THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to what action to take in relation to 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 accompanying 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 was effected for transmission to the purchaser or transferee.

中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 00753)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: SALE OF 51% EQUITY INTEREST IN AIR CHINA CARGO PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

八方金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 4 to 15 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 16 to 17 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company, is set out on pages 18 to 33 of this circular.

A notice convening the EGM to be held at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC, is set out on pages 71 to 73 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the 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 form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment should you so wish.

4 September 2018

CONTENTS

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

"ACC Group"	Air China Cargo and its subsidiaries
"Air China Cargo"	Air China Cargo Co., Ltd., a company incorporated under the laws of the PRC with limited liability
"Applicable Exchange Rate"	the central parity rate of RMB to the US dollar as published by the People's Bank of China on 29 December 2017 (being the last Working Day prior to 31 December 2017), which is USD1 = RMB6.5342
"Articles of Association"	the articles of association of the Company, as amended from time to time
"A Share(s)"	the domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"associate(s)"	shall have the meaning ascribed to it by Hong Kong Listing Rules
"Board"	the board of Directors
"Capital Holding" or "Purchaser"	China National Aviation Capital Holding Co., Ltd. (中國航空資本控股有限責任公司), a limited liability company incorporated under laws of the PRC and a wholly-owned subsidiary of CNAHC
"Cathay Dragon"	Hong Kong Dragon Airlines Limited
"Cathay Pacific"	Cathay Pacific Airways Limited
"Company"	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Stock Exchange as its primary listing venue and have been admitted to the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
"Consideration"	RMB2,438,837,520, being the consideration for the Disposal
"CNACG"	China National Aviation Corporation (Group) Limited
"CNAHC"	China National Aviation Holding Corporation Limited, a state-owned enterprise incorporated under the laws of the PRC and the controlling shareholder of the Company

"Disposal"	the sale of 51% equity interest in Air China Cargo by the Company to Capital Holding according to the terms and conditions of the Disposal Agreement
"Disposal Agreement"	the share transfer agreement entered into between the Company and Capital Holding on 30 August 2018 in relation to the Disposal
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"H Share(s)"	the overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange as its primary listing venue and have been admitted to the Official List of the UK Listing Authority as its secondary listing venue
"Independent Board Committee"	a board committee comprising Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors
"Independent Financial Advisor" or "Octal Capital"	Octal Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Independent Shareholders"	the Shareholders other than CNAHC and CNACG
"Joint Venture Contract"	the joint venture contract dated 25 February 2010, entered into among the Company, Fine Star Enterprises Corporation and Cathay Pacific China Cargo Holdings Limited, and the amendments thereto
"Latest Practicable Date"	28 August 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Percentage Ratio"	has the meaning ascribed to it by the Hong Kong Listing Rules
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shanghai Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
"Share(s)"	collectively, the A Shares and H Shares
"Shareholder(s)"	holder(s) of the Shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Valuation Benchmark Date"	31 December 2017
"Valuation Report"	the asset valuation report on Air China Cargo issued by the Valuer on 12 July 2018
"Valuer"	Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司), an independent valuer in the PRC
"Working Day"	any day other than dates when banks in the PRC are required or authorised by laws of the PRC to be closed for business

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

Directors:
Non-Executive Directors:
Mr. Cai Jianjiang *(Chairman)*
Mr. Xue Yasong
Mr. John Robert Slosar

Executive Directors:
Mr. Song Zhiyong *(President)*

Independent Non-Executive Directors:
Mr. Wang Xiaokang
Mr. Liu Deheng
Mr. Hui Hon-chung, Stanley
Mr. Li Dajin

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

Principal Place of Business in Hong Kong:
5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

4 September 2018

To the Shareholders

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: SALE OF 51% EQUITY INTEREST IN AIR CHINA CARGO PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcements of the Company issued on 30 August 2018 (the "**Announcements**") in relation to the Disposal Agreement and the transactions contemplated thereunder and the proposed amendments to the articles of association. The purpose of this circular is to provide you with detailed information in relation to the above matters to enable you to make an informed decision on voting in respect of the relevant resolution at the EGM.

II. SALE OF 51% EQUITY INTEREST IN AIR CHINA CARGO

On 30 August 2018, the Company entered into the Disposal Agreement with Capital Holding, pursuant to which the Company conditionally agreed to sell and Capital Holding conditionally agreed to purchase 51% equity interest in Air China Cargo at a consideration of RMB2,438,837,520. Upon completion of the Disposal, Air China Cargo will cease to be a subsidiary of the Company.

1. Disposal Agreement

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

Date

30 August 2018

Parties

Seller:	the Company
Purchaser:	Capital Holding, a wholly-owned subsidiary of CNAHC

Assets to be sold

Subject to terms and conditions under the Disposal Agreement, the Company conditionally agreed to sell and Capital Holding conditionally agreed to purchase 51% equity interest in Air China Cargo. Upon completion of the Disposal, Air China Cargo will cease to be a subsidiary of the Company.

Consideration

The Consideration is RMB2,438,837,520, determined by the parties after arm’s length negotiations with reference to the appraised value of the total shareholders’ equity of 51% equity interest in Air China Cargo as at the Valuation Benchmark Date, being RMB2,438,837,520. The appraised value of Air China Cargo as at the Valuation Benchmark Date is determined by the Valuer based on the valuation results using the asset-based approach.

Payment of Consideration

Subject to the satisfaction or waiver by Capital Holding in writing of all conditions for the payment of the Consideration, the Consideration shall be paid by Capital Holding within five (5) Working Days from the effective date of the Disposal Agreement by transferring it into the designated account of the Company.

If Capital Holding fails to complete the payment of the Consideration within five (5) Working Days from the effective date of the Disposal Agreement, the Company is entitled to receive penalty interest from Capital Holding from the date of the overdue of the payment to the date when the Consideration is fully paid. The penalty interest shall be calculated based on the part of the Consideration that has not been actually paid and the bank loan interest rate for the same period.

Conditions Precedent of the Payment of the Consideration

Capital Holding's payment of the Consideration shall be conditional upon the following conditions being fulfilled or waived in writing by Capital Holding:

(i) Air China Cargo, the Company and Capital Holding have performed all necessary internal approval procedures, including but not limited to the approval by the board of directors, the shareholders' meeting, president work meeting (general manager work meeting) and other internal decision-making organs;

(ii) CNAHC has performed all necessary internal approval procedures and has approved the Disposal to be conducted through non-public transfer by way of agreement, and has filed the appraisal result of Air China Cargo according to relevant laws and regulations;

(iii) Other shareholders of Air China Cargo have waived their pre-emptive right and tag-along right in relation to the Disposal and have agreed with the implementation of the Disposal;

(iv) the Disposal Agreement has been duly signed by the Company and Capital Holding and all the effective conditions as stipulated in the Disposal Agreement have been met, and the Disposal Agreement is legally binding on the parties thereunder; and

(v) the Company's undertakings, representations and warranties under the Disposal Agreement are truthful, accurate and effectively honoured in material respects.

Conditions (ii) and (iii) are non-waivable. As at the Latest Practicable Date, condition (ii) has been satisfied.

Air China Cargo's "Other Shareholders" are Cathay Pacific China Cargo Holdings Limited (a subsidiary of Cathay Pacific) and Fine Star Enterprises Corporation, which hold 25% and 24% of equity interests in Air China Cargo, respectively. According to Air China Cargo's Joint Venture Contract and articles of association, should the Company dispose of its equity interests in Air China Cargo, the other shareholders of Air China Cargo shall be entitled to pre-emptive and tag-along rights. Where the other shareholders of Air China Cargo decide to exercise the pre-emptive right, they shall purchase all of the equity interests disposed of by the Company, and if they decide to exercise the tag-along right, they shall follow the Company and dispose of all their equity interests in Air China Cargo. In the event that the other shareholders of Air China Cargo exercise the pre-emptive right or tag-along right, the non- waivable condition (iii) will not be attainable, the conditions precedent of the payment of the consideration will not be entirely satisfied, and the Disposal will not be able to proceed.

Applications for Approvals from Government Authorities

The Company shall, within five (5) Working Days from the date of signing of the Disposal Agreement, procure Air China Cargo to submit the applications for approvals of the share transfer and the related application documents to government authorities including the Ministry of Commerce and the industrial authorities to obtain their approvals. After Air China Cargo has obtained the approvals from the Shareholders at the general meeting of the Company, the industrial authorities, and the Ministry of Commerce and after obtaining the new certificate of approval for establishment of enterprises with foreign investment, the Company shall actively procure Air China Cargo to apply for change of registration with industrial and commercial administration authority.

Capital Holding shall provide necessary assistance in the above-mentioned applications for approvals from government authorities.

Completion

The completion of the Disposal shall take place on the date when Air China Cargo completes the registration of change of the equity transfer with industrial and commercial administration authority in relation to the Disposal and obtains the new business license (the "**Completion Date**").

Miscellaneous

For the entrusted loans of RMB1.02 billion provided by the Company to Air China Cargo through the finance company controlled by the Company and for the loans of RMB0.98 billion provided by Cathay Pacific to Air China Cargo, the two parties agreed that Air China Cargo shall repay such loans in full before the Completion Date, and the Company shall procure the directors appointed by it at the board of directors of Air China Cargo to vote for the relevant resolution at the board meeting of Air China Cargo and sign the relevant board resolution.

For the existing guarantees and counter-guarantees provided by the Company before the Completion Date for Air China Cargo for the financing matters related to eight aircraft, the parties agreed that CNAHC will enter into relevant guarantee or counter-guarantee agreements (the "**Replacement Guarantee Agreements**") before the Completion Date with the relevant parties to provide such guarantees or counter-guarantees for relevant creditors or beneficiaries in lieu of the Company. Replacement Guarantee Agreements shall be signed and executed as agreed by relevant parties and shall be performed by the parties to the Replacement Guarantee Agreements in accordance with the agreed terms and conditions thereof. The Company and Capital Holding undertake that the financial and business operations of Air China Cargo will not be adversely affected by the signing and performance of the Replacement Guarantee Agreements. To avoid any doubt, taxes and fees arising from the signing of the Replacement Guarantee Agreements by relevant parties shall be borne in accordance with the terms of the Replacement Guarantee Agreements or the requirements of relevant laws.

Air China Cargo borrowed funds from the Beijing Capital International Airport Branch of Bank of China Limited in 2017 to replace the loans used to purchase aircraft. The Company provided guarantee for Air China Cargo for 51% (in line with the Company's shareholding percentage in Air China Cargo) of the debts under the borrowings. As at 31 December 2017, the Company's guarantee amount under such guarantee was approximately USD121,794 thousand (equal to approximately RMB795,826.35 thousand as per the Applicable Exchange Rate). In addition, Air China Cargo conducted overseas aircraft finance leasing in 2014 and 2015. The Company provided counter guarantee for 51% (in line with the Company's shareholding percentage in Air China Cargo) of such aircraft finance leasing. As at 31 December 2017, the Company's guarantee amount under such guarantee was approximately USD290,022 thousand (equal to approximately RMB1,895,061.75 thousand as per the Applicable Exchange Rate). The Company is not expected to incur additional taxes and fees for entering into Replacement Guarantee Agreements.

The Company agreed to provide Air China Cargo with trademarks and logos relating to its air cargo business after the Completion Date in accordance with the stipulations in the trademark licensing agreement that the Company has signed or will sign separately with CNAHC (or Air China Cargo). The Company and CNAHC have entered into a trademark license framework agreement (the "**Framework Agreement**") which was renewed in 2017 upon approval of independent shareholders with a term commencing on 1 January 2018 and ending on 31 December 2020. For trademarks covered by the Framework Agreement, the Company will authorize Air China Cargo to use them in accordance with the terms of the Framework Agreement; where the trademark authorization surpasses the scope of the Framework Agreement, the Company will otherwise enter into related connected transaction agreements with Air China Cargo or CNAHC, in which case the Company will comply with the requirements under Chapter 14A of the Hong Kong Listing Rules.

From the Completion Date, the directors, supervisors, or members of the executive committee of Air China Cargo appointed by the Company to Air China Cargo will become invalid and the corresponding positions will be filled by the personnel appointed by Capital Holding. If any of the directors, supervisors, or members of the executive committee of Air China Cargo appointed by the Company resign as directors, supervisors, or members of the executive committee of Air China Cargo due to the Disposal, the Company shall procure that such directors, supervisors, or members of the executive committee sign written letter of resignation and expressly waive the right of compensation against Air China Cargo due to their resignation as directors, supervisors, or members of the executive committee or any other reasons.

Effectiveness of the Disposal Agreement

The Disposal Agreement shall take effect upon all the following conditions being fulfilled:

(i) the Disposal Agreement has been duly signed by the legal representatives or authorized representatives of the Company and Capital Holding;

(ii) the Disposal has been approved at the general meeting of the Company; and

(iii) Air China Cargo has obtained approval from CNAHC, industrial authorities (namely the Civil Aviation Administration of China and/or the CAAC North China Regional Administration) and the Ministry of Commerce in respect of the Disposal.

Termination of the Disposal Agreement

In the event of any of the following circumstances, parties to the Disposal Agreement can terminate the Disposal Agreement by entering into a termination agreement in writing:

(i) Due to force majeure events, the Disposal Agreement cannot be performed;

(ii) Due to unilateral breach of contract, the performance of the Disposal Agreement is rendered unnecessary or non-feasible;

(iii) Air China Cargo fails to complete the registration of change of the equity transfer with industrial and commercial administration authority within one hundred and fifty (150) days starting from the day when a share transfer notice has been sent by the Company to other shareholders of Air China Cargo; or

(iv) The parties of the Disposal Agreement agree to terminate the Disposal Agreement.

2. Information on Air China Cargo

Air China Cargo is a limited liability company incorporated under laws of the PRC, and its principal business is air cargo and airmail transportation.

The table below illustrates the consolidated net assets and total assets of Air China Cargo prepared according to Accounting Standards for Business Enterprises as at the dates indicated:

	30 June 2018 (unaudited) *RMB*	**31 December 2017** (audited) *RMB*	**31 December 2016** (audited) *RMB*
Net Assets	3,960,695,819.93	3,841,902,754	2,739,476,828
Total Assets	14,726,820,488.54	14,240,736,144	14,635,366,376

The consolidated revenue and consolidated net profit (before and after taxation) of Air China Cargo for the two years ended 31 December 2017 and the six months ended 30 June 2018, prepared according to Accounting Standards for Business Enterprises, were as follows:

	For the six months ended 30 June 2018 (unaudited) *RMB*	**For the year ended 31 December 2017** (audited) *RMB*	**For the year ended 31 December 2016** (audited) *RMB*
Revenue	5,557,842,322.32	11,263,786,156	9,022,882,585
Net profit (before taxation)	119,749,294.28	1,106,806,659	13,705,089
Net profit (after taxation)	118,747,804.44	1,104,645,196	12,031,834

Air China Cargo's net profit after tax (unaudited) for the six months ended 30 June 2018 was RMB118.75 million, representing a decrease of 58.07% from RMB283.22 million for the same period last year, mainly due to the increase in jet oil price and exchange loss despite the growth of revenue from cargo transportation.

Note: the above financial information is derived from the consolidated financial statements of Air China Cargo.

3. Information on the Parties

The Company

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

Capital Holding and CNAHC

Capital Holding is a company incorporated under laws of the PRC with limited liability, and also a wholly-owned subsidiary of CNAHC. It is primarily engaged in project investment, investment management, provision of investment advisory services, asset management, enterprise management, consultancy services in relation to asset management and enterprise management, charter services, lease of aircraft, sale of aviation supplies, and development and sale of computer software and hardware.

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

4. Financial Impact of the Disposal

Assuming the Company sets 30 June 2018 as the benchmark date for completion of the Disposal, it is expected that the financial statements of the Company prepared according to the Accounting Standards for Business Enterprises will record a gain before taxation of approximately RMB411 million as a result of the Disposal, which represents the difference between the Consideration and the unaudited net asset value of 51% equity interest in Air China Cargo amounting to RMB2,028 million as at 30 June 2018 based on the consolidated financial statements of the Company.

The actual gain or loss in connection with the Disposal will be assessed after the completion of the Disposal. As Air China Cargo's net assets will change on the Completion Date, the actual gain from the Disposal will be adjusted accordingly based on Air China Cargo's net assets on the Completion Date. Upon completion of Disposal, Air China Cargo will cease to be a subsidiary of the Company and the financial results of Air China Cargo will no longer be consolidated into the financial statements of the Company.

The proceeds from the Disposal in the total sum of RMB2,438,837,520 will be used to replenish the liquidity of the Group.

5. Reasons for and Benefits of the Disposal

(i) Enhancing the stability of the Company's operation

In recent years, the capacity of the air cargo transportation market has been oversupplied. Market competition was fierce, the cargo transportation price was low, and the market was highly open. In the domestic market, the traditional air cargo businesses do not fully match the rapidly changing domestic logistics needs, and the competition in freight market has increased. In the international market, despite the increase in international cargo transportation volume in 2017, the entire industry is faced with increasingly complex international trade situation and exchange rate risks, leading to increased uncertainty in the prospect of the international cargo transportation market.

Against this industry backdrop, Air China Cargo's future profitability will be affected to a certain extent. Firstly, Air China Cargo is mainly engaged in airport-to-airport air transportation, serving mostly freight forwarders rather than manufacturers or cargo owners, with little bargaining power and remaining at the bottom of the value chain. Its profitability is easily squeezed amid fierce competition in the air cargo industry; secondly, cargo owners increasingly seek logistics companies that can provide comprehensive logistics solutions rather than single-functioned air transportation companies. Although Air China Cargo has been exploring new business models in recent years, business transformation is costly and slow to yield results.

Although the profitability of Air China Cargo improved in 2017, the improvement was mainly due to the recovery of international transportation volume, cyclical rise of freight rates, and substantial exchange rate gain from the appreciation of Renminbi against US dollar. Given the complex international trade situation and the expected weakening of Renminbi, the profitability has not been fundamentally improved. Due to the extended period of poor performance, there is still a large amount of losses to be covered. Therefore, disposing of Air China Cargo is the concrete measure and reasonable choice for the Company to address the uncertainties of the air cargo market, allowing the Company to enhance the stability of its operation.

(ii) Concentrating on the Company's air passenger transportation business

With the increase in the income of residents, the upgrade of consumption structure, and the increasingly close economic tie among regions, the air passenger transport business maintains stable growth while possessing huge market potential. Following the disposal of Air China Cargo, the Company will further concentrate its resources on the air passenger transport business to increase the competitiveness thereof while mitigating the impacts of intensified competition in the cargo transportation market and uncertainty of international trade situation on the Company's business performance, allowing the Company to concentrate on its air passenger transportation business.

Meanwhile, the Company's shareholder loan to Air China Cargo will be repaid by Air China Cargo prior to the completion. The amount will be used to further supplement the Company's working capital to enhance the robustness of the Company's operations.

6. Hong Kong Listing Rules Implications

As at the Latest Practicable Date, Capital Holding is a wholly-owned subsidiary of CNAHC, the controlling shareholder of the Company, and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

As one or more of the applicable Percentage Ratios of the Disposal is more than 5% but are all less than 25%, the Disposal constitutes a discloseable transaction and a connected transaction of the Company and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules and the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders on the Disposal Agreement and the transactions contemplated thereunder. Octal Capital has been appointed as the independent financial advisor of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

At the seventh meeting of the fifth session of the Board of the Company held on 30 August 2018, the Board approved the Disposal Agreement and the transactions contemplated thereunder. Mr. Cai Jianjiang, Mr. Song Zhiyong and Mr. Xue Yasong are considered to have a material interest in the Disposal Agreement and the transactions contemplated thereunder and therefore have abstained from voting in the relevant board resolution in respect of the Disposal Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Disposal Agreement and the transactions contemplated thereunder and hence no other Director is required to abstain from voting on the relevant board resolution.

7. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, Capital Holding is a related party of the Company as it is controlled by the controlling shareholder of the Company. The Disposal Agreement shall be approved or ratified by the Independent Shareholders at the EGM.

8. Waiver From Strict Compliance with the Profit Forecast Requirements under the Hong Kong Listing Rules

The appraised value of Air China Cargo's total shareholders' equity determined by the Valuer was finally based on the valuation results using asset-based approach. However, as the Valuer is required under applicable PRC laws and regulations to conduct the valuation of Air China Cargo's total shareholders' equity using at least two valuation approaches, the Valuation Report therefore covers the valuation results based on the income approach. The Company has applied for, and the Stock Exchange has granted, a waiver from the profit forecast requirements under Rules 14.62, 14A.68(7), 14A.70(13) and paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules in respect of the Disposal.

III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 30 August 2018 in relation to the proposed amendments to the Articles of Association. According to the requirements of regulatory authorities and the operational needs of the Company, the Board has resolved on 30 August 2018 to propose to amend the Company's scope of business and the articles of association of the Company. The proposed amendments to the Articles of Association are subject to shareholders' approval at the EGM by way of a special resolution.

The full text of the proposed amendments to the Articles of Association is set out in Appendix II of this circular.

IV. EGM

The Company will convene an EGM at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC. Votes on the resolution to be considered at the EGM shall be taken by way of poll. The notice of EGM is reproduced in Appendix IV of this circular. A form of proxy and a notice of attendance are also enclosed herein and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.airchina.com.cn).

Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the Disposal Agreement and the transactions contemplated thereunder is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, CNACG is a wholly-owned subsidiary of CNAHC. Therefore, CNAHC and CNACG are required to abstain from voting on the resolution in respect of the Disposal Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, CNAHC and CNACG held an aggregate of 7,508,571,617 shares of the Company (representing approximately 51.70% of the issued share capital of the Company), control or are entitled to control over the voting right in respect of their shares in the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as disclosed above, no Shareholder has a material interest in the resolutions put forward to the EGM or should be required to abstain from voting on the relevant resolutions at the EGM.

The Company will close its register of members of H shares and suspend the registration of transfer of shares from Wednesday, 19 September 2018 to Friday, 19 October 2018 (both days inclusive) in order to determine the list of holders of H shares of the Company who will be entitled to attend and vote at the EGM. Shareholders of the Company whose names appear on the register of members of H shares of the Company on Wednesday, 19 September 2018 may attend the EGM after completing the registration procedures. In order to qualify for attendance at the EGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, by 4:30 p.m. on Tuesday, 18 September 2018.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon 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. If you intend to attend the EGM, you are required to complete and return the notice of attendance to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, on or before Friday, 28 September 2018. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish and completion and return of the notice of attendance do not affect the right of a shareholder to attend the meeting.

V. RECOMMENDATION

The Board (excluding the independent non-executive Directors, whose view on the Disposal Agreement and the transactions contemplated thereunder are set out in the letter from the Independent Board Committee) considers that the Disposal Agreement is on normal commercial terms or better, and although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends the Independent Shareholders to approve the Disposal Agreement and the transactions contemplated thereunder.

The Board is of the view that the resolution in respect of the proposed amendments to the Articles of Association is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all the Shareholders should vote in favour of this resolution at the EGM.

VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 16 to 17 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Disposal Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the letter from Octal Capital as set out on pages 18 to 33 of this circular, which contains, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Disposal Agreement and the transactions contemplated thereunder as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to the additional information set out in Appendix III of this circular.

By order of the Board
Cai Jianjiang
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. Wang Xiaokang
Mr. Liu Deheng
Mr. Stanley Hui Hon-chung
Mr. Li Dajin

4 September 2018

To the Independent Shareholders of the Company

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: SALE OF 51% EQUITY INTEREST IN AIR CHINA CARGO

We refer to this circular dated 4 September 2018 (the "**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 30 August 2018, the Board approved the Disposal Agreement and transactions contemplated thereunder. According to Chapter 14A of the Hong Kong Listing Rules, the Disposal Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The terms and the reasons for entering into the Disposal Agreement are summarised in the Letter from the Board set out on pages 4 to 15 of this circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the Disposal Agreement and transactions contemplated thereunder are fair and reasonable, and whether the Disposal Agreement are in the interest of the Company and the Shareholders as a whole. Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Disposal Agreement and transactions thereunder as well as their terms. We have also considered the key factors taken into account by Octal Capital in arriving at its opinion regarding the Disposal Agreement and transactions contemplated thereunder as set out in the letter from Octal Capital on pages 18 to 33 of this circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account the advice of Octal Capital, among other things, considers that the Disposal Agreement is on normal commercial terms or better, and even though the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution as set out in the notice of EGM.

Yours faithfully,
Independent Board Committee

Mr. Wang Xiaokang	**Mr. Liu Deheng**	**Mr. Stanley Hui Hon-chung**	**Mr. Li Dajin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and Independent Shareholders prepared for the purpose of inclusion in this circular.

八方金融有限公司

Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

4 September 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: SALE OF 51% EQUITY INTERESTS IN AIR CHINA CARGO

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the transactions contemplated under the Disposal Agreement, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 4 September 2018 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 30 August 2018, the Company entered into the Disposal Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase 51% equity interests in Air China Cargo at a consideration of RMB2,438,837,520. Upon completion of the Disposal, Air China Cargo will cease to be a subsidiary of the Company. The Purchaser is a wholly-owned subsidiary of CNAHC, the controlling shareholder of the Company, and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Disposal in this regard. We are not connected with the Directors, chief executive and substantial shareholders of the Company or the Purchaser or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged by the Company as an independent financial adviser to the Company (the "**Previous Engagements**") in respect of (i) continuing connected transactions in relation to provision of bellyhold space of the passenger aircraft and ground support services (details of which can be referred to the circular of the Company dated 14 September 2016); and (ii) continuing connected transactions in relation to provision of financial services (details of which can be referred to the circular of the Company dated 7 September 2017). Under the Previous Engagements, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the Directors, chief executive and substantial shareholders of the Company or the Purchaser or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and the management of the Company regarding the Group and Air China Cargo, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Air China Cargo, the Purchaser and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

(A) PRINCIPLE FACTORS AND REASONS CONSIDERED IN RELATION TO THE DISPOSAL

In arriving at our opinion regarding the terms of the Disposal, we have considered the following principal factors and reasons:

1. Background information of the Group

The Group's principal business activities are air passenger, air cargo and airline-related services, including aircraft engineering services and airport ground handling services, mainly in the PRC, Hong Kong and Macau. The Group has its headquarters in Beijing, the PRC with two important hubs in Chengdu and Shanghai.

The Group is the only national flag carrier of China and a member of Star Alliance, the world's largest airline alliance. It is also the only Chinese civil aviation enterprise listed in "The World's 500 Most Influential Brands". As a member of Star Alliance, the Group's network covered 1,330 destinations in 192 countries as at 31 December 2017.

The table below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2015, 2016 and 2017, which were prepared in accordance with the International Financial Reporting Standards:

	For the year ended 31 December		
Expressed in RMB million	**2015**	**2016**	**2017**
	(Audited)	*(Audited)*	*(Audited)*
Air Traffic Revenue			
Passenger revenue	95,921	98,993	105,125
Cargo and mail revenue	8,447	8,305	10,255
Total	104,368	107,298	115,380
Profit from operation	15,552	17,533	11,756
Profit after taxation	7,509	7,759	8,641
Profit attributable to the owners of the Company	7,063	6,809	7,244

Source: Annual reports of the Company

For the year ended 31 December 2017 (the "**FY2017**"), the Group recorded air traffic revenue of approximately RMB115,380 million, representing a year-on-year increase by approximately 7.5%. The operating expenses increased by approximately 15.0% from approximately RMB97,612 million for the year ended 31 December 2016 (the "**FY2016**") to approximately RMB112,270 million for FY2017, which was driven by the growth of the air traffic revenue. Fuel cost, which was one of the major operating expenses, was approximately RMB28,409 million for FY2017, representing a year- on-year increase by approximately 29.2% due to the rebound of the international crude oil prices. As such, the operating profits of FY2017 plummeted by approximately 33.0% to RMB11,756 million.

The Company recorded a profit attributable to the owners of the Company of approximately RMB7,244 million for FY2017, representing an increase of approximately 6.4% as compared to that of approximately RMB6,809 million for FY2016.

For FY2016, the Group recorded air traffic revenue of approximately RMB107,298 million, representing a year-on-year increase by approximately 2.8%. The operating expenses increased by approximately 3.3% from approximately RMB94,505 million for the year ended 31 December 2015 (the "**FY2015**") to approximately RMB97,612 million for FY2016, which was in line with the growth of the air traffic revenue. Fuel cost, which was one of the major operating expenses, was approximately RMB21,982 million for FY2016, representing a year-on-year decrease by approximately 8.6% mainly due to the reduction in the international crude oil prices.

The Company recorded a profit attributable to owners of the Company of approximately RMB6,809 million for the year ended 31 December 2016, representing a slight decrease of approximately 3.6% as compared to that of approximately RMB7,063 million for the year ended 31 December 2015.

As shown in the revenue breakdown, passenger revenue accounted for approximately 91% to 92% of the total air traffic revenue in the past three financial years. The passenger revenue of FY2016 was approximately RMB98,993 million, representing an increase of approximately 3.2% from the previous year. The passenger revenue of FY2017 was approximately RMB105,125 million, representing an increase of approximately 6.2% from FY2016 due to higher revenue generated from the Mainland China market and Europe market.

Cargo and mail revenue accounted for approximately 8% to 9% of the total air traffic revenue in the past three financial years. The cargo and mail revenue decreased by 1.7% from RMB8,447 million in FY2015 to RMB8,305 in FY2016. The cargo and mail revenue of FY2017 was approximately RMB10,255 million, representing an increase of approximately 23.5% from FY2016 due to the improvement of the air cargo businesses in overseas market.

2. Background information of Air China Cargo

As at the Latest Practical Date, the Company has 51% of the equity interests of Air China Cargo. 25% of the equity interests of Air China Cargo is held by Cathay Pacific China Cargo Holdings Limited which is a subsidiary of Cathay Pacific. 24% of the equity interests of Air China Cargo is held by Fine Star Enterprises Corporation.

Air China Cargo provides air freight services in the PRC, with its headquarter in Beijing. As at 31 December 2017, Air China Cargo operated 15 aircrafts with an average age of 10.54 years. As advised by the management of the Company, through the network of the Group, Air China Cargo has connections to approximately 18 airfreight routes as at 31 December 2017.

The table below is summary of the audited financial information of Air China Cargo extracted from the audited financial statements of Air China Cargo for the years ended 31 December 2015, 2016 and 2017, prepared in accordance with the Accounting Standards for Business Enterprises of the PRC:

	For the year ended 31 December		
Expressed in RMB million	**2015**	**2016**	**2017**
	(Audited)	*(Audited)*	*(Audited)*
Revenue	9,132	9,023	11,264
Profit/(Loss) from operation	(176)	(204)	1,105
Net profit before taxation	**9**	**14**	**1,107**
Excluding one-off/non-recurring items:			
Add: Exchange loss	465	501	–
Less: Exchange gain	–	–	409
Less: Other income	185	218	162
Adjusted net profit before taxation	**289**	**297**	**536**

Air China Cargo recorded revenue of approximately RMB9,023 million during FY2016, representing a slight decrease of approximately 1.2% as compared to that of approximately RMB9,132 million for FY2015. Air China Cargo recorded revenue of approximately RMB11,264 million during FY2017, representing an increase of revenue by 24.8% as compared to FY2016. The improvement is due to the recovery of the global air freight volumes.

During FY2015 and FY2016, Air China Cargo recorded profit before taxation of approximately RMB9 million and RMB14 million respectively. During FY2017, Air China Cargo recorded profit before taxation of approximately RMB1,107 million which including an exchange gain of approximately RMB409 million.

Apart from the gain or loss attributed from the exchange rates, Air China Cargo also recorded other income (mainly subsidy revenue from the government of approximately RMB183 million, RMB214 million and RMB160 million for the past three financial years, respectively). Such subsidy revenue is one-off nature and there is no guarantee to receive the subsidy revenue every year. After excluded the exchange gain/loss and the other income as shown above, the adjusted net profit before taxation for FY2015, FY2016 and FY2017 are approximately RMB289 million, RMB297 million and RMB536 million, respectively.

Based on the unaudited financial statement of Air China Cargo provided by the Company, Air China Cargo recorded revenue of approximately RMB5,558 million during the six months ended 30 June 2018, representing an increase of approximately 12.3% as compared to that of approximately RMB4,951 million for the six months ended 30 June 2017. The improvement is mainly due to the increase in cargo capacity during the first six months of 2018. During the six months ended 30 June 2018, Air China Cargo recorded an unaudited profit before taxation of approximately RMB120 million, representing a reduction of approximately 57.9% compared to the profit before taxation for the six months ended 30 June 2017. The reduction in profit before taxation is mainly due to a substantial exchange loss and the increase in the fuel cost during the first six months of 2018.

Expressed in RMB million	**As at 31 December 2017** *(Audited)*	**As at 30 June 2018** *(Unaudited)*
Total assets	14,241	14,727
Total liabilities	10,399	10,766
Net assets	3,842	3,961

As at 31 December 2017, the total assets and total liabilities of Air China Cargo were approximately RMB14,241 million (mainly included fixed assets amounted to RMB10,364 million) and RMB10,399 million (mainly included financing lease payment of RMB3,348 million) respectively. The net assets of Air China Cargo amounted to approximately RMB3,842 million as at 31 December 2017, representing an increase of approximately RMB1,103 million as compared to that as at 31 December 2016, mainly attributable to the net profits recorded in the year ended 31 December 2017.

Based on the unaudited financial statement of Air China Cargo for the six months ended 30 June 2018, the total assets and total liabilities of Air China Cargo were approximately RMB14,727 million (mainly included fixed assets amounted to RMB10,585 million) and RMB10,766 million (mainly included long term payables of RMB3,203 million) respectively. The net assets of Air China Cargo amounted to approximately RMB3,961 million as at 30 June 2018, representing an increase of approximately RMB119 million as compared to that as at 31 December 2017, mainly attributable to the net profits recorded in the first six months of 2018.

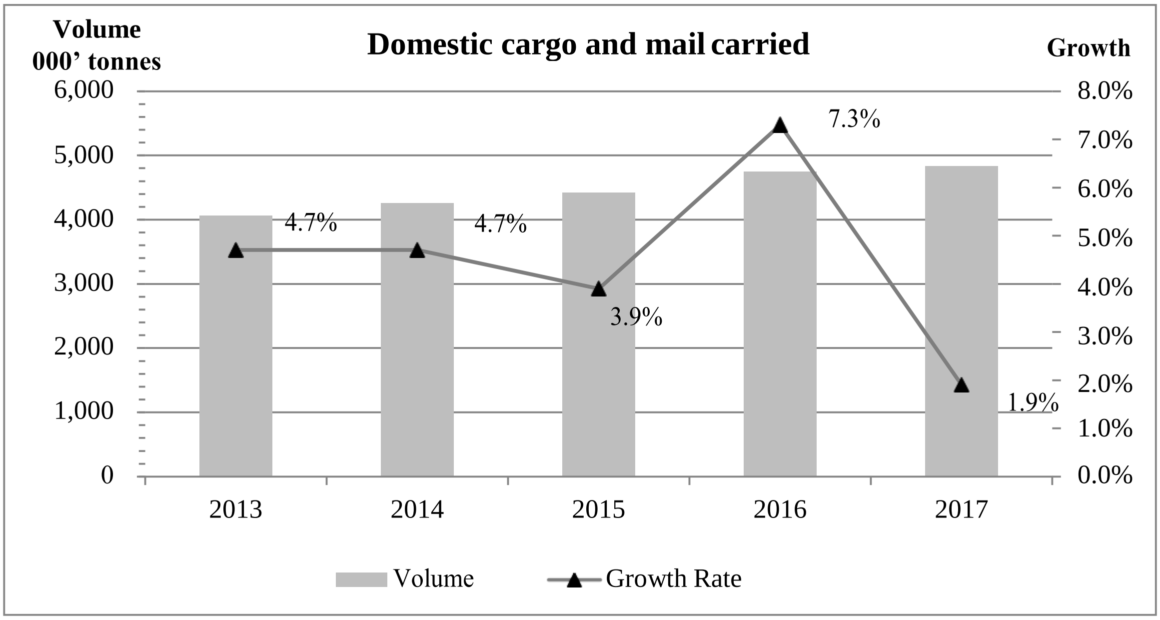
3. Background information of the Purchaser and CNAHC

The Purchaser, is a company established under laws of the PRC with limited liability, and also a wholly-owned subsidiary of CNAHC. It is primarily engaged in project investment, investment management, provision of investment advisory services, asset management, enterprise management, consultancy services in relation to asset management and enterprise management, charter services, lease of aircraft, sale of aviation supplies, and development and sale of computer software and hardware.

CNAHC is a state-owned company established in the PRC with a registered capital of RMB 10,027,830,000. It is primary engaged in managing charter of aircrafts and maintenance of aviation equipment businesses. CNAHC is a controlling shareholder of the Company holding approximately 51.7% equity interests in the Company as at the Latest Practicable Date.

4. Industry Overview

The graph below is the domestic cargo and mail carried volume in the PRC for the years from 2013 to 2017.



Source: Annual civil aviation industry development reports of Civil Aviation Administration of China

We noted that the volume of domestic cargo and mail carried in 2013 was approximately 4.1 million tonnes. Its growth rate remained roughly the same up to 2015, then the growth rate increased up to 7.3% in 2016 and it dropped sharply to 1.9% in 2017. The drop of growth rate in 2017 was mainly driven by the slowdown of growth of the PRC domestic economy and export demands.

According to Boeing Current Market Outlook (2017-2036) (the "**CMO Report**"), issued by Boeing Commercial Airplanes in 2017, the world air passenger traffic is predicted to grow by 4.7% per annum and the world air cargo and mail traffic by 4.2% per annum over the next 20 years. The CMO Report also forecasts that the airline passenger traffic in the Asia Pacific region and China is expected to record an annual growth rate of 5.7% per annum and 6.1% per annum, respectively, from 2017 to 2036. China will be the largest domestic market of air passenger traffic in the world. The air freight market in the Asia Pacific region is expected to grow at a relatively lower pace than the air passenger traffic at 4.7% from 2017 to 2036.

The table below is the comparison of revenue attributable to air passenger sector and air cargo and mail sector of the Group and its two major competitors, namely China Eastern Airlines Corporation Limited ("**China Eastern**") and China Southern Airlines Company Limited ("**China Southern**") from 2013 to 2017.

	Amount (growth)					CAGR
RMB' million	**2013**	**2014**	**2015**	**2016**	**2017**	
Passenger Revenue						
China Eastern	72,928	75,261	78,585	83,577	91,564	
(stock code: 670)	(n/a)	(+3.2%)	(+4.4%)	(+6.4%)	(+9.6%)	5.9%
China Southern	88,271	97,145	100,238	102,502	112,791	
(stock code: 1055)	(n/a)	(+10.1%)	(+3.2%)	(+2.3%)	(+10.0%)	6.3%
The Group	**86,727**	**92,599**	**95,921**	**98,993**	**105,125**	
	(n/a)	**(+6.8%)**	**(+3.6%)**	**(+3.2%)**	**(+6.2%)**	**4.9%**
Air Cargo and Mail Revenue						
China Eastern	7,603	7,328	6,491	5,977	3,623	
	(n/a)	(-3.6%)	(-11.4%)	(-7.9%)	(-39.4%)	-16.9%
China Southern	6,413	7,183	6,861	7,191	9,082	
	(n/a)	(+12.0%)	(-4.5%)	(+4.8%)	(+26.3%)	9.1%
The Group	**7,876**	**8,786**	**8,447**	**8,305**	**10,255**	
	(n/a)	**(+11.6%)**	**(-3.9%)**	**(-1.7%)**	**(+23.5%)**	**6.8%**

Source: Respective annual reports

While the Group and its two competitors maintained a growing trend of air passenger revenue for five consecutive years from 2013 to 2017, China Eastern has recorded a decrease in air cargo and mail revenue for three consecutive years from 2013 to 2016 and subsequently the air freight business of China Eastern had been disposed in January 2017. Due to the disposal of air freight business, China Eastern recorded a further reduction in the revenue of cargo and mail sector during 2017. The air cargo and mail revenue of the Group also maintained a decreasing trend during the two years of 2015 and 2016 and then recorded an annual increment of approximately 23.5% during 2017. The air cargo and mail revenue of China Southern decreased by approximately 4.5% during 2015 and it subsequently picked up by 4.8% and 26.3% in 2016 and 2017, respectively.

The table below is the air cargo and mail traffic and the passenger traffic of the Group and the major competitors from 2013 to 2017.

	Amount (growth)					CAGR
	2013	**2014**	**2015**	**2016**	**2017**	
Passenger traffic ~ revenue passenger kilometers (million)						
China Eastern	120,461	127,750	146,342	167,529	183,182	
	(n/a)	(+6.1%)	(+14.6%)	(+14.5%)	(+9.3%)	11.0%
China Southern	148,417	166,629	189,588	206,106	230,697	
	(n/a)	(+12.3%)	(+13.8%)	(+8.7%)	(+11.9%)	11.7%
The Group	**141,968**	**154,683**	**171,714**	**188,158**	**201,078**	
	(n/a)	**(+9.0%)**	**(+11.0%)**	**(+9.6%)**	**(+6.9%)**	**9.1%**
Air cargo and mail (thousand tonnes)						
China Eastern	1,410	1,363	1,399	1,395	933	
	(n/a)	(-3.3%)	(+2.6%)	(+0.3%)	(-33.1%)	-9.8%
China Southern	1,276	1,433	1,512	1,613	1,672	
	(n/a)	(+12.3%)	(+5.5%)	(+6.7%)	(+3.7%)	7.0%
The Group	**1,457**	**1,553**	**1,664**	**1,769**	**1,842**	
	(n/a)	**(+6.6%)**	**(+7.1%)**	**(+6.3%)**	**(+4.1%)**	**6.0%**

Source: Respective annual reports

China Eastern Airlines recorded a negative CAGR of air cargo and mail traffic of approximately 9.8% while it recorded a CAGR of 11.0% for passenger traffic. China Southern recorded a CAGR of 11.7% and 7.0% for the air passenger traffic and air cargo and mail traffic, respectively. The Group's CAGR of the passenger traffic is 9.1% which is higher than the Group's CAGR of air cargo and mail traffic of 6.0%.

Based on the above analysis, among the three China-based airlines, we noted that their air passenger traffic maintained a continuous growth in term of volume and revenue and their CAGR of air passenger traffic is higher than their cargo and mail carried in the past five years.

5. Terms of the Disposal

(i) Consideration of the Disposal

Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase 51% equity interests in Air China Cargo at a Consideration of RMB2,438,837,520.

The Consideration of RMB2,438,837,520 was determined with reference to the appraised value of Air China Cargo as at 31 December 2017 as set out in the Valuation Report prepared by the Valuer. According to the Valuation Report, the asset-based approach have been adopted by the Valuer to appraise the value of Air China Cargo.

In compliance with the requirements of Rule 13.80 of the Listing Rules, we have reviewed and enquired the qualification and experience of the Valuer in charge of the valuation of Air China Cargo. We note that the Valuer is a qualified valuer in conducting business valuation under the China Appraisal Society. The business valuation is conducted and led by a person who is a qualified member of China Appraisal Society and processes over nine years' experience in the valuation sector. The team member is also a qualified member of China Appraisal Society and the team have relevant experience in conducting valuation for aviation and logistics projects. Meanwhile, we understand from our enquiry with the Valuer that it is a third party independent of the Group, Air China Cargo, the Purchaser and their respective associates. We have also reviewed the scope of services provided under the engagement of the Valuer by the Company and we note that the scope of work is appropriate to the opinion given. Thus, we consider that the team of the Valuer is qualified and possesses sufficient relevant experience in performing the valuation of Air China Cargo.

We have reviewed the Valuation Report prepared by the Valuer and we have also discussed with the Valuer regarding the methodology and the principal basis and assumptions adopted for the valuation of Air China Cargo. We understand that the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Valuer that the adoption of market approach may not be appropriate because Air China Cargo is not a publicly listed company and the transactions of companies with comparable characteristics are limited. On the other hand, we understand from the Valuer that the adoption of income approach, which is heavily relied on projection on expected future profits and cash-flow, may not be appropriate as the impact on airline's operational efficiency due to the restrictions on flight route schedule imposed by Beijing Capital International Airport, the expiry of one of the major service agreements and the retirement of four 757 freights may create uncertainties on the air freight business of Air China Cargo. Furthermore, we understand from the Valuer that the asset-based approach primarily involves the assessment of assets and liabilities to appraise their values. Air China Cargo was able to provide, and the Valuer was able to obtain, the required information for the asset-based approach. Therefore, the Valuer considered that the asset-based approach is appropriate for the valuation of Air China Cargo.

Based on the Valuation Report, we consider that the valuation approaches adopted are common valuation methodologies in appraising the business value of an air cargo and mail traffic company and the basis and assumptions adopted by the Valuer for Air China Cargo are fair and reasonable. We have considered using market approach to compare the valuation of Air China Cargo in the Valuation Report by applying price-to-earnings ratios to comparable companies. However, having considered that the Air China Cargo has recorded net loss before tax (excluding the one-off subsidy revenue) for the year ended 31 December 2016 and Air China Cargo is not a publicly listed company while the number of companies with comparable characteristics are limited, we are of the view that the adoption of market approach in valuing the Air China Cargo may not be appropriate. On the other hand, we have considered using the income approach for the valuation of Air China Cargo. The adoption of income approach normally requires numerous assumptions including the revenue estimate of Air China Cargo and the discount factor, etc. Having considered that the uncertainty of the future development of the air cargo transportation business and renewal of the existing services contracts, we are of the view that the valuation of Air China Cargo using income approach alone may not result in the best estimate and therefore the Valuer did not apply income approach in the valuation of Air China Cargo.

Therefore, we consider that the Consideration of RMB2,438,837,520, which is mainly determined based on the appraised value of Air China Cargo as at 31 December 2017 as set out in the Valuation Report using asset-based approach, is fair and reasonable.

(ii) Mode of payment of the Consideration

Pursuant to the Disposal Agreement, the Consideration shall be paid by the Purchaser in cash within five Working Days from the effective date of the Disposal Agreement by transferring it into the designated account of the Company. The Company is entitled to receive penalty interest from Capital Holding from the date of the overdue of the payment to the date where the Consideration is fully settled. The penalty is calculated based on the interest rate applicable to bank borrowings during the same period. We consider that the settlement by cash is a common market practice which can increase the available cash level of the Company within a short period of time.

Based on the above analysis, we consider that the Consideration, which (i) is determined based on the appraised value of Air China Cargo as at 31 December 2017 as set out in the Valuation Report; and (ii) will be fully settled in cash, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

6. Reasons for and benefits of the Disposal and the use of proceeds

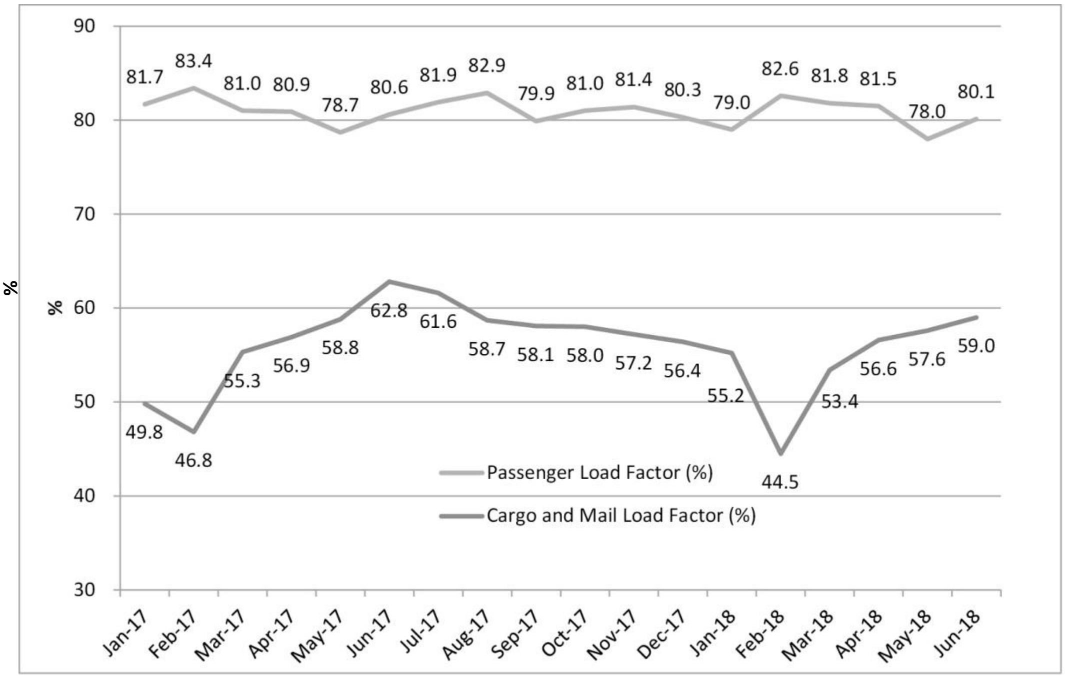
During FY2015 and FY2016, Air China Cargo recorded loss from its operation of approximately RMB176 million and RMB204 million, respectively, because the global air freight market was sluggish. During FY2017, Air China Cargo recorded profits from its operation of approximately RMB1,105 million and such improvement was mainly attributable to the recovery of the global air freight market, the increase of cargo transportation price and three one-off financial items including (i) exchange gain of RMB409 million; (ii) a subsidy revenue of RMB160 million; and (iii) non-operating income of RMB2 million. When excluding these one-off financial items, the net profit before taxation of Air China Cargo for FY2017 was approximately RMB536 million. During FY2015, FY2016 and FY2017, Air China Cargo received a substantial amount of subsidy revenue to support its daily operation while the availability of the subsidy revenue is not guaranteed for every financial year. Based on the historical financial result, the financial pressure of Air China Cargo will increase if the subsidy is not granted.

We also understand from the management of the Company that the service contracts with China Post Aviation, which has contributed approximately 3% of total revenue for the year ended 31 December 2017, will be expired during the period from 2021 to 2023. We understand from the management of the Company that the service with China Post Aviation will not be renewed after the existing service contracts are expired and Air China Cargo will lose one of its major customers. The four 757 freights, which are currently used for provision of charter business for China Post Aviation with an average age of 25.6 years, will be disposed by that time. Assuming that no new freights will be purchased, the fleet of Air China Cargo will be at least reduced from 15 to 11 and the carrying capacity of Air China Cargo will be reduced.

Having considered that (i) the fluctuation of historical profitability of Air China Cargo; (ii) the availability of subsidy revenue; (iii) the expiry of one of the major service agreements; and (iv) the retirement of four 757 freights, it remains uncertain whether the profitability of Air China Cargo could in the long run sustain at similar scale as in the past few years.

As mentioned in the previous section headed "Industry Overview", we noted that the Group and its major competitors recorded a higher CAGR of air passenger sector than the CAGR of air cargo and mail sector in terms of revenue and traffic volume. The air passenger market maintained a stable growing trend and performed better than the air freight market. Moreover, the air passenger traffic and air cargo and mail traffic in the Asia Pacific region are expected to record an annual growth rate of 5.7% per annum and 6.1% per annum from 2017 to 2036, respectively. As disclosed in the 2017 annual report of the Company, the Group spent lots of efforts to improve customer experience and achieve fruitful results. For instance, improving the mobile application platform brought a turnover of RMB5.02 billion to the Group for FY2017, representing a year-on-year increase of 39.4%; by conducting in-depth studies on the big data of passenger demands, the revenue contributed by first class and business class service in FY2017 increased by approximately 12.7% to approximately RMB13.11 billion. Having considered the future growth rate of air passenger market and the improvement of the financial performance in the air passenger segment, it is commercially reasonable to place more manpower and financial resources to the air passenger market.

On the other hand, we also looked into the passenger load factor and cargo and mail load factor of the Group during the period from January 2017 to June 2018 as shown in the graph below.



The passenger load factor measures the utilization of the passenger traffic of the Group. The cargo and mail load factor measures the utilization of cargo and mail traffic of the Group. We noted that the passenger load factor is much higher than the cargo and mail load factor and the latter exhibited a more fluctuating trend. Due to the Chinese New Year holidays, there was a sharp decrease in February 2017 and February 2018, which demonstrates that the seasonality factor placed a significant impact to the cargo and mail traffic of the Group. Moreover, the cargo and mail revenue only accounted for approximately 8% to 9% of the air traffic revenue of the Group during FY2015, FY2016 and FY2017. Upon comparison with the passenger segment, the cargo and mail segment (i) is a non-core operating segment of the Group; (ii) recorded a lower utilization rate; and (iii) exhibited a more fluctuating trend, offloading the cargo and mail segment enables the Company to focus on its principal business on the air passenger sector. It is believed that there is room for the Group to further increase the capacity of air passenger to cater for the future demand on the air passenger transportation. As described in the FY2017 annual report of the Group, the Group has implemented various strategies to adjust its business model in order to create an air travel lifestyle ecosystem and concentrate its advantageous resources to support those profitable and crucial routes for passengers. The key strategies include (i) optimizing the global network coverage; (ii) transforming business model with the focus on frequent fliers, products with ancillary revenue and e-commerce; and (iii) improving passenger experience. The net proceeds from the Disposal and the repayment of entrusted loan of RMB1.02 billion by Air China Cargo will provide working capital to the Group for executing the above business strategies. As mentioned in the 2017 annual report of the Company, the Company was actively carrying the policy of "Lower Leverage, Reduce Liability and Control Risk". The net cash inflow from the Disposal will reduce the Company's liability and replenish its liquidity, so the Disposal is in line with the Company's treasury policy.

Furthermore, as advised by the management of the Company, Air China Cargo mainly provides airport-to-airport transportation services while one-stop logistic service providers provide door to door logistics services to improve the efficiency of logistic operations. Cargo owners in the PRC prefer one-stop logistic service providers instead of airlines who merely carry out air transportation, it is expected that the competition between the airline companies and one-stop logistic services providers will become more intense.

We have also considered the complex trade situation in the global market after the Government of the United States announced to impose heavier tariffs on the Chinese products. We understand from the management of the Company that the trade war between the United States and China, if any, may place negative impact to the volume of air freights, hence the air cargo and mail revenue will likely face a downward pressure.

Having considered the above analysis, we are of the view that Air China Cargo is struggling to maintain its past profitability through its usual and ordinary business in the foreseeable future and the air cargo and mail traffic sector is expected to grow at a slower pace than the air passenger traffic. The Disposal is considered as a reasonable business plan for the Group to (i) cope with the uncertain performance of air freight business and is beneficial in improving the overall operational performance of the Group; (ii) concentrate the resources of the Group to operate the profitable air passenger transportation business in the future and execute the business strategies to adjust its business model and increase competitiveness in the air passenger transportation sector; (iii) replenish the liquidity to enhance operating stability in the future; (iv) cope with the changes of business model of cargo industry; and (v) reduce potential market risk upon the global complex trade situation.

Based on the above reasons and benefits, we concur with the view of the Directors that the Disposal represents an opportunity for the Group to divest the air freight business and to allocate the Group's resources to strengthen the development of the passenger transportation business. Further, in view that the Disposal would off-load the non-core business of the Group and thus improving the Group's financial performance, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Disposal

Immediately after the completion of the Disposal, Air China Cargo will cease to be the subsidiary of the Company, and its financial results, assets and liabilities will no longer be consolidated into the financial statements of the Company.

(i) Earnings

Assuming the completion of the Disposal takes place on 30 June 2018, it is estimated that the Company will record a potential gain (before tax) on the Disposal of approximately RMB411 million (being the Consideration of approximately RMB2,439 million minus the net asset value of 51% equity interests of Air China Cargo as at 30 June 2018 of approximately RMB2,028 million).

(ii) Net assets

As at 30 June 2018, it is estimated the net assets of the Group attributable to the Shareholders will increase by the potential gain on the Disposal of approximately RMB411 million.

(iii) Gearing ratio

Assuming the completion of the Disposal takes place on 30 June 2018, it is expected that the net assets of the Group would increase by approximately RMB411 million, being the estimated gain from the Disposal, there will be no significant impact on the Group's gearing ratio.

(iv) Cashflow

Upon completion of the Disposal, the Group's cash and cash equivalents will increase by the amount of net proceeds of approximately RMB2,439 million.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial result and financial position of the Group will be after the completion of the Disposal.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

(i) the Disposal would enable the Company to focus on its principal businesses on the air passenger sector and to offload its cargo business which may be potentially affected by recent trade war;

(ii) the terms of the Disposal are fair to the Company and the Shareholders as a whole and the Consideration and the settlement method is reasonably and fairly determined; and

(iii) the Disposal would have improvement on the earnings, net asset value and cashflow position of the Group, we consider that entering into the Disposal Agreement is not in the ordinary and usual course of business of the Group because of its "one-off" nature. Nevertheless, the Disposal is on normal commercial terms and the terms of the Disposal contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Disposal contemplated thereunder.

Your faithfully, For
and on behalf of **Octal**
Capital Limited

Alan Fung	**Wong Wai Leung**
Managing Director	*Executive Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

The following is a summary of the Valuation Report dated 12 July 2018 issued by the Valuer, for the purpose of, among others, inclusion in this circular.

Asset Valuation Report (Summary)

for the Total Equity Interests of
Air China Cargo Co., Ltd. Involved in the Proposed Equity Transfer of
Air China Limited
Zhong Qi Hua Ping Bao Zi (2018) No. 3819
(Volume 1 of 1)

China Enterprise Appraisals Co., Ltd.

12 July 2018

Contents

Statements

1. The Asset Valuation Report was prepared according to the Basic Standards on Assets Valuation issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and Code of Ethics for Assets Valuation issued by China Appraisal Society.

2. The asset valuation institute and its asset appraisers have complied with relevant laws, administrative regulations and asset valuation standards, adhered to the principles of independence, objectivity and fairness, and are responsible for the Asset Valuation Report issued by them in accordance with laws.

3. The client and other users of the Asset Valuation Report shall use the Asset Valuation Report according to relevant laws, administrative regulations and scope of use specified herein. The asset valuation institution and its asset appraisers will not assume any responsibilities arising from the failure of the client or other users to use the Asset Valuation Report in accordance with the laws, administrative regulations and the scope of use as set out in the Asset Valuation Report;

   The Asset Valuation Report shall only be used by the client, other users as permitted in the asset valuation engagement contract, as well as users allowed by relevant laws and administrative regulations. No other institution or individual shall use the Asset Valuation Report.

   The asset valuation institute and its asset appraisers remind users of the Asset Valuation Report to correctly acknowledge the conclusion of valuation, which should not be viewed as the realizable price of the appraisal target; nor should it be deemed to be a guarantee for the realizable price of the appraisal target;

4. The assets, liabilities lists and operational estimates related to the appraisal target were submitted by the client and the evaluated entity, and confirmed by signature, seals and other manners permitted by laws. The client and other related parties shall be responsible for the truthfulness, integrity and legitimacy of the information provided by them.

5. The asset appraisers have carried out on-site inspection into the appraisal target and the involved assets, and given adequate attention to, and checked the material of legal ownerships of the appraisal target and related assets. The asset appraisers have truthfully disclosed the problems identified by them, and asked the client and other related parties to consummate the ownership status to fulfill the conditions required for issuance of the Asset Valuation Report.

6. The asset valuation institution and asset appraisers have no existing or contemplated interests in the appraisal target specified herein or parties related hereto, and therefore do not have any prejudice against any parties related hereto.

7. The analysis, judgment and conclusion set out in the Asset Valuation Report issued by the asset valuation institution are subject to multiple assumptions and restrictions herein. Users of the Asset Valuation Report shall fully consider such assumptions and restrictions, as well as special notes of the Asset Valuation Report and their impact upon conclusion of valuation.

Summary of Asset Valuation Report

Zhong Qi Hua Ping Bao Zi (2018) No. (3819)

Engaged by Air China Limited, China Enterprise Appraisals Co., Ltd. has carried out all necessary valuation procedures to assess the market value of the total equity interests of Air China Cargo Co., Ltd. ("**Air China Cargo**") dated on the Valuation Benchmark Date based on relevant laws, administrative regulations and asset valuation standards and in the principle of independence, objectiveness and fairness. The details of the asset valuation are as follows:

I. Purpose of valuation: Pursuant to Minutes of China National Aviation Holding Corporation Limited (CNAHC Minutes [2017] No. 67) and Minutes of China National Aviation Holding Corporation Limited (CNAHC Minutes [2017] No. 19), Air China Limited is planning to transfer all the equity interests it holds in Air China Cargo Co., Ltd., and therefore needs to value all the equity interests of Air China Cargo Limited involved in such economic behavior as at the Valuation Benchmark Date. The valuation will provide valuable and professional advice on the above economic behavior.

II. Appraisal target: Value of the total equity interests of Air China Cargo Co., Ltd.

III. Scope of valuation: The entire audited assets and liabilities of the evaluated entity, including such assets and liabilities as current assets, long-term equity investment, investment properties, fixed assets, construction in progress, intangible assets and long-term unamortized expenses.

IV. Valuation Benchmark Date: 31 December 2017

V. Type of value: Market value

VI. Valuation method: Asset-based approach and income approach

(I) Brief introduction of valuation method

The income approach refers to the approach in which the expected income of the appraisal target shall be capitalized or discounted so as to determine the value of the appraisal target.

The market approach refers to the approach in which the appraisal target shall be compared with other comparable listed companies or transactions so as to determine the value of the appraisal target.

Asset-based approach refers to the approach in which, based on the balance sheet of the appraisal target on the Valuation Benchmark Date, the value of identifiable assets and liabilities in and out of the balance sheet shall be evaluated so as to determine the value of the appraisal target.

(II) Selection of valuation method

As stated in the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any evaluation of enterprise value, the suitability of the three basic asset valuation methods, namely the income approach, the market approach and the asset-based approach, shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods. If different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.

Based on the purpose of valuation, the appraisal target, the type of value, the collected information, as well as the suitability of the three basic methods, the valuation herein was performed in the asset-based approach and income approach for the following reasons:

The asset-based approach can reflect the replacement cost of the evaluated entity on the Benchmark Data, and it is easy to collect the information about the evaluated entity's assets and liabilities. During the valuation, Air China Cargo provided detailed lists of and information about its assets and liabilities. In addition, appraisers can adequately collect relevant information required by the asset-based approach. The asset-based approach was suitable for the valuation, and therefore the asset-based approach was adopted for this valuation.

The evaluated entity was a profitable company and its expected income can be quantified, the life of its expected income can be projected, and the risks that the company needed to assume when earning the expected income, which were closely related to the discount, can also be predicted. Therefore, the income approach was also adopted for this valuation.

There are few equity transfer cases of domestic enterprises that are similar to the evaluated entity, and the open market data was very limited. In addition, the comparable listed companies are different from the evaluated entity in terms of business scope, business region, asset scale and financial status, so relevant indicators cannot be acquired or adjusted reasonably. Therefore, the market approach was not adopted for this valuation.

(III) Introduction to asset-based approach

1. Current assets

(1) For monetary funds, including cash and bank deposits, their appraised value was determined as the verified value arrived at through checking the cash balance, bank statements and confirmations. The foreign-currency assets shall be converted into RMB in accordance with the central parity rates released by People's Bank of China on the Valuation Benchmark Date, so as to evaluate the foreign-currency assets.

(2) The appraised value of all account receivables and other receivable items shall be determined based on the recoverable amount of each receivable item upon due verification by appraisers. For a receivable item that the appraisers had good reasons to believe was fully recoverable, its appraised value shall be measured based on the total receivable amount. Where a certain part of a receivable item was probably unrecoverable and appraisers were unable to accurately measure the

unrecoverable amount, detailed ageing analysis shall be conducted on the amount, credit period and reason, recovery status, together with the financial position, credit status, and the current operation and management of the debtor with reference to historical information and on-site investigation to estimate such potential unrecoverable amount, which was regarded as the risk loss to be deducted in the evaluation of the appraised value. A receivable item was measured at zero if there was obvious evidence indicating that such item was not recoverable. The accounting item of "provisions for bad debts" was recognized as zero.

(3) For prepayments, appraisers have reviewed related purchase contracts or agreements to learn about the services received between the Valuation Benchmark Date and on-site verification. Unless suppliers were found bankrupt, revoked or unable to provide goods and labors as per contractual provisions, the appraised value was determined as the verified value.

(4) Inventories

① The market approach was adopted to evaluate the raw materials of inventories in the valuation. For raw materials that have very volatile prices and were not recently purchased, appraisers have consulted the raw materials procurement department with reference to the sale prices of such raw materials at the time of valuation, adjusted for fluctuations in the raw material prices between the Valuation Benchmark Date and valuation time, thereby determining the raw material's market price on the Valuation Benchmark Date. The market price, plus the transportation expenses and other reasonable costs, was used as the appraised value.

② For airplane consumables, the appraisers reviewed related purchase contract or agreement, conducted sample check on airplane consumables and evaluated them based on replacement costs. The provision for declines in airplane consumable prices was recognized as zero.

A. Determination of replacement costs

The replacement costs were determined based on FOB prices plus overseas transportation expenses, overseas transportation insurance expenses, agent commissions, domestic transportation expenses and others. The formula for calculating the appraised value was as follows:

Replacement costs for consumables (excluding taxes) = [FOB Purchase Price × (1 + overseas transportation expense + overseas transportation insurance expenses)] × exchange rate + agent commissions + domestic transportation expense

Based on the 2016 Cai Guan Shui No. 39 document issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on 22 August 2016, namely the Notice on Tax Policies for Imported Aviation Supplies for Repairs for Domestic Airlines during the 13th Five-Year Period, the aviation supplies imported by domestic airways to repair airplanes and engines of airplanes that operate on international air routes and air routes to Hong Kong and Macau as well as their feeder flights (including components sent abroad for repairing) will be exempted from import tariffs and value-added taxes for importation between 1 January 2016 and 31 December 2020. The valuation of Air China Cargo's consumables only involved two airplane models. In addition to the retired TU204 airplane, the Boeing 777- 200F and Boeing 747-400F both operated on international air routes. As such, the valuation did not take into account the import tariffs and value-added taxes. In addition, capital cost was not considered in the valuation as the purchase of airplane consumables took a short period of time.

B. Determination of newness rate

For airplane consumables, the newness rate shall be comprehensively determined based on the types, materials, purchase time and length of storage. For aviation supplies that have been unused for more than three years, the newness rate shall be comprehensively determined by taking reference from similar situations in the industry. Regarding retired airplane type (TU204), a certain amount of residual rate shall be considered.

C. Determination of appraised value of airplane consumables

Appraised value of airplane consumables = Replacement cost × newness rate

(5) For other current assets, appraisers checked the conformity among subsidiary ledger balance, balances of general ledgers and financial statements, and conducted sample checks on some original accounting documents and contracts to verify the truthfulness, details and amounts of related transactions. The appraised value was determined based on the verified book value.

2. Long-term equity investment

(1) Wholly-owned and controlling long-term equity investment

To determine the overall value of the wholly-owned and controlling long-term equity investment, appraisers evaluated the value of the total equity interests of the investees first, which was multiplied by the shareholding percentage to arrive at the value of the partial equity interests.

(2) Non-controlling long-term equity investment

For non-controlling long-term equity investment, as an overall valuation was not feasible, appraisers may acquire the financial statements of investees as at the Valuation Benchmark Date and analyze the financial statements based on actual conditions of the investees, and then multiply the reasonable net assets of the investees with the shareholding percentage to arrive at the appraised value of such non-controlling equity investment.

(3) Long-term equity investment undergoing wind-down

For AMS Global Transportation Co., Ltd. for which wind-up has not been completed, the relevant wind-up allocation scheme of AMS Global Transportation Co., Ltd. shall be ultimately carried out by Air China Cargo Co., Ltd. As such, the valuation uses its book value as the appraised value.

3. Investment properties

① For investment properties, the valuation methods were chosen based on related settlement information and price information collected, and varied from appraisal target to appraisal target. The replacement cost method was mainly adopted in the valuation. (Please refer to valuation method for buildings and structures for details.)

② For investment properties, the appraisers have considered the conditions of the land parcel, nature of land, purpose of valuation and relevant information collected by valuers. The appraisal target in the valuation was land for storage. According to the conditions of the land market development as well as the best ways to use the land parcel, the valuation of investment properties was conducted based on coefficient amendment of basis land price.

4. Machinery and equipment

The statements were consistent with those listed in the account books after verifying against the spreadsheets of the machinery and equipment provided by the enterprise. At the same time, the ownership was confirmed after examining and verifying the related contracts, legal ownership certificates and accounting documents. On such basis, professional engineering staff were assigned to carry out necessary on-site inspection and verification of the major equipment.

Machinery and equipment were evaluated mainly by the replacement cost method according to purpose of valuation, principle of on-going use, market price, the characteristics of the evaluated equipment and collected information.

Appraised value = Full replacement cost × integrated newness rate.

(1) Determination of the full replacement cost

① Determination of full replacement cost of imported equipment

Full replacement cost = CIF price + tariff + value-added taxes + foreign trade service fees + banking fees + inspection charges + domestic transportation expenses + installation and commissioning expenses + other reasonable expense – deductible value-added taxes

The banking fees, foreign trade service fees, inspection charges, equipment base rates and equipment installment rates were determined according to rates provided under the Manual of Information and Data Commonly Used in Asset Valuation;

For imported equipment that can be replaced by domestic equipment with the same functions, in accordance with the principal of replacement, the replacement cost was determined based on the cost of replacing the imported equipment with the domestic equipment with the same functions and value-for-money adjustment for the differences in functions, quality and performances with the imported equipment.

② Determination of the full replacement cost of domestic equipment

For equipment to be installed, the full replacement cost generally covers: purchase price of equipment, transportation expense, installation fees and others. For equipment ready for direct use, the full replacement cost generally covers purchase price of equipment and transportation expense. In addition, pursuant to “Cai Shui [2008] No. 170”, for ordinary value-added tax payers, the corresponding value-added tax shall be deducted from the full replacement cost for equipment eligible for value-added tax credit.

The formula for full replacement cost is set out below:

Full replacement cost of equipment to be installed = purchase price of equipment + transportation expense + installation fees + capital cost – deductible value-added tax

Full replacement cost of equipment ready for direct use = purchase price of equipment + transportation expense – deductible value-added tax

Full replacement cost of electronic equipment was determined based on local market data and latest online transaction prices.

For electronic equipment that was purchased early and can still be used, if no related type of equipment was available in the market, the full replacement cost shall be determined with reference to the tax-exclusive prices on second-hand equipment market

③ For transportation equipment, the full replacement cost shall be determined based on market price at the Valuation Benchmark Date plus vehicle purchase tax, license expense and other reasonable expenses. Pursuant to “Cai Shui [2008] No. 170”, the corresponding value-added tax shall be deducted from the full replacement cost.

The full replacement cost of special vehicles was measured in the same manner as that of machinery and equipment.

The formula for calculating full replacement cost of transportation equipment is set out below:

Full replacement cost = Purchase price + purchase price × 10%/(1+17%) – deductible value-added tax

License expense was determined according to prevailing prices in the market where the license can be auctioned.

④ Determination of full replacement cost of airplane and engine

The full replacement cost of airplane covers fuselage (including airborne equipment and other optional equipment) as well as the attached engine. The full replacement cost of the airplane was based on the latest purchase price of the airplane, with adjustments for relevant discounts, tariffs, import value-added tax, bank service fees, capital cost and other expenses.

Pursuant to "Cai Guan Shui [2013] No. 53", namely the Notice on Adjustment of Related Value- Added Tax Policies for Imported Airplane, and "Shui Wei Hui [2013] No. 31", namely the Notice on Adjustment of Tariff Rate on Imports of Brown Coal and Other Goods by the Customs Tariff Commission of the State Council, the value-added tax rate for airplane was adjusted to 5% starting from 30 August 2013.

⑤ Determination of full replacement cost of high-price rotables

The high-price rotables that are in normal use can be classified into usable high-price rotables and high-price rotables that are under repairs or waiting for repairs. The usable high-price rotables are high-price rotables that are airworthy and ready for use after being repaired. The high-price rotables that are under repairs or waiting for repairs are high-price rotables that are being repaired or are ready for repairs due to malfunctions.

(2) Determination of integrated newness rate

① For special equipment and general machinery, the appraisers have determined the remaining useful life based on the economic useful life of equipment, used life and on-site inspection into the usage and technical status of equipment, and thereby determined the integrated newness rate according to the following formula:

Integrated newness rate = Remaining useful life/(Remaining useful life+ used life)×100%

② For small-sized equipment, such as electronic equipment, air-conditioner, etc., the integrated newness rate was determined primarily based on the economic useful life of equipment; for large-sized electronic equipment, the integrated newness rate was also determined with reference to the working environment and operating condition of the equipment. The formula was as below:

Newness rate under the service life approach = (Economic useful life – used life)/economic useful life × 100%

Integrated newness rate = Newness rate under the service life approach × adjustment coefficient

③ Determination of integrated newness rate of vehicles

For vehicles, the theoretic newness rate was determined primarily based on the Standards for Compulsory Retirement of Motor Vehicles promulgated by the State, as well as the lower of the newness rate under the service life approach and the newness rate under the mileage approach. The theoretic newness rate was adjusted based on results of on-site inspection.

The formula was as below:

Newness rate under the service life approach = (Economic useful life – used life)/economic useful life × 100%

Newness rate under the mileage approach = (Required mileage – travelled mileage)/required mileage×100%

Integrated newness rate = Theoretic newness rate × adjustment coefficient

The newness rate of special vehicles was measured in the same manner as that for machinery and equipment.

④ Determination of integrated newness rate of airplane and engine

The theoretic newness rate of airplane was determined based on the newness rates of fuselage and attached airplane engine, weighted according to the ratios of their values to the entire airplane value.

⑤ Determination of newness rate of high-price rotables

The newness rate of usable high-price rotables shall be comprehensively judged and determined based on their types and maintenance conditions.

(3) Determination of appraised value

Appraised value of equipment = Full replacement cost of equipment × integrated newness rate

5. Buildings (structures)

The replacement cost approach was primarily adopted for the valuation of buildings and structures. The market approach was adopted for the valuation of purchased buildings that were suitable for joint valuation of buildings and lands.

Valuation method – replacement cost method

The full replacement cost of buildings generally covers general cost of construction and installation cost, upfront and other expenses, capital cost and deductible value-added tax. The formula for calculating the full replacement cost of buildings was as follows:

(1) Full replacement cost = Construction and installation cost + upfront and other expenses + capital cost – deductible value-added tax

① Comprehensive construction and installation price

(A) For buildings (structures) of large size, high value and great importance, the budgets (final accounts) adjustment method was used to determine the comprehensive construction and installation price, which means appraisers calculated the pretax or tax-inclusive prices of the construction and installation project on the benchmark date according to the existing defined project budget and integrated rates, and with reference to the as-built drawings, relevant information and verified volume of works in the settlement of the evaluated buildings (structures)

(B) For ordinary buildings (structures), the benchmark unit construction price shall be determined based on its structure span, floor height, decoration level and other factors impacting the construction price, which reflects the construction price of the evaluated buildings (structures) on the Valuation Benchmark Date and under normal construction level, construction quality and ordinary decoration standards in their regions. Based on this, the unit construction price was adjusted according to the characters of the buildings (structures) (such as different floor heights, span, special decoration and degree of difficulty in construction) and results of on-site inspections, thereby determining the pretax and tax-inclusive construction price of construction and installation project.

② Determination of upfront and other expenses

Based on relevant fees collection regulations of the state (industry), and in conjunction with the actual situation of the market where the construction project was located on the Valuation Benchmark Date, the evaluated entity was deemed as an independent construction project, and the upfront and other expenses were determined pursuant to the fixed asset investment scale of the Enterprise.

③ Capital cost

The capital cost was determined according to the reasonable construction period of the evaluated entity and on the basis of the sum of construction and installation cost and upfront and other expenses with reference to basic interest rate of RMB loan for financial institution on the Valuation Benchmark Date issued by People's Bank of China during the same period, assuming capitals were invested evenly across different stages. The formula for calculating capital cost was as follows:

Capital cost = (Comprehensive tax-inclusive construction and installation price + upfront and other expense) × capital cost rate × reasonable construction period/2

④ Deductible value-added tax

Pursuant to relevant administrative documents, the deductible value-added tax shall be calculated for buildings assets eligible for value-added tax credit.

(2) Determination of integrated newness rate

The integrated newness rate was determined according to the formula set out below:

Integrated newness rate = Remaining useful life/(used life + remaining useful life)

Determination of remaining useful life in the formula:

Based on the economic and durable useful life and used life of the buildings within the scope of valuation, the remaining useful life was determined in conjunction with on-site inspection results, all past refurbishment and upgrades of the buildings as well as maintenance status of the buildings. The integrated newness rate shall be determined only when the evaluated target can continue to be used and primarily according to the stability and solidity of the base and main structure. The level of newness of the decorations and supporting facilities can only be calculated when the base and main structure can continue to be used, and shall be used as an auxiliary factor for modifying the newness rate of such base and main structure.

(3) Determination of appraised value

Appraised value = Full replacement cost × integrated newness rate

Valuation method – market approach

The market approach shall be used for valuation of externally purchased commercial buildings if local real estate market is developed and comparable cases are available. Under the approach, appraisers selected the qualified reference object and made adjustment based on transaction conditions, transaction date, regional status, equity status and actual status of properties, so as to determine the appraised value. The formula is:

Price of property to be evaluated = transaction price of the reference object × normal transaction status/reference object transaction status × regional status of property to be evaluated/regional status of reference object × equity and interests status of property to be evaluated/equity and interests status of reference object × actual status of property to be evaluated/actual status of reference object Valuation Benchmark Date price index of property to be evaluated/Valuation Benchmark Date price index of reference object

6. Construction in progress

Cost approach is applied in the valuation of construction in progress. To avoid duplicated valuation or omission of asset value, the following valuation approaches were adopted in light of the characteristics of construction in progress, and the type and specific conditions of construction in progress:

(1) For construction in progress whose main equipment or building main structure were consolidated, but some were unsettled, if its value has been included in the fixed asset's appraised value, appraised value of such construction in progress shall be recognized as zero.

(2) Uncompleted project

For construction in progress whose commencement date was within half a year after the benchmark date, the appraised value shall be determined based on the reported of the construction in progress whose actual and accounting value has been verified, excluding the residual value of unreasonable expenses.

For construction in progress whose commencement date was more than half a year after the benchmark date and who are still under normal construction, if prices of the construction investment-related equipment, materials and labor did not change a lot, the appraised value of such uncompleted project shall be determined based on the book value minus unreasonable expense and plus appropriate capital cost; if prices of the construction investment-related equipment, materials and labor changed a lot, the replacement cost shall be determined based on all costs required to acquire the work volume in normal situations which has been completed on such construction in progress as at the Valuation Benchmark Date; in case of any serious physical, functional or economical depreciation, the depreciation amount shall be deducted, otherwise the depreciation amount shall be zero.

Relevant information about the B777 engine repair project, B757 cargo airplane plateau transformation project and the major transformation project for three 747 airplanes was not available as they involved business secrets, and the appraised value was determined based on book value. The contract amount of the Video Conference System Construction Project for Chengdu Cargo Station was consolidated in December 2017 and paid in January 2018. Its appraised value is determined as its book value.

7. Land use right

Based on results of on-site inspection, given that the land parcels to be evaluated are lands for storage and industrial use, market comparison approach and benchmark land price coefficient modification approach were used in the valuation according to the locations, nature, use conditions and local land market conditions of the land parcels to be evaluated.

Based on the information provided by the client and land price information owned by the engaged party, and following the on-site inspections and in-depth analysis carried out by appraisers according to related laws and regulations, polices and technical standards applicable to the valuation, the following conclusions were drawn: the land parcels to be evaluated were within the coverage of benchmark land price and it’s appropriate to use benchmark land price coefficient modification approach in the valuation; given that transactions of similar land parcels were found occurring in regions where the evaluated item was located or other nearby places, it’s appropriate to use market comparison approach; given that no corresponding land requisition costs for the regions where the land parcel to be evaluated was located were found, it’s inappropriate to adopt the cost approximation approach; given that the evaluated item was a developed land parcel used as an industrial storage facility, and relevant real estate income generated therefrom was included into business income of the Enterprise which can not be detached, it’s inappropriate to adopt the income approach.

(1) Benchmark land price coefficient modification approach

Benchmark land price coefficient modification approach refers to the approach for obtaining the price of the land parcel to be evaluated on the Valuation Benchmark Date by using such valuation results as the benchmark land price and benchmark land price modification coefficients table for towns and cities to compare the regional conditions and the individual conditions of the land parcel to be evaluated with the average conditions of the region in which such land parcel is located on the basis of the substitution principle, and adjust the benchmark land price by referring to a corresponding modification coefficient selected from the modification coefficient table.

Price of the land parcel under the set development level at the benchmark land price = the benchmark land price × K1 × K2 × K3 × (1+∑K) + K4

Where: K1 – the modification coefficient of date

K2 – the modification coefficient of land use term

K3 – the modification coefficient of floor area ratio

∑K – sum of the modification coefficients of regional factors and individual factors, which have impact on the land price

K4 – the modification coefficient of development level

(2) The market comparison approach

Market comparison approach refers to the approach which makes comparison between the land to be evaluated and similar land trading cases whose trading dates were close to the Valuation Benchmark Date, and make appropriate adjustment to the known prices of such similar land trading cases, so as to make objective and reasonable estimation on the price or value of the land to be evaluated.

The formula was as follows:

The price of the land parcel to be evaluated = the price of the comparable case × modification coefficient of transaction status × modification coefficient of transaction date × modification coefficient of regional factors × modification coefficient of individual factors × modification coefficient of land use term

In the valuation, the land of integrated purpose in District A of Beijing Tianzhu Airport Industrial Zone, Shunyi District, Beijing was evaluated in the benchmark land price coefficient modification approach, while the land use right in the Tianjin base was evaluated in the market comparison approach.

8. Other intangible assets

Other intangible assets which fell under the scope of this valuation were mainly software purchased by the Enterprise. If the software purchased by the Enterprise is still available without upgraded versions in the market as at the Valuation Benchmark Date, the appraised value shall be determined based on the market prices of similar software as at the Valuation Benchmark Date. If the software purchased by the Enterprise is still available with upgraded versions in the market, the appraised value shall be determined by deducting the software upgrading fees from the current market price. If no more transactions of the software can be found in the market but the software could still be used for their intended purposes, the original purchase costs of the enterprise and the price trend of similar software in the market were taken into account to determine the depreciation rate for the calculation of the appraised value. The formula was as follows:

The appraised value = Original purchase price × (1 – depreciation rate)

9. Long-term unamortized expenses

Appraisers probed into and understood the causes of the unamortized expenses, and checked the contracts and accounting documents concerning the long-term unamortized expenses. In addition, they verified the origination date, starting balance and remaining benefiting months. After confirming the accuracy of the book value by repeatedly calculating the amortization, the appraised value was determined based on verified book value.

10. Liabilities

Appraisers first checked the consistency between the subsidiary ledger and the general ledger as well as items in the subsidiary ledger. In addition, they conducted sample check on related accounting documents and confirmed the accuracy of book value of liabilities based on the sample check results. The appraised value was determined based on the verified book value.

(IV) Introduction to income approach

In the valuation, the income approach was adopted to evaluate the overall enterprise value, thereby indirectly arriving at the value of total equity interests.

1. Income approach model

Enterprise discounted free cash flow method was adopted for the income approach model. Enterprise

value comprises operating asset value generated from normal operating activities and non-operating asset value generated from non-normal operating activities.

Enterprise value = Operating asset + surplus asset + non-operating assets + individually appraised long-term equity investment

Value of total equity interests = Enterprise value – interest-bearing debts

Interest-bearing debts refers to debts that require interest payment on the book on the benchmark date, which includes short-term borrowings, interest-bearing notes payable, long-term borrowings due within one year, long-term borrowings, and other payables in borrowing nature.

Where:

Operating assets refer to the assets and liabilities relating to production and operation of the evaluated entity and involved in forecasting its free cash flows after the Valuation Benchmark Date. Value of operating assets is calculated as follows:

$$P = [\sum_{i=1}^{n} F_i (1+r)^{-i} + F_n \ / r(1+r)^{-n}]$$

Where: P: value of operating assets as at the Valuation Benchmark Date

F_i: estimated enterprise free cash flow for the i^{th} year in the future F_n:

free cash flow for the perpetual period

r: discount rate

i: the calculation year in the income period n:

forecast period

Among which, enterprise free cash flow is calculated as follows:

Enterprise free cash flow = EBIT x (1 – income tax rate) + depreciation and amortisation – capital expenditure – increase in working capital

2. Determination of the forecast period

The sectioning method is applied to the valuation to predict the cash flows of the enterprise, i.e. dividing future cash flows of the enterprise into cash flows during and after the specific forecast period. The forecast period predicts the years when the enterprise's production and operation are stable. Based on the future development plan provided by the enterprise and the industry it is in, the forecast period is determined to be five years, expected to end by the end of 2022. As the enterprise's short-term earnings can be relatively reasonably forecast while the forward earnings is relatively harder to reasonably forecast, as per customary practice, the appraisers divided the income period into the forecast period and post-forecast period.

3. Determination of the income period

As the evaluated entity operated normally on the Valuation Benchmark Date, no restriction was imposed on the service life of core assets that affect the ongoing operation of the enterprise, the production and operation period of the enterprise, and the ownership period of investors, or restrictions thereon can be lifted, and the assets can be perpetually used in a sustainable manner. Therefore, the valuation assumes that the evaluated entity operates perpetually after the Valuation Benchmark Date, and the corresponding income period is limitless.

4. Determination of cash flow

Enterprise free cash flow is selected for the income approach valuation model. The calculation formula for free cash flow is as follows:

(For every year during the forecast period) Free cash flow = EBIT × (1 – income tax rate) + depreciation and amortisation – capital expenditures – additional amount of working capital = Operating income – operating cost – business tax and surcharge – expenditure for the period (management expenditure, operating expenditure) + net non-operating income and non-operational expense – income tax + depreciation and amortization – capital expenditure – additional amount of working capital

5. Determination of final value

The income period is perpetual. Final value $P_n = R_{n+1}/i$

R_{n+1} is determined based on the cash flow adjustment at the year end of the forecast period. The specific adjustments include depreciation, capital expenditure, etc., of which capital expenditure is adjusted on the principle that the cost necessary for the ongoing operation in the perpetual years without expanding the size is taken as capital expenditure.

6. Determination of discount rate

According to the principle of consistent basis for the income amount and the discount rate, the basis of the income amount for this valuation is the net free cash flow of the enterprise and the weighted average capital cost is chosen as the discount rate.

Formula:

$$WACC = K_e \times \frac{E}{E + D} + K_d \times (1 - t) \times \frac{D}{E + D}$$

Where: K_e: cost of equity capital

K_d: cost of interest-bearing debt capital

E: market value of equity

D: market value of interest-bearing debt

t: income tax rate

Among which, cost of equity capital is calculated using the Capital Asset Pricing Model (CAPM). The calculation formula is as follows:

$$K_e = r_f + MRP \times \beta + r_c$$

Where: r_f: risk-free interest rate

MRP: market risk premium

ß: system risk coefficient of equity

rc: specific corporate risk adjustment coefficient

7. Determination of the value of surplus assets

Surplus assets are assets in excess of those necessary for the enterprise's operation on the Valuation Benchmark Date and assets that are not involved in the free cash flow forecast of the enterprise after the Valuation Benchmark Date. The surplus asset of the evaluated entity was cash asset in excess of the operating cash required for maintaining the enterprise' normal operation and shall be evaluated in cost approach.

8. Value of non-operating assets and liabilities

Non-operating assets and liabilities refer to assets and liabilities that are irrelevant to the production and operation of the evaluated entity, and are not involved in the forecast of the enterprise's free cash flow after the Valuation Benchmark Date. The non-operating assets of the evaluated entity were the advance payment for social insurance fund under other payables, the allowance for value added taxes under the other current assets, investment property and investment real estate related to the freight office building T1 leased to SF Express, investment property, redundant aviation supplies in brand new high-price rotables, disposal of fixed assets, as well as properties and equipment to be demolished and retired; non-operating liabilities included payables for rotables for construction in progress under payables, payable social insurance fund payment and other advance payment under payables, interests payable, deferred income under other non- current liabilities –airplane transformation, as well as withheld individual income tax under tax payables. All the above was evaluated in the cost approach.

9. Individually appraised long-term equity investment

Long-term equity investment refers to external equity investment that the enterprise has formed as of the Valuation Benchmark Date and is not included in the forecast scope of the income approach.

10. Value of interest-bearing debt

Interest bearing debts are debts for which the evaluated entity needed to pay interests for on the Valuation Benchmark Date and which are recognized using the cost approach.

VII. Valuation assumptions

The following assumptions were used for analysis and estimations under the Asset Valuation Report:

(I) General assumptions

1. It is assumed that the current laws, regulations and policies of the state as well as the macro economic conditions of the state will not experience major changes, the political, economic and social environment of the regions where the parties to the transaction are located will not experience major changes and no other material adverse impact will arise from other unpredictable factors and force majeure.

2. It is assumed that the enterprise will continue to operate based on the actual situation of the enterprise's assets as at the Valuation Benchmark Date;

3. It is assumed that there are no material changes in the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the evaluated entity after the Valuation Benchmark Date; Due to the U.S. tax reform in 2018, the federal tax rate for enterprises was adjusted from 34% in 2017 to 21%, while changes in tax rates of the states remain unknown. In the event that the average tax rate of the states remains substantially unchanged, the ACT average tax rate is expected to be 28% in 2018, assuming that future tax rates will not significantly change after the Valuation Benchmark Date;

4. It is assumed that the management of the evaluated entity is accountable, stable and competent to perform their duties after the Valuation Benchmark Date;

5. Unless otherwise provided, it is assumed that Air China Cargo fully complies with all relevant laws and regulations;

6. It is assumed that there are no force majeure events or unpredictable factors which may materially and adversely affect the evaluated entity after the Valuation Benchmark Date.

(II) Special assumptions

1. It is assumed that the accounting policies adopted by the evaluated entity after the Valuation Benchmark Date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects;

2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Valuation Benchmark Date are consistent with the current ones based on the existing management mode and management level;

3. It is assumed that the after the Valuation Benchmark Date, the cash inflows of the evaluated entity are average inflows, and the cash outflows of the evaluated entity are average outflows;

4. The Company expects that the crude oil price will fluctuate between USD55 and USD65/barrel over the next 5 years, and therefore assumes the future crude oil price to be USD60/barrel, which translates to approximately RMB4,200/ton;

5. It is assumed that the evaluated entity can continue to control its resources (including human resource, marketing network and customer base) to maintain its core competitiveness;

6. It is assumed that the four 757 cargo airplanes owned by Air China Cargo will be disposed of upon expiration of the postal airplane charter agreement;

7. It is assumed that the Bellyhold Settlement Framework Agreement between Air China Cargo and Air China Limited will be renewed normally upon expiration with all major terms remain consistent with the existing terms.

The conclusion of valuation of this Asset Valuation Report is true on the Valuation Benchmark Date based on the above assumptions. In the event of any material changes to the above assumptions, the undersigned appraisers and the valuation institution shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

VIII. Conclusion of valuation

The book value of total assets of Air China Cargo was RMB14,230,042.6 thousand as of the Valuation Benchmark Date, the appraised value was RMB15,180,105 thousand and the amount of increase was RMB950,062.4 thousand, representing an appreciation rate of 6.68%; the book value of total liabilities was RMB10,398,113.2 thousand, the appraised value was RMB10,398,070.7 thousand and the amount of decrease was RMB42.5 thousand, representing an depreciation rate of 0.00%; the book value of net assets was RMB3,831,929.4 thousand, the appraised value was RMB4,782,034.3 thousand, and the amount of increase was RMB950,104.9 thousand, representing an appreciation rate of 24.79%. The results of the asset valuation using the asset-based approach are detailed in the following summary of valuation results:

Summary of valuation results using the asset-based approach

Valuation Benchmark Date: 31 December 2017 *Unit: RMB0'000*

Item		Book value	Appraised value	Increase or decrease	Appreciation rate (%)
		A	**B**	**C=B-A**	**D=C/A×100**
I. Current assets	1	330,697.76	330,719.95	22.19	0.01
II. Non-current assets	2	1,092,306.50	1,187,290.55	94,984.05	8.70
In which: Long-term equity investment	3	3,860.04	3,959.87	99.83	2.59
Investment properties	4	17,454.78	65,088.62	47,633.84	272.90
Fixed assets	5	1,036,372.04	956,812.00	-79,560.04	-7.68
Construction in progress	6	21,786.80	21,794.33	7.53	0.03
Intangible assets	7	12,503.33	139,305.72	126,802.39	1,014.15
In which: land use rights	8	11,107.23	137,951.64	126,844.41	1,142.00
Other non-current assets	9	329.51	330.01	0.50	0.15
Total assets	**10**	1,423,004.26	1,518,010.50	95,006.24	6.68
III. Current liabilities	11	421,124.97	421,120.72	-4.25	0.00
IV. Non-current liabilities	12	618,686.35	618,686.35	0.00	0.00
Total liabilities	**13**	1,039,811.32	1,039,807.07	-4.25	0.00
Net assets	**14**	383,192.94	478,203.43	95,010.49	24.79

The valuation results using the asset-based approach were selected for the conclusion of valuation for the following reasons:

The asset-based approach determines the value of the Valuation Target by reasonably evaluating the assets and liabilities of the evaluated entity, taking into consideration the means of regaining the assets; in the valuation, Air China Cargo produced detailed break-down lists of assets and associated liabilities and provided relevant information on its assets and liabilities. Furthermore, the appraisers were able to collect the information necessary for the use of the asset-based approach. The results using the asset-based approach were relatively reliable.

The income approach mainly reflects an enterprise's value from the perspective of net cash flows generated from the enterprise's future operating activities. It focuses on the enterprise's future profitability and is subject to factors such as the enterprise's future cash flows, operating condition, asset quality, and the capability of coping with risks.

As at the Valuation Benchmark Date, Air China Cargo's aircraft operating efficiency was affected by restrictions such as the tight route schedule at Beijing Capital International Airport, which to a certain extent affected its operation quality. Meanwhile, according to Air China Cargo's future plans, it is undergoing business structure integration, and as at the Valuation Benchmark Date, no specific scheme has been formulated for the future business structure after the adjustment, which may affect Air China Cargo's future operation to a certain extent. Moreover, considering such factors as future market changes and the cyclicity of the cargo industry, Air China Cargo's future profitability will also be affected and changed to a certain extent. As the income approach is subject to impacts of various factors such as the evaluated entity's future profitability, asset quality, operating capability, and operational risks, taking the above factors into consideration, the valuation results using the asset-based approach are adopted for this asset valuation report to better reflect Air China Cargo's total equity value as at the Valuation Benchmark Date.

Based on the above analysis, the results using the asset-based approach were selected for the valuation conclusion of this asset valuation report.

During the valuation, appraisers have identified the following matters that may impact the valuation conclusions, and based on their professional expertise, appraisers found themselves unable to determine and make estimates on such matters:

(I) The cases where Air China Cargo does not possess complete ownership information or can only provide flawed ownership information as of the Valuation Benchmark Date

1. The property ownership certificate of the integrated business building of the headquarters of Air China Cargo in Tianzhu Airport Industrial Zone, Shunyi District, Beijing was still being processed by relevant authorities. In addition, some buildings did not acquire ownership certificates by then. Details are as follows:

No.	Building name	Floor area (m^2)	Book value (RMB)
1	Duty room for weighbridge room	284	20,201.44
2	Boiler room	200	24,039.71
3	Freight joint check room	200	31,410.94
4	Sewage pump room	35	5,964.86
5	Gate man room	15	481.7
6	Russian service department	320	7,246.04
7	Tianjin toilet	60	70,745.50
8	Dangerous item duty room	35	14,049.72
9	Warehouse of dangerous items in freight center	127	51,773.07
10	New warehouse gate man room – T1	150	22,292.94
11	Room for auxiliaries for security check machines	15	37,518.73
12	30 tonne platform scale room and auxiliaries	30	104,873.53
13	Tianjin operating base warehouse project	9,950.00	22,786,692.66
14	Portable custom transit	64	53,958.00
15	Platform scale room (30 tonnes)	25	493.75
16	Colored steel room	25.76	45,035.68
17	Colored steel room	64	111,889.84
18	Colored steel room	24	41,958.69
19	Colored steel room	15	26,224.39
20	Water pump room	100	475,875.00
21	Guard room watch box	1.8	16,200.00
22	Integrated business building – door, stop, closure systems – watch box	1.8	11,808.82
23	Integrated business building – plastic and steel watch box 2m*2.5m*2m	4	40,466.43
24	Integrated business building	29,433.00	181,831,308.60
25	Personal safety check room	54	392,770.00

In the valuation, for properties without ownership certificate, the fact of not having ownership certificate was not factored into the conclusion of evaluation, nor was the possible tax expenses that may derive from the process of applying for ownership certificate.

Certain buildings have been demolished, as detailed below:

No.	Building name	Floor area (m^2)	Book value (RMB)	Remarks
1	Bike shed – T1	400	25,783.40	Demolished
2	Steel mobile room – T1	110	11,432.32	Demolished
3	Security check duty room (In north movement warehouse)	35	4,390.35	Demolished
4	Security check duty room (In north movement warehouse)	35	4,390.35	Demolished
5	Rain cover and coloured steel room	–	38,506.67	Demolished
6	Spare part warehouse	–	127,001.12	Demolished
7	Provisional office	–	28,755.34	Demolished

In the valuation, the value of demolished buildings and structures are determined as zero.

2. Under fixed asset - equipment category, some machinery and equipment were already retired or some physical assets were damaged, some vehicles and electronic equipment were retired, aviation supplies – high-price rotables were surplus materials, and a backup engine was already retired. All the retired assets were not recognized in book value. Details are as follows:

(1) Machinery and equipment No. 740 (Asset No. XH03428) – cargo automatic transmission and processing equipment (automated warehouse) became idle in January 2011, was protectively demolished at the end of 2011 and was kept in warehouse. As it will not be reused, the asset management department retired it. Air China Cargo has 4,880 machines and equipment that were retired or some physical assets were damaged;

(2) The following 15 pieces of security inspection equipment of Air China Cargo have relatively high book value among all equipment of the Enterprise to be retired. Details are as follows:

Unit: RMB

Asset No.	Equipment name	Unit	Number	Purchase date	Book value	
					Original value	**Net value**
XH00158	Security check machine	Piece	1.00	30 September 1999	675,774.17	33,788.71
XH00159	Security check machine	Piece	1.00	30 September 1999	675,774.17	33,788.71
XH00160	Security check machine	Piece	1.00	30 September 1999	675,774.16	33,788.71
XH00161	Security check machine	Piece	1.00	11 December 2003	4,213,844.11	210,692.21
XH00162	Security check machine	Piece	1.00	11 December 2003	4,213,844.11	210,692.21
XH00164	Security check machine	Piece	1.00	11 December 2003	4,213,844.10	210,692.21
XH02300	Security check machine	Piece	1.00	31 January 2003	1,479,302.08	73,965.11
XH02301	Security check machine	Piece	1.00	31 January 2003	1,479,302.08	73,965.11
XH02302	Security check machine	Piece	1.00	31 January 2003	1,479,302.09	73,965.11
XH02625	Security check machine	Piece	1.00	25 November 2003	1,660,000.00	83,000.00
XH03606	X-ray machine	Piece	1.00	31 January 2001	459,900.00	22,995.00
XH03608	X-ray security check machine	Piece	1.00	31 December 2002	686,400.00	34,320.00
XH07101	Security check machine	Piece	1.00	31 March 2006	1,899,000.00	94,950.00
XH07102	Security check machine	Piece	1.00	31 March 2006	1,660,000.00	83,000.00
XH12945	Security check machine	Piece	1.00	3 December 2007	1,200,000.00	60,000.00

(3) There are 7,438 transportation vehicles, among which 337 will be retired and 11 new vehicles have their driving licenses being processed.

(4) Airplane, engine: the PW4056 engine, No. P717671, was ruined in a bird crash incident on 16 February 2012. Based on the decision of the 26th presidential office meeting in 2012, the engine was retired and not recognized in accounts.

The evaluation was based on related collected information and results of on-site inspection into the equipment, which were confirmed by Air China Cargo. The evaluation also factored the actual status of the equipment.

3. Under the intangible asset – other intangible asset, some software was already out of service or retired. Details are as follows:

Unit: RMB

No.	Intangible asset and content	Acquisition date	Book value	Status
1	TU-204 airport analysis and functional software	6 December 2007	0.00	To be retired
2	Anti-virus software	6 November 2007	0.00	To be retired
3	Fax and network management software	30 December 2006	0.00	To be retired
4	Fixed asset management system software	21 November 2006	0.00	To be upgraded
5	AIMS system software	30 June 2007	0.00	To be retired
6	AIMS system software	30 June 2007	0.00	To be retired
7	AIMS system software	30 June 2007	0.00	To be retired
8	OA system software	26 December 2007	0.00	To be upgraded
9	Customer system	26 December 2007	0.00	Out of service
10	Customer system voice interface	26 December 2007	0.00	Out of service
11	AIMS aircrew management system software development	18 July 2008	179,629.71	Out of service
12	Aircrew maintenance management system	3 December 2007	0.00	Out of service
13	Network management system design service	3 December 2007	0.00	Out of service
14	E-commerce agent system software	5 November 2008	89,078.43	Out of service
15	Online training system	19 December 2008	24,859.96	Out of service
16	Customer data and contract system	19 December 2008	15,000.00	Out of service
17	Bar code system	19 December 2008	14,800.04	Out of service
18	Customer service platform system	15 December 2010	390,000.00	Out of service
19	System analysis software	31 March 2002	0.00	To be retired
20	Telephone voice inquiry system software	23 December 2004	0.00	To be retired
21	Soft dog	30 June 2005	0.00	To be retired
22	Hangzhou customs system software	27 December 2005	0.00	To be retired
23	Electronic weighing software	20 December 2005	0.00	To be retired
24	Flight department short message notification system	13 December 2005	0.00	To be retired
25	X-ray machine picture downloading and conversion software	25 July 2006	0.00	To be retired
26	Message interface software (Telegram forwarding system)	8 August 2006	0.00	Out of service
27	Electronic ground scale software	25 August 2006	0.00	To be retired
28	Flight information interface software	6 December 2006	0.00	To be retired
29	Server operating system software	20 November 2005	0.00	To be retired
30	Anti-virus software	20 November 2005	0.00	To be retired
Total			13,960,958.10	

The evaluation was based on related collected information and results of on-site inspection, which were confirmed by Air China Cargo. The evaluation also factored the actual status of the intangible assets.

4. Impairment preparation has been recognized in Air China Cargo's long-term equity investment in AMS Global Transportation Co., Ltd. (華力環球運輸有限公司). AMS Global Transportation's business license expired on 28 June 2013. In November 2013, the company's board decided to wind up and liquidate, and a wind-up team was established. The company is now still in wind-up process. As of the report date, as the cancellation process has not been completed and the wind-up audit has not begun, the wind-up process was still not finished. After liquidation allocation plan of AMS Global Transportation Co., Ltd. is ultimately settled, Air China Cargo will settle its shares in Air China. Before the issue of the final liquidation report, the value of Air China Cargo's investment in AMS Global Transportation was recognized as per book value.

(II) Pending litigations of Air China Cargo as of the Valuation Benchmark Date

1. The case over the dispute on the labor contract with pilot Han Liming started on 15 May 2017. The judgment of first instance was made on 14 November 2017, and the evaluated entity appealed on 28 November 2017 (The case did not involve compensation for legal fees); as of the date of the Asset Valuation Report, the case has been settled. In the end, the court rejected the appeal and upheld the first instance judgment in a final judgement made on 2 February 2018 which means the court judged that the evaluated entity terminated the labor contract with pilot Han Liming on 14 May 2017, and was obliged to provide labor contract termination certificate and other assistance in procedures afterward;

2. The case over the dispute on the labor contract with pilot Chen Zhuo started on 29 June 2017. On 18 September 2017, the evaluated entity filed a lawsuit in the court at Shunyi District of Beijing. The judgment of first instance was made on 14 November 2017, and the evaluated entity appealed on 28 November 2017 (The case did not involve compensation for legal fees); as of the date of the Asset Valuation Report, the case has been settled. In the end, the court rejected the appeal and upheld the first instance judgement in a final judgement made on 2 February 2018 which means the court judged that the evaluated entity terminated the labor contract with pilot Chen Zhuo on 26 June 2017, and was obliged to provide labor contract termination certificate and other assistance in procedures afterward;

3. The case over training fees of pilot Yao Yi started on 11 July 2017. The evaluated entity received the judgement made by the court in Shunyi District on 25 December 2017. In accordance the judgment, the pilot Yao Yi shall pay a training fee of RMB2,010 thousand and a social insurance expense to compensate the evaluated entity, while Air China Cargo's other requests were rejected. On 5 January 2018, the evaluated entity appealed to the third intermediate court to demand pilot Yao Yi to pay the liquidated damages of RMB232.31434 thousand and the legal fees of RMB70 thousand. The hearing on the evaluated entity's appeal was held on 7 March 2018. On 2 April, the final judgement was served by the third intermediate court, which ruled that the appeal was denied and the original judgement was upheld, meaning Yao Yi shall repay Air China Cargo training fee of RMB2,010 thousand and a social insurance expense of RMB102.06948 thousand for the period from March 2016 to May 2017.

4. The case over the training fee for pilot Gu Wei started on 11 July 2017, and the evaluated entity demanded that the defendant Gu Wei return or pay training fees, social insurance fees, housing funds and legal fees totaling RMB2,857.91937 thousand. On 19 March 2018, the evaluated entity received the arbitration award from the Labor and Human Resources Dispute Arbitration Committee of Shunyi District of Beijing, which ordered the defendant Gu Wei to pay the evaluated entity RMB1,633 thousand in training fees, and rejected other requests of the evaluated entity. On 28 March 2018, the evaluated entity appealed to the people's court in Shunyi District of Beijing, demanding the pilot Gu Wei to pay training fees, liquidated damages and legal fees totaling RMB2,670.89669 thousand. Air China Cargo received the final judgement on 14 June 2018, which ruled that the appeal was denied and the judgement of the first instance was upheld, meaning Gu Wei shall pay Air China Cargo training fee of RMB1,633 thousand, social insurance fees of RMB113.87491 thousand, and housing funds of RMB60.328 thousand.

5. The case over the dispute on the labor contract with pilot Zhao Bing started on 20 July 2017. On 18 September 2017, the evaluated entity objected to the arbitration award and filed a lawsuit to the court of Shunyi District of Beijing. The judgment of first instance was served on 22 November 2017, and the evaluated entity appealed on 28 November 2017 (The case did not involve compensation for legal fees); as of the date of the Asset Valuation Report, the case has been settled. In the end, the court rejected the appeal and upheld the first instance judgement in a final judgement made on 2 February 2018 which means the court judged that the evaluated entity terminated the labor contract with pilot Zhao Bing on 13 July 2017, and was obliged to provide labor contract termination certificate and other assistance in procedures afterward;

6. The case over the dispute on the labor contract with pilot Chen Guanliang started on 10 October 2017. Air China Cargo objected to the arbitration award and filed a lawsuit to the court of Shunyi District on 7 December 2017. The court served the judgement of the first instance on 29 December, which ruled that the labour contract shall have been terminated on 24 September 2017 and Air China Cargo shall complete the transfer of labour relation and social insurance for Chen Guanliang within 15 days after the judgement takes effect, and complete such procedures as transfer of technical files in accordance with relevant regulations of the Civil Aviation Administration of China. Air China Cargo objected to the judgment of the first instance and filed an appeal to the third intermediate court on 8 January 2018. The third intermediate court opened a court session on the case and made the final judgement on 9 March 2018, which ruled that the appeal was denied and the judgement of the first instance was upheld. The case was closed.

7. The case over the dispute on the labor contract with pilot Sun Hongliang started on 23 November 2017. On 23 November 2017, the evaluated entity filed a lawsuit to the court at Shunyi District of Beijing. On 2 February 2018, the evaluated entity received an arbitration award from the Arbitration Committee of Shunyi District, under which the two parties terminated the labor contract on 16 November 2017 and the evaluated entity shall complete the personnel filling and social insurance transfer procedures for Sun Hongliang within 15 days upon termination of labor contract. In addition, other requests of the evaluated entity were rejected. On 9 February 2018, the evaluated entity appealed against the arbitration award in the court of Shunyi District. The case was arbitrated by Arbitration Committee of Shunyi District, and ruled by the court of Shunyi

District in the first instance and by the third intermediate court of Beijing in the final judgement. The final judgement was served on 3 July 2018, which ruled that the parties shall have terminated the labour relation on 16 November 2017, and the evaluated entity shall complete the procedures for the transfer of personnel files and social insurance for Sun Hongliang within 15 days after the final judgement takes effect, and complete the procedures for the transfer of security evaluation and technical files in accordance with regulations of the Civil Aviation Administration of China. The case was closed.

(III) As of the Valuation Benchmark Date, the guarantee, collateral and pledge involved by Air China Cargo were as follows:

1. Three Boeing 777-200F airplanes, registered as B2096, B2096 and B2097 by Air China Cargo, were purchased by Air China Cargo with a loan from Beijing Capital International Airport Branch of Bank of China, which was guaranteed by Air China Limited and Cathay Pacific. As of 31 December 2017, the book value of the loan amounted to RMB1,560,436,055. The loan matures at 20 March 2024.

2. Two Boeing 747-400F airplanes, registered as B2475 and B2476, were used by Air China Cargo as collaterals for a long-term loan granted by Beijing Branch of Bank of China. The loan was USD-denominated. The loan contract's consideration totalled at USD2,900,000.00. As of 31 December 2017, the book value of the loan amounted to RMB18,949,180.00. The loan was granted on 28 April 2006 and matures at 28 April 2018.*

(IV) As of the Valuation Benchmark Date, the inadequacy in evaluation information and its impact upon the conclusion of evaluation

(1) Construction in progress: The 777 airplane major repair project was operated under a 15-year contract which is still underway. Air China Cargo did not provide any information about this contract, and appraisers can only verify the amount recognized in accounts. Value of the contract was presented as book value. The Enterprise noted that 757 airplane plateau transformation project and the major transformation project for three 747 airplanes all involved business secrets, so they did not provide relevant information to appraisers. Given this, appraisers only verified the amounts recognized on accounts and their appraised values were presented as book value.

(2) Other non-current liabilities: The airplane transformation funds allocated by the Ministry of Finance of the State Council involved business secrets, so the Enterprise did not provide relevant information. After interviewing relevant employees, appraisers prepared the Note on the Situation of Other Non-Current Liabilities. It was learnt that such non-current liabilities corresponded to the 757 airplane plateau transformation project under construction in progress. The construction in progress and other non-current liabilities will not be carried over until relevant project is completed and accepted. The project has not been completed and is subject to uncertainties in future. Therefore, its appraised value was presented as book value.

** The principal and interest of such borrowing have been repaid in full before the maturity date.*

Users of the Asset Valuation Report should be aware of the impact of the above special notes on the conclusion of valuation.

We hereby particularly stress: The Asset Valuation Report can only be used for the objectives and purposes as stated in the Asset Valuation Report and can only be used by the users as stated in the Asset Valuation Report.

Users of the Asset Valuation Report shall correctly acknowledge the conclusion of valuation, which should not be viewed as the realizable price of the appraisal target; nor should it be deemed to be a guarantee for the realizable price of the appraisal target;

This Asset Valuation Report may be used officially only after it is filed with state-owned assets supervision and administration, and signed by asset appraisers conducting the valuations and stamped by the relevant valuation institution;

The conclusion of valuation as stated in this Asset Valuation Report is only valid in relation to the economic behavior described in the Asset Valuation Report, and is valid for one year from the Valuation Benchmark Date.

Set out below are the details of the proposed amendments to the Articles of Association. The revisions have been underlined (if applicable) for the convenience of perusal.

Existing article	Amended article
Article 13 The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.	Article 13 The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

Existing article	Amended article
The Company's scope of business includes: International and domestic scheduled and unscheduled air passenger, air cargo, mail and luggage transportation; domestic and international business aviation services; management and administration of aircraft, aircraft maintenance, repair and overhaul services, business agency among airlines companies; and ground services, air express service (other than mails and objects of the same nature as mails) related to the main business; onboard duty free items, retail of goods onboard and underwriting the aviation accident insurance; hotel, catering services and hotel management; undertaking exhibitions; conference services; business services; property management; design, production, agency and publish of advertisement; technology training; lease of self-owned property; lease of aircraft, engines and aged mechanical parts; sale of consumer products, handicrafts, souvenirs; import and export businesses. (The projects, which are subject to approval in accordance with the laws, shall be operated only after receiving approval from relevant administrative authorities.)	The Company's scope of business includes: International and domestic scheduled and unscheduled air passenger, air cargo, mail and luggage transportation; domestic and international business aviation services; management and administration of aircraft, aircraft maintenance, repair and overhaul services, business agency among airlines companies; and ground services, air express service (other than mails and objects of the same nature as mails) related to the main business; onboard duty free items, retail of goods onboard and underwriting the aviation accident insurance; ~~hotel, catering services~~; import and export businesses; ~~and~~ hotel management; undertaking exhibitions; conference services; ~~business services;~~ property management; design, production, agency and publish of advertisement; technology training; ~~lease of self-owned property; lease of aircraft, engines and aged mechanical parts; sale of consumer products, handicrafts, souvenirs; import and export businesses. (The projects, which are subject to approval in accordance with the laws, shall be operated only after receiving approval from relevant administrative authorities.)~~ rental of machinery and equipment; accommodation; catering services; sales of handicrafts and souvenirs; wholesale of agriculture, forestry, animal husbandry and fishery products, wholesale of food, beverages and tobacco products, wholesale of textiles, clothing and household goods, wholesale of culture, sporting goods and equipment, wholesale of mineral products, building materials and chemical products, wholesale of machinery and equipment, hardware and electronic products, general retail, special retail of food, beverage and tobacco products, special retail of textiles, clothing and daily necessities, special retail of cultural and sporting goods and equipment, sales of automobiles, motorcycles, spare parts and fuels and other types of energy resources, special retail of household appliances and electronics, special retail of hardware, furniture and interior decoration materials, and Internet retailing. (Catering services, accommodation and other projects subject to approval in accordance with the law shall be operated with the approval of relevant authorities to the extent authorized by the approval.)

The proposed amendments to the Articles of Association are prepared in the Chinese language and the English version is therefore a translation only. In the event of any discrepancy between the English translation and the Chinese version of the Articles of Association, the Chinese version shall prevail.

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

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

As at the Latest Practicable Date, none of the Directors or Supervisors has any direct or indirect interest in any assets which have been, since 31 December 2017 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

Mr. John Robert Slosar is a non-executive Director of the Company and is concurrently the chairman and an executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at the Latest Practicable Date, and it wholly owns Cathay Dragon. Mr. Cai Jianjiang, who is the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, who is an executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Cathay Dragon compete or are likely to compete either directly or indirectly with the Company in 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 mentioned above, as at the Latest Practicable Date, none of the Directors or Supervisors and their respective close 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 as if each of them was a controlling shareholder of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no Director or Supervisor is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Directors

Mr. Cai Jianjiang, the non-executive Director and the chairman of the Board of the Company, serves as the chairman of the board of directors and the secretary of the communist party group of CNAHC. He is also an non-executive director and deputy chairman of the board of directors of Cathay Pacific.

Mr. Song Zhiyong, the executive Director, the vice chairman of the Board and the President of the Company, serves as a member and the deputy secretary of the communist party group, director, and the general manager of CNAHC. He is also a non-executive director of Cathay Pacific.

Mr. Xue Yasong, the employee representative Director of the Company, serves as the employee representative director of CNAHC.

Mr. John Robert Slosar, the non-executive Director of the Company, serves as an executive director and the chairman of the board of directors of Cathay Pacific. He is also the chairman of the board of directors of John Swire & Sons (H.K.) Limited.

Supervisors

Mr. Wang Zhengang, the chairman of the Supervisory Committee of the Company, serves as an assistant general manager of CNAHC. He is also a director, the president and a member of the communist party committee of CNACG.

Mr. He Chaofan, the Supervisor of the Company, serves as the vice president of CNACG.

Ms. Xiao Yanjun, the Supervisor and the head of the office to the Labour Union of the Company, serves as the head of the office to the Labour Union of CNAHC.

5. NO MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, there has been no material adverse change in the Group's financial or trading position since 31 December 2017, being the date to which the latest published audited financial statements of the Group have been made up.

6. EXPERTS

The following are the qualifications of the experts who have given their opinions or advices, which are contained in this circular:

Name	Qualification
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Enterprise Appraisals Co., Ltd.	Qualified Chinese valuer

a. As at the Latest Practicable Date, each of the abovementioned experts 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 2017 (the date to which the latest published audited financial statements of the Group were made up);

b. As at the Latest Practicable Date, each of the abovementioned experts 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. Each of the abovementioned experts 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.

7. MISCELLANEOUS

a. The joint company secretaries of the Company are Mr. Zhou Feng and Ms. Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA).

b. The registered address of the Company is at Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC. The head office of the Company is at No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC.

c. The H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong during normal business hours on any business day from the date of this circular until Tuesday, 18 September 2018:

a. the Disposal Agreement;

b. the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 16 to 17 of this circular;

c. the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 18 to 33 of this circular;

d. the Valuation Report prepared by the Valuer, the summary of which is set out in Appendix I of this circular;

e. the consent letters issued by each of the experts referred to in this circular; and

f. this circular.

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Air China Limited (the "**Company**") will be held at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC to consider and, if thought fit, to pass the following resolutions:

ORDINARY RESOLUTION

1. To consider and approve the share transfer agreement dated 30 August 2018 entered into between the Company and China National Aviation Capital Holding Co., Ltd. and the transactions contemplated thereunder, and authorize the Company's management to conduct, at their absolute discretion, all the relevant matters in relation to this transaction, including but not limited to:

   (1) Develop and implement the specific scheme and transaction details of this transaction, including but not limited to adjusting relevant transaction prices within the permitted range, pursuant to provisions of laws, administrative regulations and normative documents, resolution of general meeting of the Company, and requirements of regulatory authorities, taking the into consideration the Company's actual situation;

   (2) Adjust the scheme of this transaction according to requirements or feedback of approval agencies and regulatory authorities; authorize the management to adjust the scheme of this transaction and proceed with the disposal in the event of new provisions and requirements for this transaction by laws, regulations and normative documents of the state or relevant regulatory authorities, except where matters required to be voted on at general meeting as per relevant laws and regulations and the articles of association;

   (3) Amend, supplement, sign, submit, present, and execute all agreements and documents relating to this transaction and handle relevant reporting matters in relation to this transaction;

(4) Handle such matters in relation to the review, approval, filing, and registration of equity transfer of the transaction target with industrial and commercial administration authorities;

(5) Decide on and handle any other matters in relation to this transaction to the extent permitted by laws, administrative regulations, normative documents, and the articles of association of the Company.

(6) The valid period of the authorization shall be 12 months from the date the proposal is considered and passed at the general meeting of the Company.

SPECIAL RESOLUTION

2. To consider and approve the amendments to the articles of association of the Company as set out in Appendix II of the circular of the Company dated 4 September 2018.

By order of the Board
Air China Limited
Cai Jianjiang
Chairman

Beijing, the PRC, 4 September 2018

As at the date of this notice, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Xue Yasong, Mr. John Robert Slosar, Mr. Wang Xiaokang, Mr. Liu Deheng*, Mr. Stanley Hui Hon- chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*

Notes:

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

Holders of H Shares of the Company are advised that the register of members of H shares of the Company will be closed from Wednesday, 19 September 2018 to Friday, 19 October 2018 (both days inclusive), during which time no transfer of H Shares of the Company will be effected and registered. In order to qualify for attendance and voting at the EGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:30 p.m. on Tuesday, 18 September 2018.

H Share Shareholders of the Company whose names appear on the register of members of H shares of the Company on Wednesday, 19 September 2018 are entitled to attend and vote at the EGM.

2. Notice of Attendance

Holders of H Shares of the Company who intend to attend the EGM should complete and lodge the accompanying notice of attendance and return it to the Company's H Share registrar on or before Friday, 28 September 2018. The notice of attendance may be delivered by hand, by post or by fax to the Company's H Share registrar. Completion and return of the notice of attendance do not affect the right of a shareholder to attend and vote at the EGM. However, the failure to return the notice of attendance may result in an adjournment of the EGM, if the number of shares carrying the right to vote represented by the shareholders proposing to attend the EGM by the notice of attendance does not reach more than half of the total number of shares of the Company carrying the right to vote at the EGM.

3. Proxy

Every shareholder who has the right to attend and vote at the EGM is entitled to appoint one or more proxies, whether or not they are members of the Company, to attend and vote on his/her behalf at the EGM.

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointor or his attorney duly authorised in writing. If the appointor is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares not less than 24 hours before the time specified for the holding of the EGM. If the instrument appointing the proxy is signed by a person authorised by the appointor, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar.

4. Other business

(i) The EGM is expected to last for two hours. Shareholders and their proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.

(ii) The address of Computershare Hong Kong Investor Services Limited is:

17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990

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

FORM OF PROXY FOR EXTRAORDINARY GENERAL MEETING

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

I/We *(Note 2)* ______________________________

of ______________________________

being the registered holder(s) of *(Note 3)* ______________________________

H Shares in the share capital of Air China Limited (the "**Company**") **HEREBY APPOINT** *(Note 4)* the chairman of the meeting and/or *(Note 4)* ______________________________

of______________________________

as my/our proxy/proxies: (a) to act for me/us at the extraordinary general meeting (or at any adjournment thereof) of the Company to be held at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC (the "**Meeting**") for the purpose of considering and, if thought fit, passing the resolutions (the "**Resolutions**") as set out in the notice convening the Meeting (the "**Notice**"); and (b) at the Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Resolutions as hereunder indicated or, if no such indication is given, as my/our voting proxy thinks fit.

ORDINARY RESOLUTION		**FOR** *(Note 5)*	**AGAINST** *(Note 5)*	**ABSTAIN** *(Note 5)*
1.	To consider and approve the share transfer agreement dated 30 August 2018 entered into between the Company and China National Aviation Capital Holding Co., Ltd. and the transactions contemplated thereunder (details of this resolution are set out in the Notice).			
SPECIAL RESOLUTION		**FOR** *(Note 5)*	**AGAINST** *(Note 5)*	**ABSTAIN** *(Note 5)*
2.	To consider and approve the amendments to the articles of association of the Company as set out in Appendix II of the circular of the Company dated 4 September 2018.			

Dated this____________day of____________, 2018 Signature *(Note 6)* ______________________________

Notes:

1. Please insert the number of shares registered in your name(s) to which this proxy form relates. If no number is inserted, this form of proxy will be deemed to relate to all shares registered in your name(s).

2. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.

3. Please insert the total number of shares registered in your name(s).

4. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies of his own choice to attend and vote instead of him. A proxy need not be a member of the Company. If any proxy other than the chairman of the Meeting is preferred, please strike out the words "the chairman of the meeting and/or" and insert the name(s) and address(es) of the proxy/proxies desired in the space provided. In the event that two or more persons (other than the chairman of the Meeting) are named as proxies and the words "the chairman of the meeting and/or" are not deleted, those words and references shall be deemed to have been deleted.

5. **IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK IN THE BOX MARKED "AGAINST"**. **IF YOU WISH TO ABSTAIN FROM VOTING, TICK THE APPROPRIATE BOX MARKED "ABSTAIN".** Failure to complete the boxes will entitle your voting proxy to cast his vote at his discretion. A member is entitled to one vote for every fully-paid share held and a member entitled to more than one vote need not use all his votes in the same way. A tick in the relevant box indicates that the votes attached to all the shares stated above as held by you will be cast accordingly. The total number of shares referred to in the three boxes for the same resolution cannot exceed the number of Shares stated above as held by you. The shares abstained will be counted in the calculation of the required majority.

6. This form of proxy must be signed by you or your attorney duly authorised in writing, or in the case of a corporation, must be either under seal or under the hand of a director or attorney duly authorised. If this form of proxy is signed by your attorney, the power of attorney or other document of authorisation must be notarised.

7. In order to be valid, this form of proxy, together with the notarised copy of the power of attorney or other document of authorisation (if any) under which it is signed, for holders of H Shares, must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours prior to the time appointed for holding the Meeting (or any adjournment thereof).

8. Completion and delivery of a form of proxy will not preclude you from attending and/or voting at the Meeting (or any adjournment thereof) if you so wish.

9. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.**

10. To attend and represent the shareholder(s) at the Meeting, the proxy so appointed must produce beforehand his identification document and any power of attorney duly signed by his appointor(s) or the legal representative(s) of his appointor(s). The power of attorney must state the date of issuance.

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

EXTRAORDINARY GENERAL MEETING NOTICE OF ATTENDANCE

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

I/We *(Note 1)* ____

of ____,

being the registered holder(s) of *(Note 2)* ____ H Shares in the share capital of the Company hereby inform the Company that I/we intend to attend the extraordinary general meeting to be held at 11:30 a.m. on Friday, 19 October 2018 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, PRC or to appoint proxies to attend on my/our behalf.

Signature: ______________________________

Date:______________________________2018

Notes:

1. Please insert the full name(s) and address(es) of the shareholder(s) as it is recorded in the register of members of the Company in **BLOCK CAPITALS**.

2. Please insert the number of shares registered in your name(s).

3. Please duly complete and sign this Notice of Attendance, and deliver it to, for holders of H Shares, the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited on or before Friday, 28 September 2018.

Address of Computershare Hong Kong Investor Services Limited

17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990