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

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

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

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

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

**(Stock Code: 00753)**

**(1) CONTINUING CONNECTED TRANSACTIONS**  
**(2) PROPOSED APPOINTMENT OF INTERNAL CONTROL AUDITOR**  
**AND**  
**SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

**CMS**  **招商证券**

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A letter from the Board is set out on pages 5 to 27 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 28 to 29 of this circular.

A letter from China Merchants Securities, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 30 to 36 of this circular.

A supplemental notice convening the EGM to be held at The Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on 20 December 2012 is set out on pages 41 to 43 of this circular. Whether or not you are able to attend and/or vote at the EGM, 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 EGM 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 EGM or any adjournment should you so wish.

4 December 2012

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## DEFINITIONS

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

“2009 Circular”	the circular issued by the Company on 6 November 2009 to its Shareholders in respect of certain continuing connected transactions
“2009 EGM”	the Company’s extraordinary general meeting held on 22 December 2009
“Advertising Services Framework Agreement”	the advertising services framework agreement entered into between the Company and CNAMC on 20 November 2012
“Air China Cargo”	Air China Cargo Co., Ltd, a company with limited liability incorporated under the laws of People’s Republic of China and with 51% of its registered capital owned by the Company as at the date of this circular
“Board”	the board of Directors of the Company
“CBRC”	China Banking Regulatory Commission
“Charter Flight Service Framework Agreement”	the government charter flight service framework agreement entered into between the Company and CNAHC on 20 November 2012
“CNACD”	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this circular. CNACG is an investment holding company whose principal businesses include passenger terminal operation, cargo terminal operation, airport ground handling services, airline catering services, property investment, ticket and tourism services, logistics and other businesses conducted through its subsidiaries
“CNAF”	China National Aviation Finance Co., Ltd., a 75.54% held subsidiary of CNAHC

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## DEFINITIONS

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“CNAHC”	China National Aviation Holding Company, a substantial shareholder of the Company
“CNAHC Group”	CNAHC, its subsidiaries and its associates (excluding the Company)
“CNAMC”	China National Aviation Media and Advertisement Co., Ltd., a wholly-owned subsidiary of CNAHC
“CNATC”	China National Aviation Tourism Company, a wholly-owned subsidiary of CNAHC
“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
“Comprehensive Services Agreement”	the comprehensive services agreement entered into between the Company (for itself and on behalf of its subsidiaries) and CNAHC (on behalf of CNAHC Group) on 20 November 2012
“Construction Project Management Agreement”	the framework agreement for assigning management of basic construction project entered into between the Company and CNACD on 20 November 2012. The annual amount payable by the Company under the Construction Project Management Agreement for each of the three years ending 31 December 2013, 2014 and 2015 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. Accordingly, such transaction will be exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements for continuing connected transactions

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## DEFINITIONS

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“Continuing Connected Transactions”	the Non-exempt Continuing Connected Transactions and the continuing connected transactions under the Construction Project Management Agreement, the Advertising Services Framework Agreement, the Properties Leasing Agreement, the Sales Agency Services Framework Agreement, the Comprehensive Services Agreement and the Charter Flight Service Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to seek Independent Shareholders’ approval for, among other things, the Non-exempt Continuing Connection Transactions and the other exempted continuing connected transactions as set forth in this circular
“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
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming and Mr. Yang Yuzhong, all being the independent non-executive directors of the Company
“Independent Shareholders”	the independent shareholders of the Company
“Latest Practicable Date”	30 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Non-exempt Continuing Connected Transactions”	the deposit services and loan and other credit services to be provided by CNAF to the Company and its subsidiaries under the Financial Services Agreement

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## DEFINITIONS

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“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules, i.e. “assets ratio”, “profits ratio”, “revenue ratio”, “consideration ratio” and “equity capital ratio”
“PRC”	The People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Properties Leasing Agreement”	the properties leasing agreement entered into between the Company (for itself and on behalf of its subsidiaries) and CNAHC (on behalf of CNAHC Group) on 20 November 2012
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Agency Companies”	certain subsidiaries of CNAHC acting as the Company’s sales agents pursuant to the Sales Agency Services Framework Agreement
“Sales Agency Services Framework Agreement”	the sales agency services framework agreement entered into between the Company (for itself and on behalf of its subsidiaries) and CNAHC (on behalf of CNAHC Group) on 20 November 2012
“Shanghai Listing Rules”	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
“Shareholders”	the shareholders of the Company

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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)

*Non-executive Directors:*

Mr. Wang Changshun  
Ms. Wang Yinxiang  
Mr. Cao Jianxiong  
Mr. Sun Yude  
Mr. Christopher Dale Pratt  
Mr. Ian Sai Cheung Shiu

*Registered office:*

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

*Executive Directors:*

Mr. Cai Jianjiang  
Mr. Fan Cheng

*Principal place of business in Hong Kong:*

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

*Independent non-executive Directors:*

Mr. Fu Yang  
Mr. Li Shuang  
Mr. Han Fangming  
Mr. Yang Yuzhong

4 December 2012

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS  
(2) PROPOSED APPOINTMENT OF INTERNAL CONTROL AUDITOR  
AND  
SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. INTRODUCTION**

In addition to the resolutions to be proposed at the EGM, details of which are set out in the notice of the EGM dated 5 November 2012, it is proposed that at the EGM, certain additional resolutions will be proposed to, inter alia, (i) approve the Non-exempt Continuing

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## LETTER FROM THE BOARD

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Connection Transactions and the other exempted continuing connected transactions and (ii) approve the appointment of Deloitte Touche Tohmatsu CPA Ltd. as the Company's internal control auditor for the year 2012 as set forth in this circular.

The supplemental notice of EGM is set out on pages 41 to 43 of this circular.

## II. CONTINUING CONNECTED TRANSACTIONS

### 1. INTRODUCTION

Reference is made to the 2009 Circular in relation to the continuing connected transactions of the Company. At the 2009 EGM, the Independent Shareholders approved (i) certain non-exempt continuing connected transaction of the Company and its relevant annual caps for the three years ending 31 December 2012; and (ii) certain exempt continuing connected transactions of the Company and their relevant annual caps for the three years ending 31 December 2012 that are required by the Shanghai Listing Rules to be approved by the Independent Shareholders. The Company expected certain continuing connected transactions set out in the 2009 Circular will continue to be conducted after 31 December 2012, therefore the Company will continue to comply with Chapter 14A of the Hong Kong Listing Rules for the continuing connected transactions to be conducted in the next three years (i.e. from 1 January 2013 to 31 December 2015), including further disclosure of information in this circular and to seek Independent Shareholders' approval for the Non-exempt Continuing Connected Transactions (including the relevant proposed annual caps).

On 20 November 2012, the Board approved the continuing connected transactions set out in this circular and the relevant annual caps for each of them for the three years ending 31 December 2013, 2014 and 2015. The Company will seek Independent Shareholders' approval for the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps for each of the three years ending 31 December 2013, 2014 and 2015 in accordance with the Hong Kong Listing Rules. In addition, pursuant to the Shanghai Listing Rules, the Company will seek Independent Shareholders' approval for the Continuing Connected Transactions.

### 2. PARTIES AND CONNECTION OF THE PARTIES

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

- **CNAHC Group**

CNAHC is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAHC is primarily engaged in managing the state-owned assets of CNAHC and the equity it holds in various companies.



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## LETTER FROM THE BOARD

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- **CNAMC**

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

- **CNAF**

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

### **3. CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL**

#### **3.1 Media and Advertising Services**

The Company entered into the Advertising Services Framework Agreement on 20 November 2012 with CNAMC.

*Description of transaction:* pursuant to the Advertising Services Framework Agreement, CNAMC will have the following rights:

- an exclusive right to distribute the in-flight reading materials of the Company;
- an exclusive operation right of certain media of the Company, including the boarding passes, in-flight entertainment system and flight schedules;
- a right to be commissioned to purchase in-flight entertainment programmes (which may include advertising content) from independent third parties or produce such programmes on its own;
- a right to develop and use the media of the Company and receive effective support and assistance from the Company in the course of the sale of advertisements. The advertising business cooperation which may be conducted from time to time between the Company and CNAMC includes (i) advertisements produced by CNAMC or for which CNAMC acts as agent and media developed by CNAMC for the Company (including outdoor advertisements on properties owned by the Company, ground broadcasting programmes (at ticket offices and on airport shuttles), the international e-commerce network check-in system and ticket envelopes (including air ticket envelopes and boarding pass envelopes)) and (ii) advertisements designed, produced and published by CNAMC, as commissioned by the Company through public tender; and
- a right to receive advertising fees at market price in respect of advertising design and image promotion conducted by CNAMC for the Company under the Company's commissioning.

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## LETTER FROM THE BOARD

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As a consideration, CNAMC agrees to:

- pay the Company RMB26.25 million, RMB27.5625 million and RMB28.9406 million, respectively, for each of the three years ending 31 December 2013, 2014 and 2015 in respect of the exclusive operation rights of the specific media of the Company, and according to the annual budget of the Company, provide the Company with sufficient in-flight media (other than in-flight entertainment programmes), including in-flight publications, boarding passes and flight schedules that meet the Company's requirements; and
- pay the Company 20% of any revenue from any new advertising media of the Company which is not mentioned in the Advertising Services Framework Agreement but proposed to be developed by CNAMC on a case by case basis.

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

The term of the Advertising Services Framework Agreement is from 1 January 2013 to 31 December 2015.

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

- media and advertising business is not the core competency of the Company while CNAMC has extensive experience in in-flight advertising operation and has a proven network of advertising sponsors to draw upon; and
- CNAMC, being a company having engaged in the aviation media business for a long time, has a better understanding of the corporate culture and the brand of the Company and has certain advantages in entertainment programmes production and advertising agency business.

***Historical Amounts and Proposed Caps:***

The annual cap for the aggregate amount including in-flight entertainment programmes production fees and advertising agency fees paid by the Company to CNAMC for each of the three years ending 31 December 2012 is RMB60 million, RMB100 million and RMB120 million, respectively. For each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012, the actual aggregate amount paid by the Company to CNAMC including in-flight entertainment production fees and advertising agency fees was approximately RMB28.23 million, RMB57.75 million and RMB51.50 million, respectively.

## LETTER FROM THE BOARD

It is proposed that for each of the three years ending 31 December 2013, 2014 and 2015, the annual cap for the aggregate amount paid by the Company to CNAMC including in-flight entertainment production fees and advertising agency fees shall be RMB138 million, RMB151.8 million and RMB167 million, respectively.

The annual amount payable by CNAMC to the Company under the Advertising Services Framework Agreement for each of the next three years ending 31 December 2013, 2014 and 2015 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December 2010	Annual cap for the year ended 31 December 2011	Annual cap for the year ended 31 December 2012	Actual	Actual	Unaudited	Estimated	Annual cap for the year ended 31 December 2013	Annual cap for the year ended 31 December 2014	Annual cap for the year ended 31 December 2015
				annual	annual	historical	annual			
				amount for the year ended 31 December 2010	amount for the year ended 31 December 2011	amount for the period from 1 January to 30 June 2012	amount for the year ended 31 December 2012			
Amount paid by the Company to CNAMC under the Advertising Services Framework Agreement	RMB60 million	RMB100 million	RMB120 million	RMB28.23 million	RMB57.75 million	RMB51.50 million	RMB120 million	RMB138 million	RMB151.8 million	RMB167 million

### ***Basis for such caps:***

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

### **3.2 Property Leasing**

The Company (for itself and on behalf of its subsidiaries) entered into the Properties Leasing Agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012.

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

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## LETTER FROM THE BOARD

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

The rent payable under the Properties Leasing Agreement will be determined in accordance with the relevant PRC regulations or market rates and by entering into a specific properties leasing agreement.

The term of the Properties Leasing Agreement is from 1 January 2013 to 31 December 2015.

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

***Historical Amounts and Proposed Caps:***

The annual cap for the aggregate amount of rent paid by the Company and its subsidiaries to CNAHC Group for each of the three years ending 31 December 2012 is RMB140 million, RMB147 million and RMB154.35 million, respectively. The actual aggregate amount of rent paid by the Company and its subsidiaries to CNAHC Group for each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012 was approximately RMB101 million, RMB75 million and RMB46.88 million, respectively.

It is proposed that the annual cap for the aggregate amount of rent payable by the Company and its subsidiaries to CNAHC Group for each of the three years ending 31 December 2013, 2014 and 2015 shall be RMB120 million, RMB138 million and RMB150 million, respectively.

The annual aggregate amount of rent payable by CNAHC Group to the Company and its subsidiaries for each of the next three years ending 31 December 2013, 2014 and 2015 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

## LETTER FROM THE BOARD

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Actual	Actual	Unaudited	Estimated	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December
				annual	annual	historical	annual			
				amount for the year ended	amount for the year ended	amount for the period from 1 January to 30 June	amount for the year ending 31 December			
2010	2011	2012	2010	2011	2012	2012	2013	2014	2015	
Rent paid by the Company and its subsidiaries to CNAHC Group under the Properties Leasing Agreement	RMB140 million	RMB147 million	RMB154.35 million	RMB101 million	RMB75 million	RMB46.88 million	RMB85 million	RMB120 million	RMB138 million	RMB150 million

### ***Basis for such caps:***

As at the date hereof, the Company and its subsidiaries have leased an aggregate area of approximately 58,000 sq.m. from CNAHC Group. The Company expects the rent level will rise in the next three years.

Based on our needs for operation and development, the area to be leased from CNAHC Group will increase in the next three years. In arriving at the annual caps, the Company and its subsidiaries have taken into account the possible 10% to 15% overall annual rental increase and based on the estimated rental expenditure of RMB85 million for the year of 2012. It is estimated the rental expenditure for 2013 will not exceed RMB120 million, with subsequent increase of 10% to 15% per year.

### **3.3 Sales Agency Services of Airline Tickets and Cargo Space**

The Company (for itself and on behalf of its subsidiaries) entered into the Sales Agency Services Framework Agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012.

***Description of transaction:*** Pursuant to the Sales Agency Services Framework Agreement, the Sales Agency Companies will:

- procure purchasers for the Company's air tickets and cargo spaces on a commission basis; or
- purchase air tickets (other than domestic air tickets) and cargo spaces from the Company and resell such air tickets and cargo spaces to end customers.

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## LETTER FROM THE BOARD

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As for the air passenger agency services, the Company will consult with the Sales Agency Companies on a fair and voluntary basis and determine the agency service fee standards. In addition, the Company and the Sales Agency Companies may agree on specific sales targets and the corresponding incentive plans for achieving such targets to the extent permitted by law and in accordance with the industry practice.

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

The term of the Sales Agency Services Framework Agreement is from 1 January 2013 to 31 December 2015.

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

***Historical Amounts and Proposed Caps:***

For each of the three years ending 31 December 2012, the annual cap for the aggregate sales of airline tickets and cargo space by the Company and its subsidiaries to CNAHC Group for resale to end customers is RMB270 million, RMB324 million and RMB388.8 million, respectively. For each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012, the actual annual aggregate sales of airline tickets and cargo space by the Company and its subsidiaries to CNAHC Group for resale to end customers in relation to the sales agency services were approximately RMB149 million, RMB175 million and RMB89.819 million, respectively.

It is proposed that the annual cap for the aggregate sales of airline tickets and cargo space by the Company and its subsidiaries to CNAHC Group for resale to end customers for each of the three years ending 31 December 2013, 2014 and 2015 shall be RMB270 million, RMB324 million and RMB388.8 million, respectively.

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## LETTER FROM THE BOARD

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For each of the three years ending 31 December 2013, 2014 and 2015, the aggregate annual amount of agency commission to be paid by the Company and its subsidiaries to CNAHC Group is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules; therefore, such transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Actual annual amount for the year ended 31 December	Actual annual amount for the year ended 31 December	Unaudited		Annual cap for the year ending 31 December	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December
						Actual historical	Estimated			
	amount for the year ended 31 December	amount for the year ended 31 December	amount for the period from 1 January to 30 June	amount for the year ended 31 December	amount for the year ended 31 December	amount for the year ended 31 December	amount for the year ended 31 December	amount for the year ended 31 December	amount for the year ended 31 December	amount for the year ended 31 December
2010	2011	2012	2010	2011	2012	2012	2013	2014	2015	
Sales of airline tickets and cargo space to CNAHC Group	RMB270 million	RMB324 million	RMB388.8 million	RMB149 million	RMB175 million	RMB89.819 million	RMB220 million	RMB270 million	RMB324 million	RMB388.8 million

***Basis for such caps:***

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

In light of the increase of the air passenger and cargo transportation capacity of the Company and the air transportation market price for the year 2013 to 2015, and the uncertainty of the future jet fuel cost, based on the estimated sale revenue of airline tickets and cargo space by the Company and its subsidiaries to CNAHC Group for resale to end customers of RMB220 million in 2012, it is expected that such sales revenue in 2013 will not exceed RMB270 million and will increase at an annual rate of 20% thereafter.

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## LETTER FROM THE BOARD

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### 3.4 Comprehensive Services

The Company (for itself and on behalf of its subsidiaries) entered into the Comprehensive Services Agreement with CNAHC (on behalf of CNAHC Group) on 20 November 2012.

*Description of transaction:* Pursuant to the Comprehensive Services Agreement:

- Certain wholly-owned and controlled companies of CNAHC engaged in ancillary production and supply services in relation to air transportation business (“**Ancillary Business Companies**”), provided that such Ancillary Business Companies have obtained the relevant qualifications and certification, will primarily provide the following services to the Company (including but not limited to):
  - (i) supply of various items for in-flight services;
  - (ii) manufacturing and repair of aviation-related ground equipment and vehicles;
  - (iii) cabin decoration and equipment;
  - (iv) properties management services;
  - (v) frequent-flyer cooperation programme;
  - (vi) hotel accommodation and staff recuperation;
  - (vii) aviation tourist services with special features;
  - (viii) warehousing services;
  - (ix) airline catering services; and
  - (x) printing of air tickets and other publications.
- The Company accepts the commission of CNAHC and provide welfare-logistics services for CNAHC’s retired employees.
- The charges of the services provided by the Ancillary Business Companies to the Company shall not exceed the prevailing market rates (including the tender quotes) and the prices of the similar services they provide to independent third parties. If no prevailing market rate is available, a fair and reasonable price should be adopted through arm’s length negotiation between the parties. The management charges payable by CNAHC to the Company for the welfare-logistics services shall be settled at a rate of 4% of the actual aggregate welfare expense paid to such retired employees as confirmed by CNAHC.



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## LETTER FROM THE BOARD

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The term of the Comprehensive Services Agreement is from 1 January 2013 to 31 December 2015.

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

***Historical Amounts and Proposed Caps:***

For each of the three years ending 31 December 2012, the annual cap for the aggregate amount paid by the Company and its subsidiaries to CNAHC Group under the Comprehensive Services Agreement is RMB784 million, RMB862 million and RMB862 million, respectively. The actual aggregate amount paid by the Company and its subsidiaries to CNAHC Group for each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012 under the Comprehensive Services Agreement was approximately RMB662 million, RMB827 million and RMB399.8 million, respectively.

It is proposed that the annual cap for the aggregate amount to be paid by the Company and its subsidiaries to CNAHC Group under the Comprehensive Services Agreement for each of the three years ending 31 December 2013, 2014 and 2015 shall be RMB950 million, RMB1,045 million and RMB1,150 million, respectively.

For each of the three years ending 31 December 2013, 2014 and 2015, the aggregate annual amount to be paid by CNAHC Group to the Company and its subsidiaries for the provision of welfare-logistics services to the retired employees is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

## LETTER FROM THE BOARD

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Actual	Actual	Unaudited	Estimated	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December
				annual	annual	historical	annual			
				amount for the year ended	amount for the year ended	amount for the period from 1 January to 30 June	amount for the year ending 31 December			
	2010	2011	2012	2010	2011	2012	2012	2013	2014	2015

Amount to be paid by the  
Company and its subsidiaries to  
CNAHC Group under the  
Comprehensive Services  
Agreement

RMB784	RMB862	RMB862	RMB662	RMB827	RMB399.8	RMB862	RMB950	RMB1,045	RMB1,150
million	million	million	million	million	million	million	million	million	million

### ***Basis for such caps:***

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

The transaction volume increased during the past three years primarily due to the expansion of the fleet size of the Company and the increase of its transportation capacity.

As the Company has been continually increasing its transportation capacity and flights, and the airline catering services provided by another company in which CNACG invested have also been increasing, the transaction amount under the Comprehensive Services Agreement is expected to increase consequently. In addition, due to the reorganization of CNACD and CNATC, the transactions set forth in the previous tourism cooperation agreement entered into between the Company and CNATC dated 27 October 2009 will also fall within the scope of the Comprehensive Services Agreement. It is expected that the actual transaction amount generated by the Company in respect of its businesses under the Comprehensive Services Agreement in 2013 will not exceed RMB950 million, and will increase at an annual rate of 10% afterwards.

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## LETTER FROM THE BOARD

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### 3.5 Subcontracting of Charter Flight Services

The Company entered into the Charter Flight Service Framework Agreement with CNAHC on 20 November 2012.

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

$$\text{Hourly rate} = \text{Total cost per flight hour} \times (1 + 6.5\%)$$

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

The term of the Charter Flight Service Framework Agreement is from 1 January 2013 to 31 December 2015.

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

#### **Historical Amounts and Proposed Caps:**

For each of the three years ending 31 December 2012, the annual cap for aggregate amount paid by CNAHC to the Company in respect of the charter flight services is RMB750 million, RMB825 million and RMB900 million, respectively. The actual aggregate amount paid by CNAHC to the Company in respect of the charter flight services for each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012 was approximately RMB558 million, RMB522 million and RMB376 million, respectively.

It is proposed that the annual cap for the aggregate amount of revenue derived from the Charter Flight Service Framework Agreement for each of the three years ending 31 December 2013, 2014 and 2015 shall be RMB900 million, respectively.

## LETTER FROM THE BOARD

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Actual	Actual	Unaudited	Estimated	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December
				annual	annual	historical	annual			
				amount for the year ended	amount for the year ended	amount for the period from 1 January to 30 June	amount for the year ending			
2010	2011	2012	2010	2011	2012	2012	2013	2014	2015	
Amount of revenue derived from the Charter Flight Service Framework Agreement	RMB750 million	RMB825 million	RMB900 million	RMB558 million	RMB522 million	RMB376 million	RMB850 million	RMB900 million	RMB900 million	RMB900 million

### *Basis for such caps:*

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

- China's influence in the world is growing, the government charter flight services are expected to increase on a continuous basis during the period from 2013 to 2015; and
- uncertainties such as the future jet fuel price could lead to an increase of flight-related costs.

## 4. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 4.1 Financial Services

The Company (for itself and on behalf of its subsidiaries) entered into the Financial Services Agreement with CNAF on 20 November 2012.

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

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

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## LETTER FROM THE BOARD

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

Among the abovementioned services, bills acceptance services, letter of credit services, guarantee services, finance leasing services, discounting services, ticket collection services and financial consulting services are paid services provided by CNAF to the Company and its subsidiaries and handling fees are also charged upon providing such services. Such fees are charged in accordance with the relevant fees standard (if any) stipulated by the People's Bank of China or the CBRC. In addition to complying with the foregoing, the fees charged by CNAF to the Company and its subsidiaries for financial services of similar type shall not be higher than those generally charged to the Company and its subsidiaries by state-owned commercial banks and those charged by CNAF to other group members.

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

- the interest rate applicable to the Company and its subsidiaries for its deposits with CNAF shall not be lower than the minimum interest rate specified by the People's Bank of China for deposits of similar type. In addition, the interest rate for the Company and its subsidiaries' deposits with CNAF shall not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and shall not be lower than the interest rate for similar type of deposit services provided by state-owned commercial banks to the Company and its subsidiaries generally; and
- the interest rate for loans (including other credit business) granted to the Company and its subsidiaries by CNAF shall not be higher than the maximum interest rate specified by the People's Bank of China for loans of similar type. In addition, the interest rate for loans granted to the Company and its subsidiaries by CNAF shall not be higher than the interest rate for similar type of loans granted by CNAF to other members of CNAHC Group or higher than those for similar type of loans granted by state-owned commercial banks to the Company and its subsidiaries generally.

The Company agrees that it will 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 treated the Company and its subsidiaries as

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## LETTER FROM THE BOARD

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its major client and undertook to provide financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company and its subsidiaries at the same time.

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 Financial Services Agreement, to make use of the deposits of the Company for investments with high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to facilitate 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 the notice of the Company.

CNAF, as a non-bank financial institution approved by the CBRC, shall strictly comply with the regulatory targets and other requirements of the CBRC to conduct its operation and business, establish effective and complete internal control and risk management systems and set up the credit review committee and investment committee in order to effectively manage risks and ensure the safety of all capital. Pursuant to provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergent event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, shall increase the capital of CNAF accordingly to meet the actual need to overcome such financial difficulties in making payments.

The Company and CNAF agree that the maximum daily balance of deposits placed by the Company and its subsidiaries with CNAF shall be set lower than the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries, and the average daily balance of deposits placed by the Company and its subsidiaries with CNAF in each accounting year shall be less than the average daily balance of loans and other credit services actually granted by CNAF to the Company and its subsidiaries in the relevant year.

The Company and CNAF will jointly conduct the monitoring and control of the balance of deposits, loans and other credit services mentioned above. CNAF shall, by email or fax with acknowledgment of receipt by telephone, inform the Company of the relevant data on a daily basis. Such reporting mechanism may be adjusted according to the actual situation. The finance department of the Company will designate a person who is specifically responsible for receiving, calculating and analysing the information and data provided by CNAF so as to perform timely monitoring of the balances. CNAF will cooperate with the Company to make necessary adjustments to the balance of deposits and loans as and when necessary.

The unpaid services provided by CNAF to the Company and its subsidiaries include settlement services and financial information services (“**Unpaid Services**”).

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

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## LETTER FROM THE BOARD

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

The term of the Financial Services Agreement is from 1 January 2013 to 31 December 2015.

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

- in respect of transactions between the Company and its subsidiaries 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 personalized financial services to the Company and its subsidiaries. With the improving professionalism of CNAF and its enhancing financial services, it is fully qualified for providing relevant services to CNAHC and its subsidiaries. As a professional financial institution in CNAHC Group, it acts more actively to protect the interest of the Company than external institutions. A good cooperative relationship has been established between CNAF and the related departments of the Company and its subsidiaries over the years which make their cooperation more efficient; and
- since CNAF is 19.31% directly owned by the Company, the Company can ultimately benefit from the business development of CNAF.

***Historical Amounts and Proposed Caps:***

The annual cap for the aggregate amount of certain transactions between the Company and its subsidiaries and CNAF for each of the three years ending 31 December 2012 is as follows:

- maximum daily balance of deposits (including accrued interest) placed by the Company and its subsidiaries with CNAF is RMB7 billion, RMB7 billion and RMB7 billion, respectively; and
- maximum daily balance of loans and other credit services (including accrued interest) granted by CNAF to the Company and its subsidiaries is RMB3 billion, RMB3 billion and RMB3 billion, respectively.

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## LETTER FROM THE BOARD

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The Company undertook on 12 August 2010 that the actual amount of the maximum daily balance of deposits of the Company and its subsidiaries placed with CNAF pursuant to the Financial Services Agreement dated 27 October 2009 would not exceed RMB4 billion.

The actual annual aggregate amount of certain transactions between the Company and its subsidiaries and CNAF for each of the two years ended 31 December 2010 and 31 December 2011 and the first six months of 2012 was as follows:

- actual amounts of the maximum daily balance of deposits (including accrued interest) placed by the Company and its subsidiaries with CNAF were RMB3,962 million, RMB3,963 million and RMB3,741 million, respectively; and
- actual amounts of the maximum daily outstanding balance of loans and other credit services (including accrued interest) granted by CNAF to the Company and its subsidiaries were RMB1,069 million, RMB1,263 million and RMB1,940 million, respectively.

It is proposed that the annual cap for the aggregate amount of certain transactions between the Company and its subsidiaries and CNAF for each of the three years ending 31 December 2013, 2014 and 2015 shall be as follows:

- maximum daily balance of deposits (including accrued interest) placed by the Company and its subsidiaries with CNAF shall be RMB4 billion; and
- maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries shall be RMB4.5 billion.



## LETTER FROM THE BOARD

The aggregate annual fees to be paid by the Company and its subsidiaries to CNAF for other financing services for each of the three years ending 31 December 2013, 2014 and 2015 is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transactions will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Annual cap for the year ended 31 December	Actual annual amount for the year ended 31 December	Actual annual amount for the year ended 31 December	Unaudited		Annual cap for the year ending 31 December	Annual cap for the year ending 31 December	Annual cap for the year ending 31 December
						Actual	Estimated			
						historical amount for the period from 1 January to 30 June	amount for the year ended 31 December			
2010	2011	2012	2010	2011	2012	2012	2013	2014	2015	
Financial Services (deposit)	RMB7 billion	RMB7 billion	RMB7 billion	RMB3,962 million	RMB3,963 million	RMB3,741 million	RMB4 billion	RMB4 billion	RMB4 billion	RMB4 billion
Financial Services (loan and other credit services)	RMB3 billion	RMB3 billion	RMB3 billion	RMB1,069 million	RMB1,263 million	RMB1,940 million	RMB3 billion	RMB4.5 billion	RMB4.5 billion	RMB4.5 billion

### *Basis for such caps:*

#### **Deposit services**

In light of the Company's undertaking in 2010 that the actual amount of the daily balance of deposits would not exceed RMB4 billion, the cap of RMB4 billion should generally meet the funding requirements of the Company and its subsidiaries based upon the historical transaction amounts. In addition, the Company specifically stated in the Financial Services Agreement that the maximum daily balance of deposits placed by the Company and its subsidiaries with CNAF shall be set lower than the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries, and the average daily balance of deposits placed by the Company and its subsidiaries with CNAF in each accounting year shall be less than the average daily balance of loans and other credit services actually granted by CNAF to the Company and its subsidiaries in the relevant year. As the historical amounts of the loans were not significant, maintaining the cap for daily balance of deposits at RMB4 billion shall meet the requirements of the Company and its subsidiaries.

#### **Loan and other credit services**

From January to September 2012, the aggregated amount of the loans granted by CNAF to the Company and its subsidiaries amounts to RMB2.2 billion, among which RMB1.6 billion was granted to Shenzhen Airlines Co., Ltd., RMB0.38 billion

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## LETTER FROM THE BOARD

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was granted to Aircraft Maintenance and Engineering Corporation (Beijing) and RMB0.15 billion was granted to Air China Cargo. It is expected that the scale of loans will increase for the next three years for the following reasons:

- (1) Shenzhen Airlines Co., Ltd., Air China Cargo and Aircraft Maintenance and Engineering Corporation (Beijing) has indicated their intention to obtain additional loans from CNAF and it is anticipated that the amount of loans to be granted by CNAF would increase in the next three years;
- (2) Dalian Airlines Company Limited, Beijing Airlines Company Limited and Air China Inner Mongolia Limited have been established in 2011, 2011 and 2012 respectively and each is controlled by the Company. It is anticipated that the above entities would have financing needs and the main financing provider would be CNAF; and
- (3) the Company has not borrowed money from CNAF directly in the recent years. In light of the trend of RMB exchange rate, the Company may also adjust its credit structure and obtain more RMB loans from CNAF.

### 5. LISTING RULES IMPLICATIONS

- 5.1 The Financial Services Agreement between the Company and CNAF and the Non-exempt Continuing Connected Transactions fall under Rule 14A.35 of the Hong Kong Listing Rules. Therefore, the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps are subject to the reporting, annual review and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by Independent Shareholders in accordance with the requirements set out under Rules 14A.48 at the Company's EGM.
- 5.2 Except for the Non-exempt Continuing Connected Transactions, as each of the applicable Percentage Ratios (other than the profits ratio) of the other continuing connected transactions (excluding the de minimis continuing connected transactions) set out above, on an annual basis, is higher than 0.1% and less than 5.0%, they therefore fall under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, these continuing connected transactions are subject to the reporting, annual review and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, but are exempted from the requirements of Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.
- 5.3 Mr. Wang Changchun, Ms. Wang Yinxiang, Mr. Cao Jianxiong and Mr. Sun Yude are considered to have a material interest in each of the Continuing Connected Transactions and therefore have abstained from voting in the relevant board resolutions in respect of the Continuing Connected Transactions. Save as disclosed above, none of the Directors have a material interest in any of the Continuing Connected Transactions and hence no other Director is required to abstain from voting in the relevant board resolutions.

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## LETTER FROM THE BOARD

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### 6. PRC LAW IMPLICATIONS

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

- (a) Construction Project Management Agreement;
- (b) Advertising Services Framework Agreement;
- (c) Properties Leasing Agreement;
- (d) Sales Agency Services Framework Agreement;
- (e) Comprehensive Services Agreement;
- (f) Charter Flight Service Framework Agreement; and
- (g) Financial Services Agreement.

### III. PROPOSED APPOINTMENT OF INTERNAL CONTROL AUDITOR

Reference is made to the announcement of the Company dated 15 November 2012. Pursuant to “The Basic Standard for Enterprise Internal Control”, Ernst & Young Hua Ming LLP, as the consulting services provider in respect of the establishment of the Company’s internal control system for the year 2012, is no longer appropriate to act as the Company’s internal control auditor for the year 2012. In light of this, on 15 November 2012, the Board approved the appointment of Deloitte Touche Tohmatsu CPA Ltd. as the Company’s internal control auditor for the year 2012 to audit the effectiveness of the Company’s internal control for the year 2012 and to issue an internal control audit report, and authorised the management of the Company to determine the remuneration of Deloitte Touche Tohmatsu CPA Ltd. for conducting its internal control audit for the year 2012.

### IV. EGM

The Company will convene the EGM at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on 20 December 2012. In accordance with the Hong Kong Listing Rules, a notice of the EGM, a form of proxy and an attendance notice have been dispatched to the Shareholders on Monday, 5 November 2012 and a supplemental notice of the EGM and a revised form of proxy (the “**Revised Proxy Form**”) will be dispatched to the Shareholders on 4 December 2012. The supplemental notice of the EGM is reproduced on pages 41 to 43 of this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the Revised Proxy Form in accordance with the instruction printed thereon. If you intend to attend the EGM, you are required to complete and return the notice of attendance to the H Share registrar of the Company on or before 30 November 2012.

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## LETTER FROM THE BOARD

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

### V. RECOMMENDATIONS

The Board (including the independent non-executive directors of the Company) considers that the continuing connected transactions mentioned in Part II of this circular have been conducted on normal commercial terms or on terms no less favourable than those available to independent third parties and were entered into on a continuing and regular basis and in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the annual caps for each of the next three years ending 31 December 2013, 2014 and 2015 for the abovementioned continuing connected transactions are fair and reasonable.

The Board recommends that Shareholders vote to approve the Non-exempt Continuing Connected Transactions and its proposed annual cap for each of the three years ending 31 December 2013, 2014 and 2015 at the EGM and to approve the continuing connected transactions under the other agreements set out under section 6.1 of Part II above and their respective proposed annual caps at the EGM.

The Board (including the independent non-executive directors of the Company) considers that the proposed appointment of internal control auditor is in the interest of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of such resolution to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 28 to 29 of this circular which contains its recommendation to the Independent Shareholders of the Company as to the voting at the EGM regarding the Non-exempt Continuing Connected Transactions.

Your attention is also drawn to the letter from China Merchants Securities as set out on pages 30 to 36 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Non-exempt Continuing Connected Transactions as well as the principal factors and reasons considered by it in concluding its advice and the additional information set out in the appendices to this circular.

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

By Order of the Board  
**Wang Changshun**  
*Chairman*

Beijing, the PRC



中國國際航空股份有限公司  
AIR CHINA LIMITED

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

**(Stock Code: 00753)**

*Independent Board Committee:*

Mr. Fu Yang

Mr. Li Shuang

Mr. Han Fangming

Mr. Yang Yuzhong

4 December 2012

*To the Independent Shareholders of the Company*

Dear Sirs or Madams,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 4 December 2012 (“**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 20 November 2012, the Board approved the continuing connected transactions as set out in the Circular, and the relevant annual caps for the three years ending 31 December 2013, 2014 and 2015.

The continuing connected transactions as set out in the Circular include the Non-exempt Continuing Connected Transactions which is subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The terms and the reasons for the Non-exempt Continuing Connected Transactions are summarised in the Letter from the Board set out on pages 5 to 27 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable and whether such transaction is in the interest of the Company and the Shareholders as a whole. China Merchants Securities has been appointed as

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Non-exempt Continuing Connected Transactions and whether such transaction is on normal commercial terms and in the ordinary course of business of the Company.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Non-exempt Continuing Connected Transactions, its terms and the basis upon which its terms have been determined. We have also considered the key factors taken into account by China Merchants Securities in arriving at its opinion regarding the Non-exempt Continuing Connected Transactions as set out in the letter from China Merchants Securities on pages 30 to 36 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of China Merchants Securities, considers the terms of the Non-exempt Continuing Connected Transactions 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 annual caps for the Non-exempt Continuing Connected Transactions to be fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolutions as set out in the supplemental notice of the EGM.

Yours faithfully,

**Independent Board Committee**

**Mr. Fu Yang**

*Independent  
non-executive  
Director*

**Mr. Li Shuang**

*Independent  
non-executive  
Director*

**Mr. Han Fangming**

*Independent  
non-executive  
Director*

**Mr. Yang Yuzhong**

*Independent  
non-executive  
Director*

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## LETTER FROM CHINA MERCHANTS SECURITIES

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*The following is the text of a letter from China Merchants Securities for the purpose of incorporation in the Circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Financial Services Agreement.*



48th Floor  
One Exchange Square  
Central  
Hong Kong

4 December 2012

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

Dear Sirs,

### NON-EXEMPT CONTINUING CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the deposit services (“**Deposit Services**”) and loan and other credit services (“**Loan and Other Credit Services**”) and the related proposed caps under the Financial Services Agreement, details of which are set out in the letter from the Board contained in the circular dated 4 December 2012 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Circular.

On 20 November 2012 the Company (for itself and on behalf of its subsidiaries) and CNAF entered into the Financial Services Agreement, pursuant to which CNAF has agreed to provide the Company and its subsidiaries with various financial services including, but not limited to the Deposit Services and the Loan and Other Credit Services. CNAHC is a substantial shareholder of the Company. CNAF is a 75.54% held subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. Therefore, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Group under the Hong Kong Listing Rules. As the applicable Percentage Ratios (except for the profit ratio which is not applicable) in respect of the proposed annual caps for the Deposit Services and the Loan and Other Credit Services to be provided by CNAF to the Company and its subsidiaries under the Financial Services Agreement are higher than 5% but less than 25% on an annual basis, the Deposit Services and the Loan and Other Credit Services constitute Non-exempt Continuing Connected Transactions under Rule 14A.35 of the Hong Kong Listing Rules. The Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps are subject to reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by the Independent Shareholders in accordance with the requirements set out under Rules 14A.48 at the Company’s EGM.



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## LETTER FROM CHINA MERCHANTS SECURITIES

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An EGM will be convened to consider and, if thought fit, to pass resolutions in respect of, inter alia, the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps. CNAHC and CNACG, which is CNAHC's wholly owned subsidiary, are required to abstain from voting on the resolutions in respect of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps.

An Independent Board Committee comprising all the Company's independent non-executive Directors, namely Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming and Mr. Yang Yuzhong, has been formed to consider and advise the Independent Shareholders in respect of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps. We, China Merchants Securities, have been appointed as the independent financial adviser to advise the Independent Board Committee in these respects.

### **BASIS OF OUR OPINION**

In formulating our advice and opinion, we have relied on the accuracy of the information and representations contained in the Circular, which have been considered to be complete and relevant, and the information obtained from the public domain. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible for, were true, accurate and complete in all material respects at the time when they were made and will continue to be so as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company and we have been advised by the Directors and the management of the Company that no material fact has been omitted from the information and representations provided, and referred to, in the Circular. We have no reason to suspect that any material information has been withheld by the Directors or the management of the Company. We have not, however, carried out any independent verification of the information provided to us by the Directors and the management of the Company and the information obtained from the public domain, nor have we conducted any independent investigation into the affairs, the business and financial position and the future prospects of each member of the Group, CNAHC, CNAF and their respective shareholders, associates and business partners. Our opinion is based on the information and representations available to us as of the date of this letter. 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 renewal of the Financial Services Agreement, the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps that, if known to us at the time when we had rendered our advice and opinion, would have altered our advice and opinion.

## **RENEWAL OF THE FINANCIAL SERVICES AGREEMENT**

### **Background information about the parties involved**

#### *CNAHC*

CNAHC is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAHC is primarily engaged in managing the state-owned assets of CNAHC and the equity it holds in various companies.

#### *CNAF*

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

### **Background of the transaction**

On 27 October 2009, the Company (for itself and on behalf of its subsidiaries) and CNAF entered into a financial services agreement, pursuant to which CNAF has agreed to provide the Company and its subsidiaries with various financial services including, but not limited to, Deposit Services and the Loan and Other Credit Services, details of which have been disclosed in the subsection headed “Description of transaction” in the section headed “4.1 Financial Services” in the letter from the Board. On 20 November 2012, the Company (for itself and on behalf of its subsidiaries) and CNAF entered into the Financial Services Agreement to renew and extend the terms of the original financial services agreement for the three years ending 31 December 2015.

### **Principal factors considered**

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

#### ***Reasons for and benefits of the renewal of the Financial Services Agreement***

In assessing whether the renewal of the Financial Services Agreement is in the interest of the Company and the Shareholders, we have considered the reasons and benefits set out in subsection headed “Reasons for the transaction” in section headed “4.1 Financial Services” in the Letter from the Board. The principal reasons for and benefits of the renewal of the Financial Services Agreement include:

1. CNAF is able to provide more efficient settlement service compared with independent third party banks in respect of transactions between the Company and its subsidiaries and members of CNAHC Group.

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2. CNAF is able to provide safe, convenient, fast, comprehensive and personalized financial services to the Company and its subsidiaries. With the improving professionalism of CNAF and its enhancing financial services, it is fully qualified for providing relevant services to CNAHC and its subsidiaries. As a professional financial institution in CNAHC Group, it acts more actively to protect the interest of the Company and its subsidiaries than external institutions. A good cooperative relationship has been established between CNAF and the related departments of the Company and its subsidiaries over the years which make their cooperation more efficient.
3. The Company can ultimately benefit from the business development of CNAF since CNAF is 19.31% owned by the Company.

In addition, we noted from the letter from the board that:

1. CNAF undertook to provide the financial services of the same kind under conditions no less favourable than those provided by CNAF to other members of CNAHC Group and those provided by other financial institutions to the Company and its subsidiaries at the same time (“**CNAF Undertaking**”);
2. CNAF is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, it is required to establish an internal control and risk management system in compliance with applicable laws and regulations. For details of the relevant rules and requirements, please refer to section headed “4.1 Financial Services” in the letter from the Board; and
3. Pursuant to provisions of the Measures on Administrating the Financial Companies of Enterprise Groups, in the emergent event that CNAF encounters financial difficulties in making payments, CNAHC, as the controlling shareholder of the Company, shall increase the capital of CNAF accordingly to meet the actual need to overcome such financial difficulties in making payments.

In light of the above, we concur with the view of the Directors that the renewal of the Financial Services Agreement is in the interest of the Company and the Shareholders as a whole.

### *The Deposit Services and the Loan and Other Credit Services*

Pursuant to the Financial Services Agreement, the fees and charges for the Deposit Services and the Loan and Other Credit Services under the Financial Services Agreement are set out as follows.

The interest rate applicable to the Company and its subsidiaries for its deposits with CNAF shall not be lower than the minimum interest rate specified by the PBOC for deposits of similar type. In addition, the interest rate for the Company and its subsidiaries’ deposits with

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CNAF shall not be lower than the interest rate for similar type of deposits placed by other members of CNAHC Group with CNAF, and shall not be lower than the interest rate for similar type of deposit services provided by state-owned commercial banks to the Company generally.

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

For further details and terms of the Financial Services Agreement, please refer to the section headed “4.1 Financial Services” in the letter from the Board.

As advised by the management of the Group, the interest rate offered by CNAF for both the Deposit Services and the Loan and Other Credit Services are subject to the guidance set out by the PBOC. We have also obtained and reviewed certain internal records provided by the management of the Group, including the notices on the quarterly interests received from and paid to the CNAF for the period between 2010 and 2012. We note that CNAF have followed the aforesaid policy to set the interest rates for the Deposit Services and the Loan and Other Credit Services.

Based on the above as well as CNAF’s Undertaking as mentioned in the paragraph headed “Reasons for and benefits of the renewal of the Financial Services Agreement” above, we concur with the view of the Directors that the basis for CNAF to set interest rates for the Deposit Services and the Loan and Other Credit Services is fair and reasonable.

### *The proposed annual caps for the Deposit Services and Loan and Other Credit Services*

As stated in the letter from the Board, it is proposed that the annual cap for the maximum daily balance of deposit (including accrued interest) placed by the Company and its subsidiaries with CNAF and the maximum daily balance of loans and other credit (including accrued interest) granted by CNAF to the Company and its subsidiaries shall be RMB4 billion and RMB4.5 billion, respectively, for the three years ending 31 December 2015.

The historical annual cap for the maximum daily balance of deposit (including accrued interest) placed by the Company and its subsidiaries with CNAF is RMB7 billion for the three years ending 31 December 2012 (“**Historical Deposit Cap**”), so the proposed annual cap for the maximum daily balance of deposit (including accrued interest) placed by the Company and its subsidiaries with CNAF for the three years ending 31 December 2015 has been lowered by approximately 43% compared with the Historical Deposit Cap.

As stated in the letter from the Board, we note that, on 12 August 2010, the Company undertook that the actual amount of the maximum daily balance of deposits of the Company and its subsidiaries placed with CNAF pursuant to the financial services agreement dated 27

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October 2009 would not exceed RMB4 billion. The highest daily deposit balance of the Group with CNAF for the two years ended 31 December 2011 and six months ended 30 June 2012 was approximately RMB3.963 billion, representing an utilization rate of approximately 99% to the aforesaid limit on the daily deposit balance of RMB4 billion. Based on our discussion with the management of the Company, we understand that, other than placing deposits with CNAF, the Group, taking into consideration of its financial position and treasury requirements, has been utilizing the deposit services provided by other state-owned commercial banks.

We noted that the maximum daily balance of loans and other credit (including accrued interest) granted by CNAF to the Company and its subsidiaries will be increased from RMB3 billion for the three years ending 31 December 2012 to RMB4.5 billion for the three years ending 31 December 2015. As advised by the Company, certain subsidiaries of the Company, including various newly established airline companies in 2011 and 2012, have financing needs and have indicated their intention to obtain additional loans from CNAF, so the Company expects the scale of loans to be granted by CNAF will increase in the next three years.

The Company and CNAF agree that the maximum daily balance of deposits placed by the Company and its subsidiaries with CNAF shall be set lower than the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries, and the average daily balance of deposits placed by the Company and its subsidiaries with CNAF in each accounting year shall be less than the average daily balance of loans and other credit services actually granted by CNAF to the Company and its subsidiaries in the relevant year.

The Company and CNAF will jointly conduct the monitoring and control of the balance of deposits, loans and other credit services mentioned above. CNAF shall, by email or fax with acknowledgment of receipt by telephone, inform the Company of the relevant data on a daily basis. Such reporting mechanism may be adjusted according to the actual situation. The finance department of the Company will designate a person who is specifically responsible for receiving, calculating and analysing the information and data provided by CNAF so as to perform timely monitoring of the balances. CNAF will cooperate with the Company to make necessary adjustments to the balance of deposits and loans as and when necessary.

In view of the above, we concur with the Directors' view that the proposed annual caps for the Deposit Services and the Loan and Other Credit Services for the three years ending 31 December 2015 are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

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## LETTER FROM CHINA MERCHANTS SECURITIES

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### RECOMMENDATION

Taking into consideration of the above factors, we concur with the Directors' view that (a) the renewal of the Financial Services Agreement is (i) fair and reasonable so far as the Company and its Independent Shareholders as a whole are concerned; (ii) entered into in the ordinary and usual course of business with normal commercial terms; and (iii) in the interests of the Company and its Independent Shareholders as a whole; and (b) the proposed annual caps for the Deposit Services and the Loan and Other Credit Services for the three years ending 31 December 2015 are fairly and reasonably determined. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the proposed resolutions in respect of the renewal of the Financial Services Agreement.

Yours faithfully,

For and on behalf of

**China Merchants Securities (HK) Co., Limited**

**Ronald T.L. Wan**

*Managing Director*

*Investment Banking Department*

**Christine Au**

*Executive Director*

*Investment Banking Department*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief 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 Securities and Futures Ordinance (the “SFO”)) which were notifiable to the Company and Hong Kong Stock Exchange pursuant to the SFO, or were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Hong Kong 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 Interest of children under the age of 18 or spouse		Corporate interest	Total	Shareholding percentage as at the Latest Practicable Date
Cathay Pacific Airways Limited	1,000				1,000	
Ian Sai Cheung Shiu	(ordinary shares)	–	–	–	(ordinary shares)	0.00%
Air China Limited	10,000				10,000	
Zhou Feng	(A Shares)	–	–	–	(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 2011 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, to any member of the Group.

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

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and 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 2,523,011,455 H Shares in the Company as at 30 November 2012, and it wholly owns Hong Kong Dragonair Airlines Limited (“**Dragonair**”). Mr. Wang Changshun, who is the chairman and a non-executive director of the Company and Mr. Cai Jianjiang 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 Hong Kong Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if each of them were a controlling shareholder of the Company.

### 3. SERVICE CONTRACTS

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

### 4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group’s financial or trading position since 31 December 2011, 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:

<b>Name</b>	<b>Qualification</b>
China Merchants Securities	a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571)

- (a) As at the Latest Practicable Date, China Merchants Securities 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 2011 (the date to which the latest published audited financial statements of the Group were made up);



- (b) As at the Latest Practicable Date, China Merchants Securities 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) China Merchants Securities has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

## **6. 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 9/F, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## **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 18 December 2012:

- (a) Construction Project Management Agreement;
- (b) Advertising Services Framework Agreement;
- (c) Properties Leasing Agreement;
- (d) Sales Agency Services Framework Agreement;
- (e) Comprehensive Services Agreement;
- (f) Charter Flight Service Framework Agreement;
- (g) Financial Services Agreement;

- (h) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 28 to 29 of this circular;
- (i) the letter from China Merchants Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 30 to 36 of this circular; and
- (j) 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 EXTRAORDINARY GENERAL MEETING**

Reference is made to the notice of the extraordinary general meeting of Air China Limited (the “**Company**”) dated 5 November 2012 (the “**Former EGM Notice**”) which sets out the resolutions to be considered by shareholders at the extraordinary general meeting to be held at 2:00 p.m. on 20 December 2012 at The Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC (the “**EGM**”).

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

**Ordinary Resolutions:**

3. To consider and approve the appointment of Deloitte Touche Tohmatsu CPA Ltd. as the Company’s internal control auditor for the year 2012 to audit the effectiveness of the Company’s internal control for the year 2012 and to issue the internal control audit report, and the authorisation to the management of the Company to determine the remuneration of Deloitte Touche Tohmatsu CPA Ltd. for conducting its internal control audit for the year 2012.
4. To consider and approve the resolutions concerning the entry into continuing connected transaction agreements for the three years from 1 January 2013 to 31 December 2015 and their respective annual caps:
  - (1) approve the Company to enter into with the following parties and effect the following connected transaction agreements: (1) with CNAHC, the Properties Leasing Agreement, the Sales Agency Services Framework Agreement, the Comprehensive Services Agreement and the Charter Flight Service Framework Agreement; (2) with CNAF, the Financial Services Agreement; (3) with CNAMC, the Advertising Services Framework Agreement; and (4) with CNACD, the Construction Project Management Agreement.

- (2) approve that, for each of the three years ending 31 December 2013, 2014 and 2015,
- (a) the annual cap for the aggregate amount of rent payable to CNAHC Group by the Company and its subsidiaries under the Properties Leasing Agreement of RMB120 million, RMB138 million and RMB150 million, respectively;
  - (b) the annual cap for the aggregate sales revenue of airline tickets and cargo space by the Company and its subsidiaries to CNAHC Group under the Sales Agency Services Framework Agreement of RMB270 million, RMB324 million and RMB388.8 million, respectively;
  - (c) the annual cap for the aggregate amount payable to CNAHC Group by the Company and its subsidiaries under the Comprehensive Services Agreement of RMB950 million, RMB1,045 million and RMB1,150 million, respectively;
  - (d) the annual cap for the aggregate amount receivable by the Company in respect of charter flight services under the Charter Flight Service Framework Agreement of RMB900 million, RMB900 million and RMB900 million, respectively;
  - (e) the maximum daily balance of deposits (including accrued interest) placed by the Company and its subsidiaries with CNAF of RMB4 billion and the maximum daily balance of loans and other credit services granted by CNAF to the Company and its subsidiaries of RMB4.5 billion under the Financial Services Agreement;
  - (f) the annual cap for the aggregate amount payable to CNAMC by the Company under the Advertising Services Framework Agreement of RMB138 million, RMB151.8 million and RMB167 million, respectively.

By order of the Board  
**Air China Limited**  
**Rao Xinyu                      Tam Shuit Mui**  
*Joint Company Secretaries*

Beijing, the PRC, 4 December 2012

*Notes:*

- (1) A revised form of proxy is enclosed with this notice. Whether or not you are able to attend the EGM, 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 Meeting 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 EGM or any adjournment thereof.
- (2) Please refer to the Former EGM Notice for details in respect of the eligibility for attending the EGM, proxy, registration procedures, closure of register of members and other relevant matters.
- (3) Please refer to the notice of attendance of the EGM of the Company in respect of the timing and address for attending the EGM and other relevant matters.

*As at the date of this notice, the directors of the Company are Mr. Wang Changshun, Ms. Wang Yinxiang, Mr. Cao Jianxiong, Mr. Sun Yude, Mr. Christopher Dale Pratt, Mr. Ian Sai Cheung Shiu, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Fu Yang\*, Mr. Li Shuang\*, Mr. Han Fangming\* and Mr. Yang Yuzhong\*.*

\* *Independent non-executive director of the Company*