to be held at 2:00 p.m. on Friday, 22 May 2015 at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC, is set out on pages II-1 to II-2 of this circular. Whether or not you are able to attend the AGM, you are requested to complete and return the accompanying revised form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the AGM or any adjournment thereof. Completion and return of the revised form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment should you so wish.

8 May 2015

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## DEFINITIONS

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

“2012 Annual Caps”	the annual caps of the transactions contemplated under the 2012 Financial Services Agreement for each of the three years ending 31 December 2015
“2012 Financial Services Agreement”	the financial services agreement entered into between the Company (for itself and on behalf of its subsidiaries) and CNAF on 20 November 2012
“Acquisition”	the proposed acquisitions of equity interests in CNAF by the Company and the capital injection in CNAF by the Company and CNAHC as disclosed in the announcement of the Company dated 24 December 2014, which will result in the Company becoming interested in 51% of the registered capital of CNAF
“AGM”	the 2014 annual general meeting of the Company to be held at 2:00 p.m. on Friday, 22 May 2015 at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC for the Shareholders to consider and approve the resolutions set out in the notice of the AGM dated 2 April 2015 and the supplemental notice of the AGM dated 8 May 2015
“Agreements”	the Air China Financial Services Agreement and the CNAHC Financial Services Agreement
“Air China Financial Services Agreement”	the financial services agreement entered into between the Company (for itself and on behalf of its subsidiaries) and CNAF on 29 April 2015
“Asian Capital”	Asian Capital (Corporate Finance) Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited
“CBRC”	China Banking Regulatory Commission

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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, which is a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company as at the Latest Practicable Date
“CNAF”	China National Aviation Finance Co., Ltd.
“CNAHC”	China National Aviation Holding Company
“CNAHC Annual Caps”	RMB8 billion, RMB9 billion and RMB10 billion, being the proposed maximum daily balance of loans and other credit services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for each of the three years ending 31 December 2017, respectively
“CNAHC Financial Services Agreement”	the financial services agreement entered into between CNAF and CNAHC (for itself and on behalf of the CNAHC Group) on 29 April 2015
“CNAHC Group”	CNAHC, its subsidiaries and its associates (excluding the Group)
“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising Mr. Fu Yang, Mr. Yang Yuzhong, Mr. Pan Xiaojian and Mr. Simon To Chi Keung, all being the independent non-executive Directors
“Independent Shareholders”	the independent shareholders of the Company
“Latest Practicable Date”	means 6 May 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Annual Caps”	RMB12 billion, RMB14 billion and RMB15 billion, being the proposed maximum daily balance of deposits placed or to be placed by the Group with CNAF under the Air China Financial Services Agreement for each of the three years ending 31 December 2017, respectively
“Non-exempt Continuing Connected Transactions”	the deposit services to be provided by CNAF to the Group under the Air China Financial Services Agreement and the loans and other credit services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement
“PBOC”	the Peoples’ Bank of China
“Percentage Ratio”	shall have the meaning ascribed to it by the Listing Rules
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Proposed Annual Caps”	the New Annual Caps and the CNAHC Annual Caps
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Listing Rules”	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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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)**

***Directors:***

*Non-Executive Directors:*

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

*Executive Directors:*

Song Zhiyong (*President*)  
Fan Cheng

*Independent Non-Executive Directors:*

Fu Yang  
Yang Yuzhong  
Pan Xiaojiang  
To Chi Keung, Simon

***Registered Address:***

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

***Principal Place of***

***Business in Hong Kong:***

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

8 May 2015

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS AND SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

### I. INTRODUCTION

In addition to the resolutions to be proposed at the AGM, details of which are set out in the notice of the AGM dated 2 April 2015, it is proposed that at the AGM, an additional resolution will be proposed to approve the Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps as set forth in this circular.

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## LETTER FROM THE BOARD

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The supplemental notice of the AGM is set out on pages II-1 to II-2 of this circular.

### II. CONTINUING CONNECTED TRANSACTIONS

#### 1. Introduction

Reference is made to the announcement of the Company dated 20 November 2012 and the circular of the Company dated 4 December 2012 in relation to, among other things, the continuing connected transactions entered into between the Company and CNAF in relation to the 2012 Financial Services Agreement. At the extraordinary general meeting of the Company held on 20 December 2012, the Independent Shareholders approved the 2012 Financial Services Agreement and the 2012 Annual Caps.

Reference is also made to the announcement of the Company dated 24 December 2014 in relation to the Company's acquisitions of equity interests in CNAF and the capital injection into CNAF by the Company and CNAHC.

Upon completion of the Acquisition, CNAF will become a non-wholly owned subsidiary of the Company. Since CNAHC will continue to be interested in more than 10% of its equity interest, CNAF will become a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules. Accordingly, the transactions contemplated under the 2012 Financial Services Agreement will continue to constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

It is expected that, after the completion of the Acquisition, the 2012 Annual Caps would not be sufficient to meet the demand of the expected increase in transaction amounts between the Group and CNAF. Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and shareholders' approval requirements before the cap is exceeded or it proposes to renew the agreement or to effect a material change to its terms. Accordingly, on 29 April 2015, the Company (for itself and on behalf of its subsidiaries) and CNAF entered into the Air China Financial Services Agreement, pursuant to which (a) the 2012 Financial Services Agreement shall be replaced by the Air China Financial Services Agreement upon completion of the Acquisition; (b) CNAF shall provide a range of financial services to the Group for a period from the completion of the Acquisition to 31 December 2017; and (c) the annual caps in respect of the deposits to be placed by the Group with CNAF for the three years ending 31 December 2017 will be revised to the New Annual Caps.

Furthermore, CNAF has been providing financial services to CNAHC Group. CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the financial services provided by CNAF to the CNAHC Group will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon completion of the Acquisition. In light of this, on 29 April 2015, CNAF and CNAHC (for itself and on behalf of the CNAHC Group) entered into the CNAHC Financial Services Agreement, pursuant to which (a) CNAF shall provide a range of financial services to the CNAHC Group for a period from the completion of the Acquisition to 31 December 2017 and (b) the proposed annual caps for the loans and other credit services to be provided to CNAHC Group by CNAF for each of the three years ending 31 December 2017 are set.

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## LETTER FROM THE BOARD

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### 2. The Air China Financial Services Agreement

The Company (for itself and on behalf of its subsidiaries) entered into the Air China Financial Services Agreement with CNAF on 29 April 2015.

*The financial services to be provided by CNAF:*

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

- a. deposit services
- b. loan and other credit services
  - loan services; and
  - finance leasing services
- c. other financial services
  - negotiable instrument and letter of credit services;
  - guarantee services;
  - trust loan and trust investment services;
  - underwriting services for debt issuances;
  - intermediary and consulting services;
  - internet banking services;
  - bills and payment collection services;
  - insurance agency services; and
  - other businesses approved by the CBRC, the PBOC and the SAFE to be provided by CNAF.

Apart from the abovementioned financial services to be provided by CNAF to the Group, CNAF will also provide settlement services ancillary to the provision of deposit and loan services under the Air China Financial Services Agreement.



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## LETTER FROM THE BOARD

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In addition to the specific services set out in the Air China Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to the Group as and when appropriate (“**New Financial Services**”). The New Financial Services, when provided by CNAF, shall be categorized under the other financial services as listed in paragraph c. above.

### *Pricing basis*

#### *a. Deposit services*

The interest rate applicable to the Group for deposits with CNAF shall not be lower than the minimum interest rate prescribed by the PBOC from time to time and published on PBOC’s website for the same type of deposits (PBOC will also notify all relevant institutions of any updates of such interest rate in writing), and such interest rate shall not be lower than the interest rate for the same type of deposits placed by the members of CNAHC Group with CNAF, and shall not be lower than the interest rate for the same type of deposit services provided by state-owned commercial banks to the Group.

#### *b. Loan and other credit services*

The interest rate applicable to loans (including other credit services) granted to the Group by CNAF shall be set with reference to the benchmark interest rate prescribed by the PBOC from time to time and published on PBOC’s website for the same type of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing), and such interest rate shall not be higher than the interest rate for the same type of loans granted by CNAF to the members of CNAHC Group or higher than those for the same type of loans granted by state-owned commercial banks to the Group.

#### *c. Other financial services*

Pursuant to the Air China Financial Services Agreement, the fees charged by CNAF to the Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be in accordance with the relevant standards (if any) prescribed by the PBOC or the CBRC in respect of the same type of financial services. In addition, such fees shall not be higher than those generally charged to the Group by major state-owned commercial banks and those charged by CNAF to members of the CNAHC Group for the same type of financial services.

If CNAF charges fees for the New Financial Services during the term of the Air China Financial Services Agreement, such fees charged by CNAF to the Group shall comply with the standards stipulated by the PBOC or the CBRC for services of the same type and shall not be higher than those charged by state-owned commercial banks to the Group and those charged by CNAF to the members of CNAHC Group for the same type of financial services.

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## LETTER FROM THE BOARD

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### *Other terms*

Under the Air China Financial Services Agreement, the Company has agreed that it would accord priority to, and use the financial services provided by, CNAF if the terms and conditions offered by CNAF are similar to those offered by other service providers. CNAF has undertaken to provide financial services of the same kind to the Group under conditions no less favourable than those provided by CNAF to the members of CNAHC Group and those provided by other financial institutions to the Group.

Pursuant to the Air China Financial Services Agreement, CNAF shall not carry out any business that is not permitted by the CBRC or any illegal activities. CNAF is not allowed, during the term of the Air China Financial Services Agreement, to make use of the deposits of the Group for investments involving high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangement for such inspection within 10 days after receiving notice from the Company.

The Air China Financial Services Agreement will be subject to the approval of the Independent Shareholders at the AGM, and if approved, will take effect upon the completion of the Acquisition and will expire on 31 December 2017. Upon expiry, the transactions under the Air China Financial Services Agreement will be re-assessed in accordance with the relevant rules governing connected transactions under the Listing Rules and the Shanghai Listing Rules and the term of the Air China Financial Services Agreement may be renewed for three years upon written consent by both parties and entering into of a new agreement subject to compliance with the Listing Rules and the Shanghai Listing Rules.

### *Reasons and benefits for the transaction:*

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

- in respect of transactions between the Group and CNAHC Group, CNAF is able to provide more efficient settlement service compared with independent third party banks;
- CNAF is able to provide safe, convenient, fast, comprehensive and personalised financial services to the Group and with its improving professionalism and financial services, CNAF is fully qualified for providing the relevant services to the Group;
- as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions;

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## LETTER FROM THE BOARD

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- a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient; and
- upon completion of the Acquisition, the Company will be interested in 51% of the registered capital of CNAF and can ultimately benefit from the development of its business.

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

### *Historical Amounts and New Annual Caps:*

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

Transaction	Historical Caps			Historical Figures			New Annual Caps		
	Annual cap	Annual cap	Annual cap	Actual maximum	Actual maximum	Actual maximum			
	for the year ended 31 December	for the year ended 31 December	for the year ending 31 December	amount for the year ended 31 December	amount for the year ended 31 December	amount for the period from 1 January to 22 April 2015	for the year ending 31 December	for the year ending 31 December	for the year ending 31 December
	2013	2014	2015	2013	2014	2015	2015	2016	2017
Financial Services									
(daily balance of deposits)	RMB4 billion	RMB4 billion	RMB4 billion	RMB3.695 billion	RMB2.712 billion	RMB2.574 billion	RMB12 billion	RMB14 billion	RMB15 billion

### *Basis for the New Annual Caps:*

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

- The estimated average daily balance of deposits placed or to be placed by the Group with CNAF for the three years ending 31 December 2017*

Taking into consideration the expected business development of the Group, potential corporate financing need and the fact that the Group will fully utilize CNAF as a platform for fund management within the Group upon CNAF becoming a subsidiary of the Company, the average daily balance of deposits placed or to be placed by the

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## LETTER FROM THE BOARD

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Group with CNAF for each of the three years ending 31 December 2017 will be RMB3,800 million, RMB4,000 million and RMB4,300 million, respectively (without taking into account the factors set out in paragraph b below).

*b. Further increase in the balance of deposits to be placed by the Group with CNAF*

- i. In November 2014, the PBOC issued the Notice on Matters Concerning Centralised Cross-Border RMB Fund Operation Conducted by Multinational Enterprise Groups, allowing multinational enterprises to centralise their management of RMB fund through intra-group cross-border pooling and allocation of RMB fund. The Company is currently applying to the PBOC for the qualification to carry out such operation and expects to obtain such qualification and commence such operation by the end of June. Upon becoming a subsidiary of the Company, CNAF will serve as the platform for pooling and monitoring fund within the Group, and assist the Company in strengthening its fund management and allocation. It is estimated that, under this centralized management model of cross-border RMB fund, net cash inflows of the Group may amount up to RMB5,000 million and the Group may deposit such funds with CNAF.
- ii. In addition, the continued development of certain subsidiaries of the Company in recent years, including Air China Cargo Co., Ltd., Shenzhen Airlines Company Limited, Beijing Airlines Company Limited, Dalian Airlines Company Limited and Aircraft Maintenance and Engineering Corporation, resulted in increased amount of their monetary funds. As at the end of 2014, the aggregate amount of monetary funds of the abovementioned five subsidiaries of the Company was RMB2.8 billion and such amount is expected to increase gradually. Given that the annual cap for 2012 was only RMB4 billion per year, the majority of which have been utilized by the Company, the amount of the monetary funds placed with CNAF by the abovementioned five subsidiaries for previous years is insignificant. The financial services between CNAF and the Group members would be more flexible and diversified after CNAF becomes a subsidiary of the Company. It is expected that during the term of the Air China Financial Services Agreement, all of the monetary funds of the related subsidiaries will be placed with CNAF.

Based on the average daily balance of deposits placed with CNAF by the Group and taking into account the aforesaid various factors as well as the fact that daily maximum amount may be higher than the daily average balance, it is proposed that the maximum daily balance of deposit services to be provided by CNAF to the CNAHC Group under the Air China Financial Services Agreement for each of the three years ending 31 December 2017 shall be RMB12 billion, RMB14 billion and RMB15 billion, respectively.

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## LETTER FROM THE BOARD

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### 3. The CNAHC Financial Services Agreement

CNAF and CNAHC (for itself and on behalf of the CNAHC Group) entered into the CNAHC Financial Services Agreement on 29 April 2015.

*The financial services to be provided by CNAF:*

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

- a. deposit services
- b. loan and other credit services
  - loan services; and
  - finance leasing services
- c. other financial services
  - negotiable instrument and letter of credit services;
  - guarantee services;
  - trust loan and trust investment services;
  - underwriting services for debt issuances;
  - intermediary and consulting services;
  - internet banking services;
  - bills and payment collection services;
  - insurance agency services; and
  - other businesses approved by the CBRC, the PBOC and the SAFE to be provided by CNAF.

Apart from the abovementioned financial services to be provided by CNAF to the CNAHC Group, CNAF will also provide settlement services ancillary to the provision of deposit and loan services under the CNAHC Financial Services Agreement.

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## LETTER FROM THE BOARD

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In addition to the specific services set out in the CNAHC Financial Services Agreement, CNAF is also exploring and developing other licensed financial services and will provide new financial services to CNAHC Group as and when appropriate (“**New Financial Services**”). The New Financial Services, when provided by CNAF, shall be categorized under the other financial services as listed in paragraph c. above.

### *Pricing basis*

#### *a. Deposit services*

The interest rate applicable to CNAHC Group’s deposits with CNAF shall be determined based on arm’s length negotiation by the parties subject to compliance with the requirements on the range of interest rates prescribed by the PBOC from time to time and published on the PBOC’s website for the same type of deposits (PBOC will also notify all relevant institutions of any updates of such interest rate in writing).

#### *b. Loan and other credit services*

The interest rate applicable to loans (including other credit services) granted to CNAHC Group by CNAF shall be based on arm’s length negotiation by the parties by making reference to the benchmark interest rate and the range prescribed by the PBOC from time to time and published on the PBOC’s website for the same type of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing).

#### *c. Other financial services*

Pursuant to the CNAHC Financial Services Agreement, the fees charged by CNAF to the CNAHC Group for providing bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, bills and payment collection services and financial consulting services shall be determined based on arm’s length negotiation by the parties subject to the relevant standards (if any) prescribed by the PBOC or the CBRC from time to time in respect of the same type of financial services. If there is no such standards, the relevant fees shall be determined based on arm’s length negotiation by the parties with reference to the fees charged by major state-owned commercial banks in the PRC for the same type of financial services.

If CNAF charges fees for the New Financial Services during the term of the CNAHC Financial Services Agreement, such fees charged by CNAF to the CNAHC Group shall be determined based on arm’s length negotiation by the parties according to the relevant fee standards prescribed by the PBOC or the CBRC from time to time for services of the same type.

### *Other terms*

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

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## LETTER FROM THE BOARD

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The CNAHC Financial Services Agreement will be subject the approval of the Independent Shareholders at the AGM, and if approved, will take effect upon the completion of the Acquisition and will expire on 31 December 2017. Upon expiry, the transactions under the CNAHC Financial Services Agreement will be re-assessed in accordance with the relevant rules governing connected transactions under the Listing Rules and the Shanghai Listing Rules and the term of the CNAHC Financial Services Agreement may be renewed for three years upon written consent by both parties and entering into of a new agreement subject to compliance with the Listing Rules and the Shanghai Listing Rules.

***Reasons and benefits for the transaction:***

CNAF had been providing financial services to the members of the CNAHC Group prior to entering into the CNAHC Financial Services Agreement. The business with CNAHC Group had provided a steady and significant portion of CNAF's revenue in the past. Upon completion of the Acquisition, CNAF will become a non-wholly owned subsidiary of the Company. The Directors believe that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to the members of CNAHC Group following the Acquisition. As CNAHC is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules, the financial services provided by CNAF to the CNAHC Group will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon completion of the Acquisition. Therefore, CNAF and CNAHC (for itself and on behalf of the CNAHC Group) entered into the CNAHC Financial Services Agreement in accordance with the Listing Rules.

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

***Historical Amounts and CNAHC Annual Caps:***

Set forth below is a summary of the historical maximum amount and the CNAHC Annual Caps of the daily balance of loans and other credit services (including accrued interest) granted or to be granted by CNAF to the CNAHC Group:

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## LETTER FROM THE BOARD

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	Historical Figures			CNAHC Annual Caps		
	Actual maximum amount for the year ended 31 December 2013	Actual maximum amount for the year ended 31 December 2014	Actual maximum amount for the period from 1 January to 22 April 2015	for the year ending 31 December 2015	for the year ending 31 December 2016	for the year ending 31 December 2017
Transaction						
Financial Services (daily balance of loans and other credit services)	RMB1.447 billion	RMB2.607 billion	RMB1.939 billion	RMB8 billion	RMB9 billion	RMB10 billion

### ***Basis for the CNAHC Annual Caps:***

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

- a. *The historical maximum daily balance of loans granted by CNAF to the CNAHC Group*

For the year ended 31 December 2014, the maximum daily balance of loans granted by CNAF to the CNAHC Group amounted to RMB2,600 million. From 2012 to 2014, the compound annual growth rate of the aggregate loans granted by CNAF to the CNAHC Group was approximately 24%. On this basis, the maximum daily balance of loans granted by CNAF to the CNAHC Group for the three years ending 31 December 2017 are expected to be RMB3,200 million, RMB4,000 million and RMB5,000 million, respectively.

- b. *Further increase in the maximum daily balance of loans on top of the aforementioned balance*

- i. The PRC State Council has approved the construction of a new airport in Beijing and CNAHC Group will construct auxiliary facilities for the new airport during 2015 to 2017 to fulfill the Company's operational requirements at the new airport in the future. During such period, CNAHC Group may require financings from CNAF for this project from time to time. For the second half of 2015, it is expected that the CNAHC Group may borrow RMB1,000 million in aggregate from CNAF for this purpose. The CNAHC Group may also require further financings from CNAF from time to time thereafter according to the progress of the



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## LETTER FROM THE BOARD

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development of such project and the funding requirements. Therefore, it is expected that the scale of financings required from CNAF would increase gradually.

- ii. CNAHC is qualified to directly obtain debt financing. The scale of direct financing CNAHC registered with the National Association of Financial Market Institutional Investors for the three years ended 31 December 2014 was RMB7 billion, RMB8 billion and RMB8 billion, respectively. Currently, an application has been made by CNAHC for quota registration of the year of 2015. The registered quota is expected to increase, reflecting the development of China's bond market and the increased demand for internal funds of the CNAHC Group as a result of its business expansion. Such trend is expected to continue in the three years ending 31 December 2017. CNAF will act as a financing platform of the CNAHC Group by allocating and adjusting the internal financial resources among the members of the CNAHC Group with the funds raised by the CNAHC Group through direct debt financing. It is estimated that the total amount of loans to be provided by CNAF to the CNAHC Group for this purpose will increase by RMB2,000 million for each of the three years ending 31 December 2017 as compared with the corresponding data for 2014 and is expected to continue to increase.
- iii. The amount of loans obtained by the CNAHC Group from institutions other than CNAF amounted to approximately RMB1,000 million in 2014. It is expected that such portion of loans would be provided by CNAF after the financial resources of CNAF become sufficient.

Based on the accumulated amount of loans provided by CNAF to the CNAHC Group and taking into account the various factors as mentioned above as well as the fact that the daily maximum may be higher than the daily average, it is proposed that the maximum daily balance of loans and other credit services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for each of the three years ending 31 December 2017 shall be RMB8 billion, RMB9 billion and RMB10 billion, respectively.

#### **4. Risk Profile and Management of CNAF**

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

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## LETTER FROM THE BOARD

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### *Compliance risks*

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

### *Liquidity risks*

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

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

### *Credit risks*

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

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## LETTER FROM THE BOARD

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

### *Directors' view*

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

### **5. Internal Control Measures for the Non-exempt Continuing Connected Transactions**

To safeguard the interest of the Group, the Group will adopt the following internal control measures in respect of the deposit services to be provided by CNAF to the Group under the Air China Financial Services Agreement and the loans and other credit services to be provided by CNAF to the CNAHC Group, respectively.

#### *Deposit services under the Air China Financial Services Agreement*

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

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

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## LETTER FROM THE BOARD

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### *Loans and other credit services under the CNAHC Financial Services Agreement*

CNAF would take the following review procedure process against the following assessment criteria when providing the loans and other credit services to the CNAHC Group under the CNAHC Financial Services Agreement:

- a. after receiving the loan application from members of the CNAHC Group, the designated staff of CNAF would verify the information provided by the applicant, assess if the loan application is in compliance with the terms set out in the CNAHC Financial Services Agreement, and issue a report to the loan review committee of CNAF for approval if he considers the loan should be granted, otherwise the loan application will be rejected;
- b. the loan review committee of CNAF will make the final decision on the approval of the loan and the determination of relevant terms of the loan, including the interest rate of the loan in reference to the prevailing benchmark rate specified by the PBOC for the same types of loans;
- c. the accounting department of CNAF will transfer the loan to the applicant after obtaining approval of the department manager and leaders of CNAF;
- d. after the issue of the loan, the financing credit department of CNAF will conduct post-loan examination on the applicant every quarter and issue examination reports; and
- e. the accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for a written extension of the loan repayment prior to the maturity of the loan, after obtaining approval from CNAF.

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

### **6. Parties and Connected Relationship of the Parties**

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

CNAF is a company with limited liability incorporated in the PRC. As at the Latest Practicable Date, it is a non-wholly owned subsidiary of CNAHC. CNAF is primarily engaged in providing financial services to CNAHC, its subsidiaries and associates. Upon completion of the Acquisition,

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## LETTER FROM THE BOARD

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CNAF will become a non-wholly owned subsidiary of the Company and since CNAHC will continue to be interested in more than 10% of its equity interest, CNAF will be a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules.

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

### 7. Listing Rules Implications

#### *The Air China Financial Services Agreement*

##### *a. Deposit services*

As all of the applicable Percentage Ratios (other than the profits ratio) in respect of the New Annual Caps exceed 5.0% and the maximum annual consideration is more than HK\$10,000,000, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

##### *b. Loans and other credit services*

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

##### *c. Other financial services*

The other financial services to be provided by CNAF (including the New Financial Services under the Air China Financial Services Agreement) to the Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to CNAF for such services for each of the three years ending 31 December 2015, 2016 and 2017 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

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## LETTER FROM THE BOARD

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### *The CNAHC Financial Services Agreement*

#### *a. Deposit services*

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

#### *b. Loans and other credit services*

As one or more of the applicable Percentage Ratios (other than the profits ratio) in respect of the CNAHC Annual Caps exceed 5.0% and the maximum annual consideration is more than HK\$10,000,000, the loans and other credit services to be provided to CNAHC Group by CNAF under the CNAHC Financial Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### *c. Other financial services*

The other financial services to be provided by CNAF to the CNAHC Group (including the New Financial Services under the CNAHC Financial Services Agreement) will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the CNAHC Group to CNAF for such services for each of the three years ending 31 December 2015, 2016 and 2017 is expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

### *Approval by the Board*

At the eighteenth meeting of the fourth session of the Board of the Company held on 29 April 2015, the Board approved the Agreements and the transactions contemplated thereunder. Mr. Cai Jianjiang, Ms. Wang Yinxiang, and Mr. Feng Gang, holding positions in CNAHC, as well as Mr. Cao Jianxiong who is the chairman of the board of directors of CNAF and also holds a position in CNAHC, are considered to have a material interest in the Agreements and therefore have abstained from voting in the relevant board resolutions in respect of the Agreements and the transactions contemplated thereunder. Save as disclosed above, none of the Directors have a material interest in the Agreements and hence no other Director is required to abstain from voting on the relevant board resolutions.

## **8. PRC Law Implications**

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

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## LETTER FROM THE BOARD

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### III. AGM

The Company will convene the AGM at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on Friday, 22 May 2015 for the purpose of considering, and if thought fit, approving the ordinary resolution in respect of the Air China Financial Services Agreement and the CNAHC Financial Services Agreement (including the corresponding Non-exempt Continuing Connected Transactions contemplated thereunder and the Proposed Annual Caps). The Air China Financial Services Agreement and the CNAHC Financial Services Agreement will not take effect unless such ordinary resolution is approved at the AGM. In accordance with the Listing Rules, a notice of the AGM, a form of proxy and an attendance notice have been dispatched to the Shareholders on Thursday, 2 April 2015 and a supplemental notice of the AGM and a revised form of proxy (the “**Revised Proxy Form**”) will be dispatched to the Shareholders on 8 May 2015. The supplemental notice of the AGM is reproduced on pages II-1 to II-2 of this circular.

Whether or not you intend to attend the AGM, you are requested to complete and return the Revised Proxy Form in accordance with the instruction printed thereon. If you intend to attend the AGM, you are required to complete and return the notice of attendance to the H share registrar of the Company on or before Saturday, 2 May 2015.

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

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Agreements are required to abstain from voting on the relevant resolutions at the AGM. As at the Latest Practicable Date, CNAHC is a substantial shareholder of the Company and CNAF. Accordingly, CNAHC and CNACG, which is CNAHC’s wholly owned subsidiary, are required to abstain from voting on the resolution in respect of the Agreements, the relevant transactions contemplated thereunder and the Proposed Annual Caps.

### IV. RECOMMENDATION

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

The Board recommends that the Independent Shareholders vote to approve the Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

### V. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 23 to 24 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the AGM regarding the Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

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## LETTER FROM THE BOARD

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Your attention is also drawn to the letter from Asian Capital as set out on pages 25 to 44 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Agreements, the Non-exempt Continuing Connected Transactions as well as the principal factors and reasons considered by it in concluding its advice.

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

By order of the Board  
**Cai Jianjiang**  
*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. Fu Yang

Mr. Yang Yuzhong

Mr. Pan Xiaojiang

Mr. Simon To Chi Keung

8 May 2015

*To the Independent Shareholders of the Company*

Dear Sirs or Madams,

#### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 8 May 2015 (“**Circular**”) issued by the Company to its Shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 29 April 2015, the Board decided to enter into the Agreements as set out in the Circular, and approved the Proposed Annual Caps for the three years ending 31 December 2015, 2016 and 2017. The Agreements and the Proposed Annual Caps are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The terms and the reasons for entering into the Agreements are summarised in the Letter from the Board set out on pages 4 to 22 of the Circular.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps, their terms and the basis upon which the terms have been determined. We have also considered the key factors taken into account by Asian Capital in arriving at its opinion regarding the Agreements and the Proposed Annual Caps as set out in the letter from Asian Capital on pages 25 to 44 of the Circular, which we urge you to read carefully.

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

Yours faithfully,  
**Independent Board Committee**

**Mr. Fu Yang**  
*Independent*  
*non-executive*  
*Director*

**Mr. Yang Yuzhong**  
*Independent*  
*non-executive*  
*Director*

**Mr. Pan Xiaojiang**  
*Independent*  
*non-executive*  
*Director*

**Mr. Simon To Chi Keung**  
*Independent*  
*non-executive*  
*Director*

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## LETTER FROM ASIAN CAPITAL

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*The following is the text of a letter from Asian Capital (Corporate Finance) Limited to the Independent Shareholders and the Independent Board Committee prepared for the purpose of incorporation in this circular:*



**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED  
卓亞(企業融資)有限公司

Suite 601, Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

*To the Independent Board Committee and the Independent Shareholders*

8 May 2015

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the Non-exempt Continuing Connected Transactions (including the Proposed Annual Caps) which constitute continuing connected transactions of the Company. Details of such continuing connected transactions are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 8 May 2015 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is also made to the Company’s announcement dated 24 December 2014 in relation to the proposed Acquisition. Upon the completion of the Acquisition, CNAF will be owned as to 51% by the Company and 49% by CNAHC. As CNAHC is a substantial shareholder of the Company, and it will continue to be interested in more than 10% of CNAF’s equity interest, CNAHC is a connected person and CNAF will become a connected subsidiary of the Company pursuant to Chapter 14A of the Listing Rules.

As all of the applicable Percentage Ratios (other than the profits ratio) in respect of the New Annual Caps exceed 5.0% and the maximum annual consideration is more than HK\$10,000,000, and one or more of the applicable Percentage Ratios (other than the profits ratio) in respect of the CNAHC Annual Caps exceed 5.0% and the maximum annual consideration is more than HK\$10,000,000, the Non-exempt Continuing Connected Transactions are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

All other financial services provided by CNAF to the Group and the CNAHC Group under the Agreements are exempt from the reporting, announcement and Independent Shareholders’ approval requirements pursuant to the relevant exemption provisions under Chapter 14A of the Listing Rules.

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## LETTER FROM ASIAN CAPITAL

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In these connections, the Company will seek the Independent Shareholders' approval for the entering into the Agreements and the Non-exempt Continuing Connected Transactions (including the Proposed Annual Caps). CNAHC and China National Aviation Corporation (Group) Limited, which is CNAHC's wholly-owned subsidiary, are required to abstain from voting on the resolutions in respect of the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Fu Yang, Mr. Yang Yuzhong, Mr. Pan Xiaojang and Mr. Simon To Chi Keung, has been established to consider and advise the Independent Shareholders in respect of the Agreements, the Non-exempt Continuing Connected Transactions including the Proposed Annual Caps. We, Asian Capital (Corporate Finance) Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have considered, among others, (i) the annual reports of the Company for the years ended 31 December 2012, 2013 and 2014 (the “**Annual Reports**”); (ii) the audited annual reports of CNAF for the years ended 31 December 2012, 2013 and 2014 (the “**CNAF Reports**”); (iii) the Agreements; (iv) the internal control documents of the Company and CNAF in respect of the Non-exempt Continuing Connected Transactions; (v) the Circular; and (vi) other available public information. We have also relied on all relevant information, opinions and representations made to us by the Directors and the representatives of the Company.

We were appointed by the Company as the independent financial advisor to give independent advice on a previous continuing connected transaction of the Company, namely the provision of bellyhold space, ground support and aircraft maintenance engineering, as well as other services between Air China Cargo Co., Ltd., and the Group, details of which are set out in the announcement and circular of the Company dated 26 September 2013 and 15 October 2013 respectively.

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

In forming our opinion in relation to the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps thereunder, we have assumed that all information, opinions and representations, which have been provided to us by the Directors or the representatives of the Company, for which the Directors are solely responsible, were true, accurate and complete in all material respects at the time when they were made and will continue to be so as at the date of this Circular. The Company has also confirmed that there are no other material facts not contained in the information provided to us the omission of which would make any statement or opinion contained in the Circular misleading.

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## LETTER FROM ASIAN CAPITAL

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We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the representatives of the Company. We have not, however, carried out any independent verification of the information provided to us by the Directors and the representatives of the Company and the information obtained from the public domain, nor have we conducted any independent investigation into the affairs, the businesses and financial position and the future prospects of each member of the Group, CNAF, CNAHC and their respective shareholders and associates. We therefore do not guarantee the accuracy of any of such information. We consider that we have reviewed sufficient information currently available to reach an informed view so as to provide a reasonable basis for our recommendation. We have no obligation to update our advice and opinion to take into account circumstances and events occurring after the date of this letter. As a result, circumstances and events could occur prior to the approval of the Agreements that, if known to us at the time when we had rendered our advice and opinion, would have altered our advice and opinion.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Agreements, we have taken the following principal factors and reasons into consideration:

#### 1. Background about the parties involved

##### (i) *The Group*

The Group engages principally in the provision of air passenger and air cargo services, aircraft engineering, ground services and other airline-related services.

Set forth below is the selected financial information of the Group for the three years ended 31 December 2014 extracted from the Annual Reports respectively:

	<b>2012</b> <b>(audited)</b> <i>(RMB'million)</i>	<b>2013</b> <b>(audited)</b> <i>(RMB'million)</i>	<b>2014</b> <b>(audited)</b> <i>(RMB'million)</i>
Total revenue	99,473	98,181	105,884
Profit from operations	8,409	4,118	7,262
Net profit attributable to			
Shareholders	4,816	3,264	3,818
Net profit ratio	4.8%	3.3%	3.6%

As illustrated above, the Group's revenue amounted to approximately RMB105.88 billion for the year ended 31 December 2014, representing an increase of approximately 7.8% from approximately RMB98.18 billion for the year ended 31 December 2013, mainly due to the increase in the number of passengers of 6.87% over the previous year. In addition, the net profit attributable to Shareholders increased by 17.0% to approximately RMB3.82 billion for the year ended 31 December 2014, and the net profit ratio (being the net profit attributable to Shareholders divided by the revenue of the Group after inter-segment elimination) increased by 0.3% point to

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## LETTER FROM ASIAN CAPITAL

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approximately 3.6% for the year ended 31 December 2014, which improved the Company's cash generating ability and strengthened the Company's cash position available for deposits for the year ended 31 December 2014.

**(ii) CNAHC**

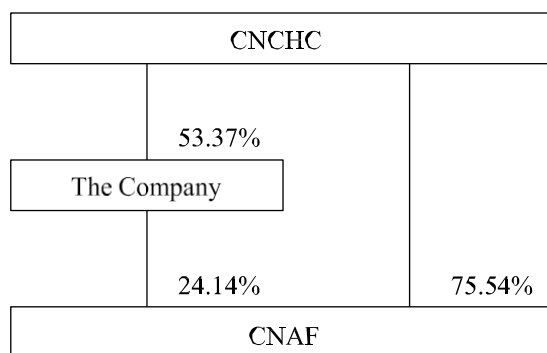
CNAHC is a state-owned company incorporated in the PRC. It is primarily engaged in managing its state-owned assets and its equity interest in investees, charter of aircrafts and maintenance of aviation equipment. CNAHC is the controlling Shareholder of the Company holding approximately 53.37% of the issued share capital of the Company as at the Latest Practicable Date.

**(iii) CNAF**

CNAF is a non-bank finance company approved and regulated by the CBRC and the PBOC. As at the Latest Practicable Date, CNAF is an approximately 75.54% held subsidiary of CNAHC Group and approximately 24.14% owned by the Company. Upon completion of the Acquisition, CNAF will be a 51% owned subsidiary of the Company, and will be 49% owned by CNAHC.

As stated in the business license of CNAF, the scope of business of CNAF includes, among other things, providing financial and financing consultancy, credit verification and relevant consultancy and agency services for member entities, assisting member entities in the settlement of transaction accounts, approved insurance agency services, guarantees for member entities, handling entrusted loans and entrusted investments between member entities, handling bill acceptance and discounting for member entities, settling internal transfer between member entities and formulating relevant settlement and liquidation plans, absorbing deposits from member entities, providing loans and finance leasing for member entities, and inter-bank borrowing.

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

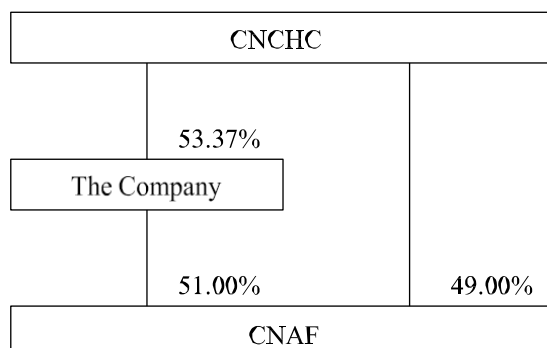


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## LETTER FROM ASIAN CAPITAL

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The following is a simplified shareholding relationship chart among the Company, CNAHC and CNAF after the Acquisition:



Set forth below is the selected financial information of CNAF extracted from the CNAF Reports for the three years ended 31 December 2014, respectively:

	<b>For the years ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
	<i>(RMB 'million)</i>	<i>(RMB 'million)</i>	<i>(RMB 'million)</i>
Net interest income	177	139	113
Net fees and commissions income	7	11	8
Investment income	8	12	27
Profit before taxation	121	91	85
Profit after taxation	89	70	64

The net interest income of CNAF had been decreasing during the past three years. As advised by the management of the Company, it was primarily due to the strict supervision of connected transactions by China Securities Regulatory Commission (“CSRC”), which resulted in a decreasing deposit scale of CNAF, and the compliance with the regulatory requirements from CBRC regarding the loan-to-deposit ratio, which resulted in a decreasing loan scale of CNAF. The profit after taxation of CNAF had been decreasing over the past three years, which was mainly due to the continuous decrease in net interest income of approximately RMB177 million, RMB139 million and RMB113 million in the years ended 31 December 2012, 2013 and 2014 respectively. Therefore, the Acquisition was proposed by the Company to increase its holdings in CNAF by which CNAF will become a subsidiary of the Company. Upon completion of the Acquisition, the connected transaction requirement between the Group and CNAF previously imposed by CSRC will be removed which is expected to increase the deposits made by the Group to CNAF, and accordingly CNAF’s monetary funds available for loan will increase based on the loan-to-deposit ratio, as a result the net interest income of CNAF is expected to increase in coming years. In addition, upon completion of the Acquisition, CNAF will become a financial platform of the Group. With growing financial transactions from the Group, the profit level of CNAF is expected to be improved.

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### 2. The Air China Financial Services Agreement

In assessing whether the terms of the Air China Financial Services Agreement are in the interest of the Company and the Shareholders, we have considered the following factors:

*(i) Principal terms of the Air China Financial Services Agreement*

Pursuant to the Air China Financial Services Agreement, CNAF agreed to provide the Group with a range of financial services including but not limited to deposit services. While providing financial services, especially deposit services to the Group, CNAF has undertaken, among others, that (a) the interest rate applicable to the Group for depositing with CNAF shall not be lower than the minimum interest rate prescribed by the PBOC from time to time and published on PBOC's website for the same type of deposits, and such interest rate shall not be lower than the interest rate for the same type of deposits placed by the members of CNAHC Group with CNAF, and shall not be lower than the interest rate for the same type of deposit services provided by state-owned commercial banks to the Group; (b) it will provide financial services of the same kind to the Group under conditions no less favourable than those provided by CNAF to the members of CNAHC and those provided by other financial institutions to the Group; and (c) it will not make use of the deposits of the Group for investments involving high risks including, but not limited to, investments in equity securities and corporate bonds.

Upon expiry, the transactions under the Air China Financial Services Agreement will be re-assessed, and the terms of the Air China Financial Services Agreement may be renewed for three years upon written consent by both parties and entering into of a new agreement, subject to compliance with the Listing Rules and the Shanghai Listing Rules.

*(ii) Long-term cooperation between CNAF and the Group*

CNAF has been providing financial services to the Group for over 10 years. During the long time cooperation, a good relationship has been established between CNAF and the relevant department of the Group. Compared to the external institutions, CNAF is more capable to provide efficient, safe, convenient, comprehensive and personalised financial services to the Group.

*(iii) CNAF will become a non-wholly owned subsidiary of the Company*

Upon completion of the Acquisition, CNAF will become 51%-owned subsidiary of the Company. Compared to the external institutions, CNAF can act more proactively in protecting the interest of the Group. In addition, the Group can ultimately benefit from the business development of CNAF.

*(iv) Review of the past transactions*

We have reviewed several sample copies of deposit documents in respect of the relevant deposit services provided by CNAF to the Group for the two years ended 31 December 2013 and 2014, from which we noted that the deposit interest rates offered by CNAF to the Group were not less favorable than those offered by other state-owned commercial banks in the PRC. As a non-bank



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financial institution, CNAF is regulated by the CBRC and PBOC, and the interest rates offered by CNAF are subject to the interest rate requirements by the PBOC. We have reviewed an announcement from PBOC on 7 June 2012 (“**PBOC Announcement**”) in which it was stipulated that the interest rates for deposits and loans offered by the financial institutions in the PRC should not be 10% higher and 20% lower than the benchmark rate announced by the PBOC respectively. As the deposit interest rates offered by CNAF to the Group in the sample copies of deposit documents were within the range of interest rate permitted by PBOC, we concurred with the view of the management of the Company that the deposit services provided by CNAF to the Group under the 2012 Financial Services Agreement for the two years ended 31 December 2013 and 2014 were conducted on normal commercial terms. We have also reviewed the new announcement made by PBOC on 4 March 2015, from which it was stipulated that the interest rates for deposits offered by the financial institutions in the PRC should not be 30% higher than the benchmark rate announced by the PBOC. As advised by the management of the Company that CNAF will strictly comply with the interest rate requirements imposed by PBOC on 4 March 2015 and imposed later from time to time, we concur with the management’s view that the deposit interest rate offered by CNAF to the Group would be in the interests of the Company and the Shareholders as a whole.

In light of the above, we concur with the view of the Directors that the terms under the Air China Financial Services Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 3. The CNAHC Financial Services Agreement

In assessing whether the terms of the CNAHC Financial Services Agreement are in the interest of the Company and the Shareholders, we have considered the following factors:

#### (i) *Principal terms of the CNAHC Financial Services Agreement*

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide CNAHC Group with a range of financial services including but not limited to loan (including other credit business) services. Both parties have agreed that the interest rate applicable to loans (including other credit business) granted to CNAHC Group by CNAF shall be based on arm’s length negotiation by the parties by making reference to the benchmark interest rate and the range prescribed by the PBOC from time to time and published on the PBOC’s website for the same type of loans.

Upon expiry, the transactions under the CNAHC Financial Services Agreement will be re-assessed, and the terms of the CNAHC Financial Services Agreement may be renewed for three years upon written consent by both parties and entering into of a new agreement, subject to compliance with the Listing Rules and the Shanghai Listing Rules.

#### (ii) *Long-term cooperation between CNAF and CNAHC Group*

CNAF had been providing financial services to the members of the CNAHC Group prior to entering into the CNAHC Financial Services Agreement. The business with CNAHC Group had provided a significant portion of CNAF’s revenue in the past. Upon completion of the Acquisition,

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CNAF will become a non-wholly owned subsidiary of the Company. We concur with the Directors' view that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to the members of CNAHC Group following the Acquisition.

*(iii) Well-established reputation of CNAHC*

CNAHC is an extra-large state-owned air transport state-controlling company and an investment institution authorized by the State Council, and is the controlling shareholder of the Company, which is the only aviation company in the PRC as one of the world's 500 most influential brands in 2014. After more than ten years of reforms and development, CNAHC has become a comprehensive industrial group as a core flight services provider in the PRC with high-end affiliates. Therefore, CNAF is expected to be in a relatively low risk position to grant loans to CNAHC, which has very good reputation in the industry and the world.

In light of the above, we concur with the view of the Directors that the terms under the CNAHC Financial Services Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

#### 4. The Proposed Annual Caps

*(i) Review of historical transactions with CNAF*

Set out below are the historical daily maximum outstanding balances including the accrued interest in respect of the deposit services provided by CNAF to the Group (the "Deposit Balances"), the 2012 Annual Caps, and the utilisation rates of the 2012 Annual Caps in respect of the Deposit Balances for the two years ended 31 December 2014, and for the period from 1 January 2015 to 22 April 2015:

(RMB'million)	For the year ended 31 December						From 1 January to 22 April		
	2013			2014			2015		
	Actual amount	Approved cap	% of utilization	Actual amount	Approved cap	% of utilization	Actual amount	Approved cap	% of utilization
Deposit Balances	3,695	4,000	92%	2,712	4,000	68%	2,574	4,000	64%

As shown in the table above, the Deposit Balances are decreasing from 1 January 2013 till 22 April 2015, mainly due to the reduced asset size and decreased efficiency of CNAF under the strict supervision of connected transactions by CSRC, and the compliance with the regulatory requirements from CBRC. The utilization rates of the 2012 Annual Caps were high in 2013, which were more than 90%, and that decreased to approximately 68% in 2014 and approximately 64% from 1 January 2015 to 22 April 2015 respectively. However, upon completion of the Acquisition, CNAF will become a financial platform of the Group, and the deposits by the Group to CNAF are expected to increase in coming years.

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Set out below are the historical daily maximum outstanding balances including the accrued interest in respect of the loan & other credit services provided by CNAF to the CNAHC Group (the “**Loan Balances**”) for the two years ended 31 December 2014, and for the period from 1 January 2015 to 22 April 2015:

	<b>For the year ended</b>		<b>From</b>
	<b>31 December</b>		<b>1 January to</b>
<i>(RMB'million)</i>	<b>2013</b>	<b>2014</b>	<b>22 April 2015</b>
Loan Balances	1,447	2,607	1,939

As shown in the table above, the Loan Balances showed an overall increasing trend from 1 January 2013 till 22 April 2015, due to the adjustments of CNAHC’s direct financing plan subject to the interest rate fluctuations of the direct financing market, resulting in the increase of the Loan Balance at a point in time. As the operating scale of CNAHC and its subsidiaries expands, the financing needs of CNAHC are expected to increase and the Loan Balances are expected to grow in the next few years.

**(ii) Bases for determining the Proposed Annual Caps and our analysis**

Set out below are the Proposed Annual Caps in respect of each of the Non-exempt Continuing Connected Transactions for the years ending 31 December 2015, 2016 and 2017 respectively:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
<i>(RMB'million)</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Deposit Balance	12,000	14,000	15,000
Loan Balance	8,000	9,000	10,000

To assess the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed the bases for determining each of the Proposed Annual Caps with the management of the Company. Set out below are the bases for determining the Proposed Annual Caps for each of the Non-exempt Continuing Connected Transactions and our analysis as to the fairness and reasonableness thereof:

**(a) New Annual Caps**

In assessing the fairness and reasonableness of the New Annual Caps, we have reviewed the following reasons for the New Annual Caps as advised by the management of the Company:

- It is estimated that the average daily outstanding deposit balances (without taking into account all other factors below in paragraph (a)) placed or to be placed by the Group with CNAF for the years ended 31 December 2015, 2016 and 2017 are

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RMB3,800 million, RMB4,000 million and RMB4,300 million respectively, in consideration of the expected business development of the Group, potential corporate financing need and the fact that the Group will fully utilize CNAF as a platform for fund management within the Group after the Acquisition;

Based on the average balance of cash deposits made by the Group to all financial institutions of approximately RMB6,540 million from 2009 to 2013, which were disclosed in the Company's annual and interim reports during the relevant periods, and the target deposit structure of CNAF upon completion of the Acquisition, the deposits placed or to be placed by the Group to CNAF are expected to be RMB3,800 million in 2015. In addition, according to the "Feasibility Report on the Change of CNAF Shareholding Structure" (《中航集團財務公司股權變更項目可行性研究報告》) provided by the Company, the target annual growth of the average daily outstanding deposit balance of CNAF from 2016 to 2029 is expected to be 6.5%. Based on the growth rate above, the average daily outstanding deposit balances of CNAF placed by the Group in 2016 and 2017 are expected to be RMB4,000 million and RMB4,300 million respectively.

- Upon completion of the Acquisition, CNAF will serve as the platform for pooling and monitoring fund within the Group, and assist the Company in strengthening its fund management and allocation through the Centralized Cross-Broder RMB Fund Operations conducted by multinational enterprise groups, which is expected to commence by the end of June 2015. As a result, the expected maximum annual net inflows of the Group's RMB fund into the RMB fund pool may amount up to RMB5,000 million, and the Group may deposit such funds with CNAF; and

We have reviewed the announcement of the Notice on Matters Concerning Centralized Cross-Broder RMB Fund Operations Conducted by Multinational Enterprise Groups ("關於跨國企業集團開展跨境人民幣資金集中運◆業務有關事宜的通知") by PBOC on 5 November 2014, from which it was stipulated that the annual maximum annual net inflows of the Group's RMB fund into the RMB fund pool should not be higher than 10% of the Group's net assets. According to the Annual Reports, the net asset of the Group were approximately RMB57,546 million and RMB59,110 million respectively as at 31 December 2013 and 2014, therefore the maximum amount of RMB5,000 million was reasonably determined.

- The aggregate amount of monetary funds of the Group's subsidiaries such as Air China Cargo Co., Ltd., Shenzhen Airlines Company Limited, Beijing Airlines Company Limited, Dalian Airlines Company Limited and Aircraft Maintenance and Engineering Corporation were growing during the past few years as a result of business expansion, and they are expected to increase gradually. As at 31 December, 2014, the aggregate monetary funds of these five companies were approximately RMB2,800 million, the majority of which were not deposited with

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CNAF in 2014, since most deposits taken by CNAF were from the CNAHC Group in the past. After the Acquisition, the financial services between CNAF and the Group members are expected to be more flexible and diversified, and all of the monetary funds of those subsidiaries of the Group are expected to be deposited with CNAF in the coming years.

We have reviewed the audited balance sheets as at 31 December 2014 of those five subsidiaries, and noted that the aggregate cash balance of those five subsidiaries were approximately RMB2,800 million as at 31 December 2014. Upon completion of the Acquisition, those cash are expected to be available for deposit into CNAF in coming years.

In aggregate of the above figures, the average daily outstanding deposit balances are expected to be RMB11,600 million, RMB11,800 million and RMB12,100 million for 2015, 2016 and 2017 respectively. Therefore, the Deposit Balance in 2015 is expected to exceed the 2012 Annual Caps of RMB4,000 million for the year 2015 under the 2012 Financial Services Agreement. In consideration of the fact that the Deposit Balance could be higher than the daily average, the buffer for the increase of New Annual Caps in 2016 and 2017, and the commercial rationale for obtaining such services from CNAF as set out in sub-paragraph headed “The Air China Financial Services Agreement” above, we are of the view that the New Annual Caps are fair and reasonable and in the interest of the Company and Shareholders as a whole.

*(b) CNAHC Annual Caps*

In assessing the fairness and reasonableness of the CNAHC Annual Caps, we have reviewed the following reasons for the CNAHC Annual Caps as advised by the management of the Company:

- It is estimated that the Loan Balances (without taking into account all other factors below in paragraph (b)) provided by CNAF to CNAHC for the years ended 31 December 2015, 2016 and 2017 will be approximately RMB3,200 million, RMB4,000 million and RMB5,000 million respectively, based on the Loan Balance of approximately RMB2,600 million in 2014, and a 24% compound annual growth rate of the aggregate loans granted by CNAF to the CNAHC Group from 2012 to 2014.

Based on the information provided by the Company, the aggregate loan balances provided by CNAF to the CNAHC Group were approximately RMB1,700 million and RMB2,600 million respectively in 2012 and 2014. We understand that the Loan Balances from 2015 to 2017 estimated above were based on the compound annual growth rate for the aggregate loan balance from 2012 to 2014, and in the view that such rate could be reasonably used for estimation of the Loan Balance;

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- CNAHC may obtain financing from CNAF for the construction of auxiliary facilities for the Beijing new airport, the amount of which may be RMB1,000 million in the second half of 2015, and the scale of which may gradually increase thereafter according to the development of such project;
- For a purpose of cash allocation and utilization within the CNAHC Group, CNAHC is qualified to directly obtain debt financing and can adjust surplus and shortage in fund within the CNAHC Group through CNAF. In consideration of the expected increasing registered quota for direct financing made by CNAHC with the National Association of Financial Market Institutional Investors (the “**Registered Quota**”) in the three years ending 31 December 2017 as a result of its business expansion, it is estimated that the total amount of loans to be provided by CNAF to the CNAHC Group for the purpose of cash allocation and utilization within the CNAHC Group will increase by RMB2,000 million for each of the three years ending 31 December 2017.

We have reviewed the guidance letters issued by National Association of Financial Market Institutional Investors in relation to the issue of corporate bonds by non-bank institutions, and noted that the Registered Quota was determined in reference to the net assets of the issuer. According to the consolidated balance sheets of CNAHC as at 31 December 2012, 2013 and 2014 provided by the Company, the growth rate of net assets of the CNAHC Group was approximately 11% from 2012 to 2014, which was in line with the approximate 14% growth of the Registered Quota from RMB7,000 million in 2012 to RMB8,000 million in 2014. Consequently, the Registered Quota is expected to continue to increase in coming years, resulting in a RMB2,000 million growth in the total amount of loans to be provided by CNAF to the CNAHC Group for the purpose of cash allocation and utilization within the CNAHC Group for each of the three years ending 31 December 2017; and

- Previously, CNAHC had been obtaining loans from institutions other than CNAF, the amount of which was approximately RMB1,000 million in 2014, due to insufficient monetary funds of CNAF available for loan. In consideration of the factors disclosed in paragraph (a) above for the growth of the Deposit Balance, the financial resources of CNAF available for loan are expected to grow accordingly in the next several years.

We have reviewed the balance sheet of CNAHC as at 31 December 2014 provided by the Company, and noted that the loan balance of CNAHC obtained from institutions other than CNAF in 2014 was approximately RMB1,000 million. Accordingly, it is expected that such portion of loan would be provided by CNAF after the financial resources of CNAF become sufficient during 2015 to 2017.

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In aggregate of the above figures, the Loan Balances are expected to be RMB7,200 million, RMB8,000 million and RMB9,000 million for 2015, 2016 and 2017 respectively. In consideration of the buffer for the increase of CNAHC Annual Caps in 2016 and 2017, and the commercial rationale for obtaining such services from CNAF as set out in sub-paragraph headed “the CNAHC Financial Services Agreement” above, we are of the view that the CNAHC Annual Caps are fair and reasonable and in the interest of the Company and Shareholders as a whole.

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

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

#### (i) *Compliance risk*

As a licensed non-bank financial institution in the PRC, CNAF is supervised by the CBRC under the Administrative Measures for Enterprise Group Finance Companies (the “**Administrative Measures**”, 企業集團財務公司管理辦法), pursuant to which CNAF is required to submit audited financial statements and report its operation status to the CBRC annually. In addition, CNAF must comply with certain financial ratio requirements set by the CBRC from time to time.

The below table set out the financial ratio compliance requirements of the CBRC with reference to the Administrative Measures:

Financial ratio	Capital adequacy ratio	Inter-bank borrowing balances to total capital ratio	Total amount of outstanding guarantees to total capital ratio	Total amount of investment to total capital ratio	Self-owned fixed assets to total equity ratio
Requirements of the CBRC	Not less than 10%	Not more than 100%	Not more than 100%	Not more than 70%	Not more than 20%

We have reviewed the financial ratios of CNAF as at 31 December 2012, 2013 and 2014 in relation to the requirements of the Administrative Measures, and noted that CNAF has complied with all the financial ratio requirements during the relevant periods. We have been advised by the Directors that to their best knowledge, up to the Latest Practicable Date, there is no record of non-compliance with relevant laws, rules and regulations of the PRC on CNAF.

We have also reviewed the internal document issued by CNAHC on 4 December 2014, which stipulated that the registered capital of CNAF will be increased by both the Company and CNAHC upon completion of the Acquisition, implying an enlarged capital base of CNAF for the calculation of the capital adequacy ratio, and the monetary funds of CNAF available for loan are expected to grow accordingly. As advised by the management of the Company, CNAF will continue to meet the minimum capital adequacy ratio requirement imposed by CBRC in upcoming years.

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All commercial banks in the PRC are regulated by CBRC under the Measures for the Capital of Commercial Banks (for Trial Implementation) (商業銀行資本管理辦法(試行)). Save for the capital adequacy ratio, the financial ratios set out in the Administrative Measures are not applicable to PRC commercial banks. According to the annual statistics conducted by CBRC on the commercial banks in the PRC, the capital adequacy ratio of commercial banks in the PRC as at the end of 2012, 2013 and 2014 are shown below.

Financial ratio	Requirements of the CBRC	Average financial ratios of commercial banks in the PRC		
		as at 31 December 2012	as at 31 December 2013	as at 31 December 2014
Capital adequacy ratio	Not less than 8%	13.25%	12.19%	13.18%

We noted that the capital adequacy ratio requirement of 8% on PRC commercial banks is lower than that of 10% on CNAF, which indicates that CBRC has imposed a stricter capital adequacy ratio requirement on CNAF than PRC commercial banks. Further to be in compliance with the requirements of CBRC, the capital adequacy ratios of CNAF were higher than the average capital adequacy ratio of commercial banks in the PRC as at each of the year ended 31 December 2012, 2013 and 2014. In view of the above, and the fact that the registered capital is expected to be enlarged by both the Company and CNAHC, we are of the view that the compliance risk of CNAF is relatively small in comparison with that of the commercial banks.

**(ii) Liquidity risk**

In the meantime, CNAF and all commercial banks in the PRC are supervised by the CBRC under the Trial Measures for Risk of Enterprise Group Finance Companies (企業集團財務公司風險監管指標考核暫行辦法), and Measures for the Liquidity Risk Management of Commercial Banks (for Trial Implementation)(商業銀行流動性風險管理辦法(試行)) respectively. Key ratios reflecting liquidity risks include the current ratio and the loan to deposit ratio, which are shown below in respect of both CNAF and commercial banks of PRC:

Financial ratio	Current ratio	Loan to deposit ratio
Requirements of the CBRC on CNAF	Not lower than 25%	N/A



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Financial ratio	Requirements of the CBRC	Average financial ratios of commercial banks in the PRC		
		as at 31 December 2012	as at 31 December 2013	as at 31 December 2014
Current ratio	Not lower than 25%	45.83%	44.03%	46.44%
Loan to deposit ratio	Not higher than 75%	65.31%	66.08%	65.09%

We have noted that all of CNAF's financial ratios regarding liquidity risk are in compliance with the CBRC as at 31 December 2012, 2013 and 2014, but the current ratios of CNAF were lower than the average of those ratios of commercial banks in the PRC as at each of the year ended 31 December 2012, 2013 and 2014. The reason for the lower ratio of CNAF is mainly due to the homogeneity of CNAF's capital resources, which are mainly from the Group's and CNAHC Group's short term deposits, and most of the loans made by CNAHC Group and the Group are long terms. In addition, most customers of CNAF have similar financing preferences, which indicate that they may have financing needs at the same time, increasing the liquidity risk of CNAF. PRC commercial banks are in a better position since their depositors and borrowers are well diversified.

In consideration of the above, CNAF has implemented the following internal control procedures to mitigate the liquidity risk: (1) the designated staff by CNAF will closely monitor the change of monetary policy, and utilize adequate financing methods such as interbank borrowing and pledge repurchases to improve the liquidity position of CNAF when it falls short of capital; (2) CNAF will actively look for new customers as a new capital source while retaining old customers; (3) the designated staff by CNAF will keep close contact with CNAF's key customers on a daily basis, trace their fund usage and design solution plans regarding the use of funds for them; and (4) CNAF will refine the micro management of capital to improve the forecast on CNAF's cash positions.

We are advised by the Directors that such internal control procedures will be strictly adhered before and after the completion of the Acquisition. In addition, after discussion with management of CNAF, we noted that CNAHC has committed to restore the financial position of CNAF to a healthy position by way of capital injection once CNAF runs into financial difficulties. Therefore the liquidity risk of CNAF has been highly mitigated. In view of the above, we are of the view that the internal control procedures of CNAF in place are adequate to control the liquidity risk, and the liquidity position of CNAF is expected to be improved in forthcoming years.

### *(iii) Credit risk*

Due to the fact that the customers of CNAF are limited to members of the Company and CNAHC, CNAF faces a higher customer concentration risk than PRC commercial banks, whose customers are open to the public. As a result, the default of any one of CNAF's customer may cause a greater negative impact to CNAF than the default of any one of PRC commercial banks' customers. However, as a subsidiary of the Company upon completion of the Acquisition, CNAF is able to gain

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access to the details of financial positions of its customers, and can obtain sufficient information in advance to determine whether to grant the loan to the applicant, which is very unlikely for most of the PRC commercial banks to evaluate their customers. As a result, the high customer concentration risk is mitigated, and the key indicators of credit risk, which is the non-performing loan ratio set out below, of CNAF is lower than that of PRC commercial banks:

Financial ratio		Non-performing loan ratio	Provision coverage ratio	
Requirements of the CBRC on CNAF		Not higher than 5%	Not lower than 100%	
		Average financial ratios of commercial banks in the PRC		
		as at	as at	as at
Financial ratio	Requirements of the CBRC	31 December 2012	31 December 2013	31 December 2014
Non-performing loan ratio	Not higher than 5%	0.95%	1.00%	1.25%
Provision coverage ratio	Not lower than 150%	295.51%	282.70%	232.06%

CNAF also has a set of procedures in place to manage the credit risk: (1) customers with excellent qualifications, good operations and stable cash flows are selected as CNAF's target customers; (2) CNAF will strictly follow the internal control procedures on loan services which are set out in the section "**6. (iii) Internal control procedures on the loan service**" set out below; and (3) the controlling shareholder of the borrower has committed to restore the financial position of the borrower to a healthy position by way of capital injection or provision of guarantees once the borrower runs into financial difficulties. As a result, the loans granted by CNAF since its establishment till the Latest Practicable Date have never been default, which is an excellent achievement of CNAF in consideration of the fact that CNAF has been founded for more than 10 years. Taking into account of the development aspects of CNAF after Acquisition, we are of the view that the credit risk of CNAF is relatively small in comparison with that of the commercial banks.

As a result of the comparisons of financial ratios between CNAF and PRC commercial banks, and the analysis on the compliance risk, liquidity risk and credit risk in relation to CNAF, we concur with the Directors' view that the general risk profile of CNAF as a non-bank financial institution are not greater than that of the PRC commercial banks, and the risks of CNAF can be successfully managed under the existing internal control procedures.

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### 6. Internal control procedures

#### (i) *Compliance with the Listing Rules and regulatory requirements*

Under the Listing Rules, the Non-exempt Continuing Connected Transactions are required to comply with the following requirements:

- (a) the transaction values of the Non-exempt Continuing Connected Transactions will not exceed their respective Proposed Annual Caps;
- (b) each year the independent non-executive Directors must review the Non-exempt Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Non-exempt Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or better; and (c) in accordance with the Agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (c) each year the auditors of the Company will provide a letter to the Board confirming that the Non-exempt Continuing Connected Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company; (c) have been entered into in accordance with the Agreements; and (d) have not exceeded their respective Proposed Annual Caps.

We have reviewed the Annual Reports and noted that both the independent non-executive Directors and auditors of the Company, have confirmed that the deposit services offered by CNAF to the Group are in accordance with the requirements set out above for the three years ended 31 December 2014. We are advised by the management of the Company that the Group will continue to comply with the Listing Rules requirements in upcoming years.

According to the Financial Business Operation Permit (“金融許可證”) of CNAF provided by the Company, CNAF was granted the Financial Business Operation Permit on 12 September 2007. As advised by the management of the Company, CNAF will enforce in strict compliance with the applicable laws and regulations under the revised 《企業集團財務公司管理辦法》(Administrative Measures for Enterprise Group Finance Companies) and 《企業集團財務公司風險監管指標考核暫行辦法》(the Tentative Measures for the Assessment of Risk Control Indicators of Enterprises Group Finance Companies) both issued by the CBRC, effective from 28 December 2006 and 29 December 2006, respectively.

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(ii) *Internal control procedures on the deposit service*

We have reviewed the internal control document of the Company regarding the use of deposit services provided by CNAF, and understand that the Company would take the following review procedure process against the following assessment criteria when obtaining the deposit services from CNAF:

- (a) The designated staff by the Company and CNAF would closely monitor the outstanding deposit balance of the Group with CNAF on a daily basis to ensure that does not exceed the New Annual Caps;
- (b) The treasury department of the Company would update the list of the Group's subsidiaries on a quarterly basis to ensure the aggregate outstanding deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the New Annual Caps;
- (c) The designated staff by the Company would compare the rates and terms offered by CNAF and those offered by CNAF to members of CNAHC Group when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are not less favorable than those provided to members of CNAHC Group; and
- (d) The designated staff by the Company would compare the rates and terms offered by CNAF and several major state-owned commercial banks when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are not less favorable than those provided by state-owned commercial banks.

We have discussed with the management of the Company regarding the updating frequency of the list of the Group's subsidiaries, and understand that since the changes of the Group's subsidiaries are major investment strategies of the Company, which are subject to the Board's and relevant regulatory authorities' approval, the process of which could be lengthy, updates on the list of the Group's subsidiaries on a quarterly basis are sufficient to ensure that the aggregate outstanding deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the New Annual Caps. Taking into account that the Deposit Balances are monitored on a daily basis, and the rates and terms of the deposit services provided by CNAF are compared with those provided to members of CNAHC Group and provided by state-owned commercial banks when the need for deposits arises, we are of the view that the methods and procedures above can ensure that the deposit services provided by CNAF to the Group will be conducted on normal commercial terms.

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## LETTER FROM ASIAN CAPITAL

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*(iii) Internal control procedures on the loan service*

We have reviewed the internal control document of CNAF regarding the provision of loan services, and understand that CNAF would take the following review procedure process against the following assessment criteria when providing the loan services to the CNAHC Group:

- (a) After receiving the loan application from the CNAHC Group, the designated staff of CNAF would verify the information provided by the applicant, assess if the loan application is in compliance with the terms set out in the CNAHC Financial Services Agreement, and issue a loan examination report to the loan review committee of CNAF for approval if he considers the loan should be granted, otherwise the loan application will be rejected;
- (b) The loan review committee of CNAF will make the final decision on the approval of the loan and the determination of relevant terms of the loan, including the interest rate of the loan in reference to the prevailing benchmark rate and range specified by the PBOC for the same types of loans;
- (c) The accounting department of CNAF will transfer the loan to the applicant after obtaining approval of the department manager and leaders of CNAF;
- (d) After the issue of the loan, the financing credit department of CNAF will conduct post-loan examination on the applicant every quarter and issue post-loan examination reports; and
- (e) The accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for a written extension of the loan repayment prior to the maturity of the loan, after obtaining approval from CNAF.

Having reviewed several samples of the pre-loan examination reports, post-loan examination reports and update records of the Groups' subsidiaries from 2013 to 2015 provided by the Company, we are of the view that the internal control procedures on the deposit and loan services disclosed above were strictly followed by the Company and CNAF from 2013 to 2015. In addition, we are advised by the management of the Company that the Group (including CNAF) will continue to follow those internal control procedures in upcoming years. In light of various measures and internal control system regarding the governing of the conduct of the Non-exempt Continuing Connected Transactions as detailed above, we are of the view that measures in place for governing and ensuring the compliance of the Non-exempt Continuing Connected Transactions with the Listing Rules and internal control procedures are adequate and appropriate, and therefore both the deposit and loan services provided by CNAF to the Group and CNAHC Group will be conducted on normal commercial terms.

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## LETTER FROM ASIAN CAPITAL

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### OPINION

Having taken into account the above principal factors, we consider that the terms of the Non-exempt Continuing Connected Transactions (including the Proposed Caps) are in the ordinary and usual course of business of the Group and are on normal commercial terms. We also consider that the terms of the Non-exempt Continuing Connected Transactions (including the Proposed Caps) are fair and reasonable so far as the Independent Shareholders are concerned and they are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Non-exempt Continuing Connected Transactions (including the Proposed Caps).

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

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

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

Name of company Relevant shareholder	Personal interest	Number of Shares		Corporate interest	Total	Shareholding percentage as at the Latest Practicable Date
		Interest of children under the age of 18 or spouse				
Cathay Pacific Airways Limited						
Ian Sai Cheung Shiu	1,000 (ordinary shares)	–	–	–	1,000 (ordinary shares)	0.00%
Air China Limited						
Zhou Feng	10,000 (A shares)	–	–	–	10,000 (A shares)	0.00%
Shen Zhen	33,200 (A shares)	–	–	–	33,200 (A shares)	0.00%

None of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2014 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

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

Save as above, none of the Directors or supervisors of the Company and their respective associates (as defined in the Listing Rules) 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.

### 3. SERVICE CONTRACTS

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

### 4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group’s financial or trading position since 31 December 2014, being the date to which the latest published audited financial statements of the Group have been made up.

### 5. EXPERT

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

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

- (a) As at the Latest Practicable Date, Asian Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2014 (the date to which the latest published audited financial statements of the Group were made up);



- (b) As at the Latest Practicable Date, Asian Capital was not beneficially interested in the share capital of any member of the Group and had no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) Asian Capital has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

## **6. MISCELLANEOUS**

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

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

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong during normal business hours on any business day from the date of this circular until 22 May 2015:

- (a) Air China Financial Services Agreement;
- (b) CNAHC Financial Services Agreement;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 23 to 24 of this circular;
- (d) the letter from Asian Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 25 to 44 of this circular; and
- (e) the consent letter issued by the expert referred to in this circular.



**中國國際航空股份有限公司  
AIR CHINA LIMITED**

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

**(Stock Code: 00753)**

**SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

Reference is made to the notice of the annual general meeting of Air China Limited (the “**Company**”) dated 2 April 2015 (the “**Former AGM Notice**”) which sets out the resolutions to be considered by shareholders at the annual general meeting for the year ended 31 December 2014 to be held at 2:00 p.m. on Friday, 22 May 2015 at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC (the “**AGM**”).

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

**Ordinary Resolution:**

9. To consider and approve the resolution concerning the entry into of the financial services agreement by the Company and China National Aviation Finance Co., Ltd. (“**CNAF**”), and the financial services agreement by CNAF and China National Aviation Holding Company (“**CNAHC**”), and their respective annual caps:

**“THAT**

- (1) the financial services agreement dated 29 April 2015 entered into between the Company and CNAF in relation to the provisions of a range of financial services by CNAF to the Company and its subsidiaries (the “**Group**”), including the provision of deposit services as stipulated thereunder and the proposed maximum daily balance of deposits (including accrued interest) placed by the Group with CNAF being RMB12 billion, RMB14 billion and RMB15 billion for each of the three years ending 31 December 2015, 2016 and 2017, respectively, be and is hereby approved; and
- (2) the financial services agreement dated 29 April 2015 entered into between CNAF and CNAHC in relation to the provisions of a range of financial services by CNAF to CNAHC, its subsidiaries and its associates (excluding the Group) (“**CNAHC Group**”), including the provision of loans and other credit services as stipulated thereunder and

the proposed maximum daily balance of loans and other credit services (including accrued interest) granted by CNAF to the CNAHC Group being RMB8 billion, RMB9 billion and RMB10 billion for each of the three years ending 31 December 2015, 2016 and 2017, respectively, be and is hereby approved.”

By order of the Board  
**Air China Limited**  
**Cai Jianjiang**  
*Chairman*

Beijing, PRC, 8 May 2015

*Notes:*

- (1) A revised form of proxy is enclosed with this notice. Whether or not you are able to attend the AGM, you are requested to complete the accompanying revised form of proxy in accordance with the instructions printed thereon and return the same to the Company’s H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the AGM or any adjournment thereof (as the case may be). Completion and return of the revised form of proxy will not preclude the shareholders of the Company from attending and voting in person at the AGM or any adjournment thereof.
- (2) Please refer to the Former AGM Notice for details in respect of the eligibility for attending the AGM and for receiving 2014 final dividends, proxy, registration procedures, closure of register of members and other relevant matters.
- (3) Please refer to the notice of attendance of the AGM of the Company in respect of the timing and address for attending the AGM and other relevant matters.

*As at the date of this notice, the directors of the Company are Mr. Cai Jianjiang, Ms. Wang Yinxiong, Mr. Cao Jianxiong, Mr. Feng Gang, Mr. John Robert Slosar, Mr. Ian Sai Cheung Shiu, Mr. Song Zhiyong, Mr. Fan Cheng, Mr. Fu Yang\*, Mr. Yang Yuzhong\*, Mr. Pan Xiaojian\* and Mr. Simon To Chi Keung\*.*