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

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中國國際航空股份有限公司
AIR CHINA LIMITED

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

(1) PROPOSED ISSUANCE OF NEW A SHARES
(2) CONNECTED TRANSACTION: SUBSCRIPTION OF
NEW A SHARES BY CNAHC
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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



A letter from the Board is set out on pages 5 to 12 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 13 to 14 of this circular.

A letter from China Merchants Securities, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 15 to 24 of this circular.

8 May 2012

DEFINITIONS

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

“A Shares”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“CAAC”	the Civil Aviation Administration of China
“Cathay Pacific”	Cathay Pacific Airways Limited
“China Merchants Securities” or “Independent Financial Adviser”	China Merchants Securities (HK) Co., Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-public A Share Issue
“CNACG”	China National Aviation Corporation (Group) Limited (中國航空(集團)有限公司), a company incorporated under the laws of Hong Kong, and a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company, which directly held approximately 12.08% of the Company’s issued share capital as at Latest Practicable Date. CNACG is an investment holding company whose principal businesses include passenger terminal operation, cargo terminal operation, airport ground handling services, airline catering services, property investment, ticket and tourism services, logistics and other businesses conducted through its subsidiaries

DEFINITIONS

“CNAHC”	中國航空集團公司 (China National Aviation Holding Company), a wholly PRC state-owned enterprise and the controlling shareholder of the Company, which directly and indirectly held an aggregate of approximately 52.05% of the Company’s issued share capital as at Latest Practicable Date and whose principal business is to manage the state-owned assets of CNAHC and the equity it holds in various companies
“Company”	中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange, and whose principal business is the operation of scheduled airline services
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 26 June 2012 to consider and approve, among other things, the proposed issuance of new A Shares and subscription of new A Shares by CNAHC
“Group”	the Company and its subsidiaries
“H Shares”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Independent Board Committee”	an independent committee of the independent non-executive directors of the Company comprising Fu Yang, Li Shuang, Han Fangming and Yang Yuzhong
“Independent Shareholders”	the shareholders of the Company, other than CNAHC and its associates
“Latest Practicable Date”	4 May 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Non-public A Share Issue”	the proposed non-public issuance of 188,642,729 new A Shares to CNAHC at the subscription price of RMB5.57 per A Share pursuant to the Share Subscription Agreement to raise an amount of RMB1,050.74 million
“PRC” or “China”	the People’s Republic of China
“Pricing Base Day”	27 April 2012, being the date of announcement of the Company in respect of the Non-public A Share Issue
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State Asset Supervision and Administration Commission of China
“Shareholders”	the shareholders of the Company
“Share Subscription Agreement”	the subscription agreement entered into between CNAHC and the Company on 26 April 2012, pursuant to which, CNAHC agrees to commit RMB1,050.74 million to subscribe for, and the Company agrees to issue, 188,642,729 new A Shares at the subscription price of RMB5.57 per A Share, which may be adjusted in the manner as described under “ <i>Basis for determining the subscription price</i> ” of section “ <i>I. Proposed Issue of New A Shares and Subscription of New A Shares by CNAHC – 2. Structure of the Non-public A Share Issue</i> ” below

DEFINITIONS

“Subscription”	the subscription of new A Shares pursuant to the Non-public A Share Issue
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“trading day”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
“%”	per cent.

LETTER FROM THE BOARD



中國國際航空股份有限公司 AIR CHINA LIMITED

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

Non-executive Directors:

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

Registered office:

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

Executive Directors:

Mr. Cai Jianjiang
Mr. Fan Cheng

Principal place of business in Hong Kong:

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

Independent non-executive Directors:

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

8 May 2012

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED ISSUANCE OF NEW A SHARES
(2) CONNECTED TRANSACTION: SUBSCRIPTION OF
NEW A SHARES BY CNAHC
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. PROPOSED ISSUANCE OF NEW A SHARES AND SUBSCRIPTION OF
NEW A SHARES BY CNAHC**

1. General

At the meeting of the Board held on 26 April 2012, the Board approved the proposed issuance of 188,642,729 new A Shares to CNAHC on the terms set out in this circular.

LETTER FROM THE BOARD

Accordingly, on 26 April 2012, CNAHC entered into the Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit RMB1,050.74 million in cash to subscribe for 188,642,729 new A Shares at the subscription price of RMB5.57 per A Share, which may be adjusted in the manner as described in the paragraph “*Basis for determining the subscription price*” under “2. *Structure of the Non-public A Share Issue*” below.

2. Structure of the Non-public A Share Issue

Class of shares to be issued and the nominal value: A Shares with a par value of RMB1.00 each

Subscriber: CNAHC

Number of A Shares to be issued: 188,642,729 A Shares which may be adjusted as a result of any adjustment to the subscription price as explained in the paragraph “*Basis for determining the subscription price*” below if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance. The Company and CNAHC will execute a written confirmation in respect of such adjustment to the number of new A Shares to be issued prior to the date of issuance.

Method of issue: Non-public offering. The new A Shares will be issued within 6 months upon approval by the CSRC.

The subscription price shall be paid in cash.

LETTER FROM THE BOARD

Basis for determining the subscription price:

The subscription price of new A Shares shall be RMB5.57 per A Share, i.e., 90% of the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Base Day). If any ex-right or ex-dividend event, such as entitlement distribution (including cash dividends and bonus issue) or capitalization issue, occurs during the period from the Pricing Base Day to the date of issuance of the new A Shares, the subscription price will be adjusted by reference to the relevant rules of the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange based on the following formula: subscription price after adjustment = (subscription price before adjustment – dividend per share) ÷ (1 + percentage of increase of share capital after the bonus issue or capitalization issue). The Company and CNAHC will execute a written confirmation in respect of such adjustment to the subscription price of the new A Shares prior to the date of issuance.

The subscription price of RMB5.57 per A Share represents: (i) a discount of approximately 10.88% as compared to the closing price of RMB6.25 per A Share immediately prior to the suspension of trading of A Share on 20 April 2012; and (ii) a discount of approximately 10.16% as compared to the average closing price of RMB6.20 per A Share for the last five trading days immediately prior to 20 April 2012.

LETTER FROM THE BOARD

Rights attached to the new A Shares:	The new A Shares to be issued pursuant to the Non-public A Share Issue will rank pari passu with the existing A Shares and H Shares in all respects.
Conditions for the Share Subscription Agreement to take effect:	<p>The Share Subscription Agreement will take effect on the date when both of the following conditions have been satisfied:</p> <ol style="list-style-type: none">(1) the approvals having been granted by the Independent Shareholders by way of special resolutions at the EGM; and(2) all necessary approvals, consents from the relevant governmental and regulatory authorities, including but not limited to the approvals from the CSRC, the SASAC and the CAAC, in relation to the Non-public A Share Issue and the Share Subscription Agreement having been obtained.
Net Proceeds from the Non-public A Share Issue:	The net proceeds raised from the Non-public A Share Issue will be not more than RMB1,050.74 million after deduction of the fees and expenses relating to the Non-public A Share Issue.
Use of proceeds:	The net proceeds raised from the Non-public A Share Issue will be used towards reduction of the bank borrowings of the Company and its working capital or towards its working capital only.
Lock-up Arrangement:	Pursuant to the relevant rules of CSRC, the new A Shares to be subscribed for by CNAHC shall not be disposed of within 36 months from the completion date of the issuance of such new A Shares.

LETTER FROM THE BOARD

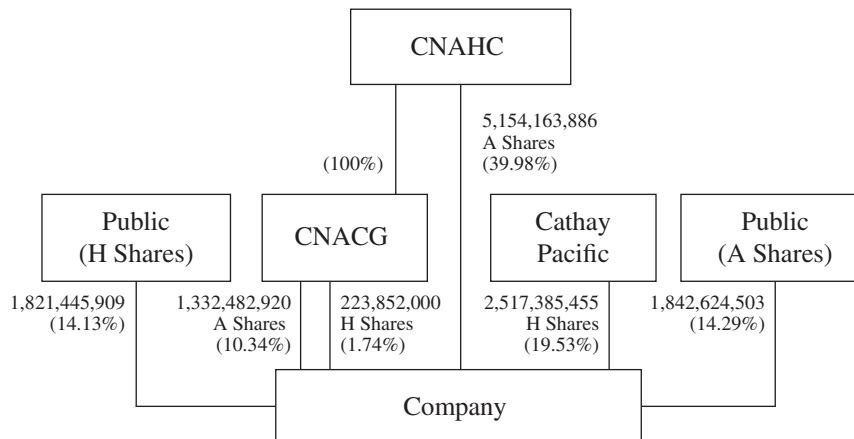
Validity Period of the Resolution: The period from the passing of the special resolution with respect to the Non-public A Share Issue at the EGM until the expiration of the 6-month period following the approval from CSRC of the Non-public A Share Issue.

Listing Application: Application will be made by the Company to the Shanghai Stock Exchange for the granting of the listing of, and permission to deal in, all A Shares issued pursuant to the Non-public A Share Issue. Upon the expiration of the lock-up period, the new A Shares will be traded on the Shanghai Stock Exchange.

Arrangement relating to the accumulated undistributed profits of the Company prior to the Non-public A Share Issue: The new and existing Shareholders will share the undistributed profits of the Company accumulated prior to the Non-public A Share Issue.

3. Shareholding structure of the Company

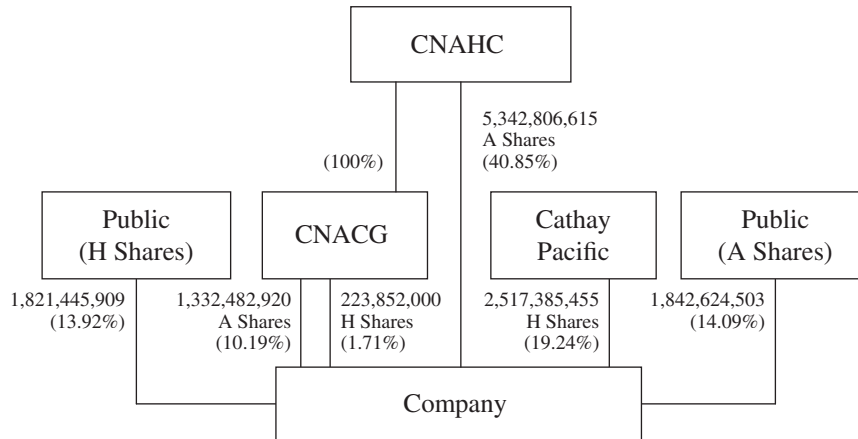
3.1 As at the Latest Practicable Date, the shareholding structure of the Company is as follows:



Note: The percentages shown are rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.

LETTER FROM THE BOARD

3.2 Immediately following the completion of the Subscription, assuming that (i) CNAHC has subscribed for 188,642,729 new A Shares; and (ii) no other shares have been issued by the Company after the date of this circular until the completion of the Subscription, it is anticipated that the shareholding structure of the Company will be as follows:



Note: The percentages shown are rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.

4. Listing Rules Implications relating to the Subscription

As at the Latest Practicable Date, CNAHC directly held 5,154,163,886 A Shares in the Company, representing 39.98% of the existing issued share capital of the Company. As at the Latest Practicable Date, CNACG held 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing 10.34% and 1.74% of the existing issued share capital of the Company, respectively. CNACG is a wholly-owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 52.05% of the existing issued share capital of the Company.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A Shares to CNAHC pursuant to the Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements. An Independent Board Committee comprising the independent non-executive directors of the Company has been formed to advise the Independent Shareholders on the terms of the Share Subscription Agreement. China Merchants Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The new A Shares to be issued pursuant to the Non-public A Share Issue will be allotted and issued under the general mandate granted to the Board at the annual general meeting of the Company held on 26 May 2011.

LETTER FROM THE BOARD

Mr. Wang Changshun, Ms. Wang Yinxiang, Mr. Cao Jianxiong and Mr. Sun Yude are considered to have a material interest in the Non-public A Share Issue and therefore have abstained from voting in the relevant board resolutions in respect of the Non-public A Share Issue. Save as disclosed above, none of the Directors have a material interest in the Non-public A Share Issue and hence no other Director is required to abstain from voting in the relevant board resolutions.

5. Reasons for and benefit of the proposed Non-public A Share Issue

The Non-public A Share Issue will help the Company to improve its financial condition, satisfy the capital needs of its business development, maintain its competitive advantage and ensure its sustainable and sound development, all in the best interest of the Shareholders.

6. Fund raising activities in the past twelve months

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

II. EGM

Special resolutions to approve, among other things, the Non-public A Share Issue will be proposed at the EGM.

Pursuant to Rule 14A.54 of the Listing Rules, any connected person and any Shareholder and their associates with a material interest in the connected transactions are required to abstain from voting on the relevant resolutions at the EGM. As at the Latest Practicable Date, CNAHC, the controlling shareholder of the Company, and its associates are required to abstain from voting on the special resolutions in respect of the Non-public A Share Issue at the EGM.

The Company will convene the EGM at 2:00 p.m. on 26 June 2012 at the Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC to consider and, if thought fit, to pass resolutions in respect of, among others, the Non-public A Share Issue. The notice of the EGM setting out the resolutions proposed is set out in Appendix IV to this circular.

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. If you intend to attend the EGM, you are required to complete and return the relevant notice of attendance to the H Share registrar of the Company on or before 6 June 2012.

Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish and completion and return of the notice of attendance do not affect the right of a Shareholder to attend the respective meeting.

LETTER FROM THE BOARD

III. RECOMMENDATION OF THE BOARD

The Board (including the independent non-executive Directors) considers that the Non-public A Share Issue is fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Board recommends the Shareholders to vote in favour of the resolutions which will be proposed at the EGM.

IV. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 13 to 14 of this circular which contains its recommendation to the Independent Shareholders of the Company regarding the Non-public A Share Issue.

Your attention is also drawn to the letter from China Merchants Securities as set out on pages 15 to 24 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Non-public A Share Issue as well as the principal factors and reasons considered by it in concluding its advice and the additional information set out in the appendices to this circular.

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

By Order of the Board
Wang Changshun
Chairman

Beijing, the PRC



中國國際航空股份有限公司
AIR CHINA LIMITED

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

Independent Board Committee:

Mr. Fu Yang

Mr. Li Shuang

Mr. Han Fangming

Mr. Yang Yuzhong

8 May 2012

To the Independent Shareholders of the Company

Dear Sirs or Madams,

CONNECTED TRANSACTION: SUBSCRIPTION OF NEW A SHARES BY CNAHC

We refer to the circular of the Company dated 8 May 2012 (the “**Circular**”) issued to its shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 26 April 2012, CNAHC entered into the Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit RMB1,050.74 million in cash to subscribe for 188,642,729 new A Shares at the subscription price of RMB5.57 per A Share, which may be adjusted in the manner as described in the Circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the terms of the Non-public A Share Issue are fair and reasonable so far as the Independent Shareholders are concerned and whether the Non-public A Share Issue is in the interests of the Company and the Shareholders as a whole. China Merchants Securities has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Non-public A Share Issue and the terms and basis upon which their terms have been determined. We have also considered the key factors taken into account by China Merchants Securities in arriving at its opinion regarding the Non-public A Share Issue as set out in the letter from China Merchants Securities on pages 15 to 24 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of China Merchants Securities, considers that the Non-public A Share Issue is on normal commercial terms which are fair and reasonable and is in the best interest of the Company and the Shareholders as a whole (including the Independent Shareholders). Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant resolutions set out in the notices of the EGM.

Yours faithfully,

Independent Board Committee

Mr. Fu Yang

*Independent
non-executive
Director*

Mr. Li Shuang

*Independent
non-executive
Director*

Mr. Han Fangming

*Independent
non-executive
Director*

Mr. Yang Yuzhong

*Independent
non-executive
Director*

LETTER FROM CHINA MERCHANTS SECURITIES

The following is the text of a letter from China Merchants Securities for the purpose of incorporation in the Circular, in connection with its advice to the Independent Board Committee in respect of the Non-public A Share Issue.



48th Floor
One Exchange Square
Central
Hong Kong

8 May 2012

To: The Independent Board Committee of Air China Limited

Dear Sirs,

**(1) PROPOSED ISSUANCE OF NEW A SHARES
AND
(2) CONNECTED TRANSACTION:
SUBSCRIPTION OF NEW A SHARES BY CNAHC**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to the Non-public A Share Issue, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular dated 8 May 2012 (the “**Circular**”) issued by the Company, of which this letter forms part. Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Circular.

At the Board meeting of the Company held on 26 April 2012, the Board approved the proposed issuance of 188,642,729 new A Shares to CNAHC at the subscription price of RMB5.57 per A Share (the “**Issue Price**”).

Accordingly, on 26 April 2012, CNAHC entered into the Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit RMB1,050.74 million in cash to subscribe for 188,642,729 new A Shares at the Issue Price.

As at the Latest Practicable Date, CNAHC directly held 5,154,163,886 A Shares in the Company, representing 39.98% of the existing issued share capital of the Company and CNACG, being a wholly-owned subsidiary of CNAHC, held 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing approximately 10.34% and 1.74% of the existing issued share capital of the Company, respectively. CNAHC, by itself and through CNACG, owned in aggregate approximately 52.05% of the existing issued share capital of the Company.

LETTER FROM CHINA MERCHANTS SECURITIES

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A Shares to CNAHC pursuant to the Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements.

The Company will hold an EGM on 26 June 2012, at which approval from the Independent Shareholders on the Non-public A Share Issue will be sought. Voting at the EGM will be taken by way of poll. CNAHC and its associates will abstain from voting at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fu Yang, Mr. Li Shuang, Mr. Han Fangming and Mr. Yang Yuzhong, has been formed to advise the Independent Shareholders on whether the Non-public A Share Issue is on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned and in the interests of the Company and the Shareholders as a whole. China Merchants Securities has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

BASIS OF OUR OPINION

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

LETTER FROM CHINA MERCHANTS SECURITIES

INFORMATION OF CNAHC AND THE COMPANY

CNAHC is a wholly PRC state-owned enterprise and the controlling shareholder of the Company, which directly and indirectly held an aggregate of approximately 52.05% of the Company's issued share capital as at the Latest Practicable Date. Its principal business is to manage the state-owned assets of CNAHC and the equity it holds in various companies.

The Company is a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange. It is principally engaged in the operation of scheduled airline services.

Set out below is a summary of the Group's audited financial information prepared in accordance with the International Financial Reporting Standards for the each of the two years ended 31 December 2011 as extracted from the annual report of the Group for the year ended 31 December 2011 (the "2011 Annual Report"):

	For the year ended	
	31 December	
	2011	2010
<i>In RMB million</i>		
Turnover	98,410	82,488
Profit from operations	6,259	10,928
Profit for the year (including profit attributable to the non-controlling interests)	7,063	12,336
	As at 31 December	
	2011	2010
<i>In RMB million</i>		
Total assets	175,850	158,770
Total liabilities	127,525	117,398
Net assets	48,325	41,371

In 2011, the Group's total turnover was approximately RMB98,410 million, representing an increase of approximately RMB15,922 million or approximately 19.30% as compared with the Group's total turnover in 2010. The increase in the Group's total turnover was mainly due to the rapid growth in the domestic air passenger market and the increased capacity deployment of the Group in 2011.

The Group's operating expenses, which mainly included jet fuel costs, take-off, landing and depot charges, employee compensation costs, other flight operation expenses, selling, general and administrative expenses, increased by approximately RMB20,591 million or approximately 28.77% in 2011 from approximately RMB71,560 million in 2010 to

LETTER FROM CHINA MERCHANTS SECURITIES

approximately RMB92,151 million in 2011. Among these operating expenses, jet fuel costs increased by approximately RMB10,607 million or approximately 44.02% in 2011 from approximately RMB24,096 million in 2010 to approximately RMB34,703 million in 2011, which was primarily due to the continuous fluctuation in high international fuel prices and an increase of fuel consumption resulting from the increase in flight hours of the Group in 2011.

As a result of the increase in the Group's operating expenses, the Group recorded a significant drop in the Group's profit from operations in 2011. The Group's profit from operations in 2011 was approximately RMB6,259 million, representing a decrease of approximately RMB4,669 million or approximately 42.73% as compared with the Group's profit from operations in 2010.

Net assets of the Group increased from approximately RMB41,371 million as at 31 December 2010 to approximately RMB48,325 million as at 31 December 2011, representing an increase of approximately RMB6,954 million or approximately 16.81%.

PRINCIPAL FACTORS CONSIDERED FOR THE NON-PUBLIC A SHARE ISSUE

In arriving at our opinion and recommendation in respect of the terms of the Non-public A Share Issue, we have considered the following principal factors:

I. Reasons for and benefit of the proposed Non-public A Share Issue

In light of the rapidly increasing demand in aviation market in the PRC, the Group has been expanding its business operations and its turnover has been increasing significantly in the recent years. The Group's turnover has increased from approximately RMB51,393 million for the year ended 31 December 2009 to approximately RMB98,410 million for the year ended 31 December 2011, representing a compound annual growth rate of approximately 38.38%.

As advised by the management of the Company, the Group meets its working capital needs mainly through its operating activities and external financing activities. Total interest-bearing bank loans and other borrowings of the Group has increased from approximately RMB44,482 million for the year ended 31 December 2009 to approximately RMB67,536 million for the year ended 31 December 2011, representing a compound annual growth rate of approximately 23.22%. As at 31 December 2011, the Group maintained a gearing ratio of approximately 72.52%.

As stated in the Letter from the Board, the Group plans to apply the net proceeds from the Non-public A Share Issue towards (i) reduction of the bank borrowings of the Group and its working capital; or (ii) its working capital only.

In view of (i) the expansion and funding needs of the Group and (ii) the expected decrease in gearing ratio, we concur with the views of the Directors that the Non-public A Share Issue will help the Group to improve its financial condition, satisfy the capital needs of its business development and the arrangement is in the interests of the Company and the Independent Shareholders as a whole.

II. Principal terms of the Non-public A Share Issue

As stated in the Letter from the Board, the Company agreed to issue 188,642,729 new A Shares to CNAHC at the Issue Price. The Issue Price and the number of new A Shares to be issued may be adjusted in accordance with the relevant rules of the Shanghai Stock Exchange.

Details of the terms and structure of the Non-public A Share Issue are set out in the section headed “2. Structure of the Non-public A Share Issue” in the Letter from the Board and the sections below in this letter.

III. The Issue Price

As stated in the Letter from the Board, the subscription price of new A Shares shall be RMB5.57 per A Share i.e. 90% of the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Base Day). The subscription price of the new A Shares will be adjusted in accordance with the relevant rules of the Shanghai Stock Exchange if there is any ex-rights or ex-dividend arrangement from the Pricing Base Day to the date of issuance.

The Issue Price of RMB5.57 represents:

- (i) a discount of approximately 10.88% as compared to the closing price of RMB6.25 per A Share immediately prior to the suspension of trading of A Shares on 20 April 2012;
- (ii) a discount of approximately 10.16% as compared to the average of the closing prices of approximately RMB6.20 per A Share for the last five trading days immediately prior to 20 April 2012;
- (iii) a discount of approximately 9.88% to the average of the trading prices of approximately RMB6.18 per A Share for the 20 trading days preceding the Pricing Base Day; and
- (iv) a premium of approximately 46.97% over the equity attributable to owners of the Company per Share of approximately RMB3.79 as at 31 December 2011.

As advised by the Directors, the basis in determining for the Issue Price is determined in compliance with the requirement of 《上市公司證券發行管理辦法》 (Administrative Measures in relation to the Acquisition of the Listing Companies) and 《上市公司非公開發行股票實施細則》 (Detailed Implementation Rules for the Non-public Issuance of Stocks by Listed Companies) (collectively, the “**Measures**”)

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promulgated by the CSRC, which requires the A share issue price to be not less than 90% of the average trading price of A shares during the period of 20 trading days prior to the pricing base day, being (i) the announcement date of the board resolution(s) in relation to the issue of A shares; or (ii) the announcement date of the resolution(s) in the shareholders' meeting in relation to the issue of A shares; or (iii) the first day of the issue period.

In assessing the fairness and reasonableness of the Issue Price, we have attempted to select the companies that are comparable to the Company based on the criteria that those companies (i) whose H shares are listed on main board of the Hong Kong Stock Exchange and A shares are listed on the stock exchanges in the PRC; and (ii) announced to issue or propose to issue additional new A shares to their respective controlling shareholders from 1 January 2011 up to the date of the relevant announcement regarding the Non-public A Share Issue on 26 April 2012 (the “**Comparable Companies**”), irrespective of whether such issues have proceeded to completion or not. Based on our research of the published information, we have, to the best of our effort, identified three Comparable Companies which meet our criteria for comparison purpose, details of which are set out as follows:

Date of announcement	Name of issuer	Stock code	Issue price/ Proposed issue price RMB	90% of average trading price of respective A shares during the 20 trading days period before the pricing base day RMB
17 September 2011	CSR Corporation Limited	1766.HK/601766.SH	4.46	4.46
22 November 2011	Huadian Power International Corporation Limited	1071.HK/600027.SH	3.00	2.82
12 April 2012	Jingwei Textile Machinery Company Limited	350.HK/000666.SZ	9.4	9.4
26 April 2012	The Company		5.57	5.56

Source: Official website of the Hong Kong Stock Exchange and Bloomberg

Note: The information stated above is in accordance with the latest announcement published by the relevant company in respect of the adjusted terms of the proposed issue of the A shares.

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As shown in the table above, we note that the issue price for the A shares of the Comparable Companies was exactly or slightly higher than the 90% of average trading price of respective A shares during the 20 trading days period before the pricing base day. As such, we note that the basis for determining the issue price/proposed issued price of the A shares for the Comparable Companies is the same as those adopted by the Company, which requires the A share issue price to be not less than 90% of the average trading price of A shares during the period of 20 trading days prior to the pricing base day.

Given (i) the Issue Price is determined in compliance with requirements of the Measures; and (ii) the basis for determining the issue price for the Company is the same as those of the Comparable Companies, we have no reason to doubt the fairness and appropriateness of the basis in determining the Issue Price.

IV. Lock-up arrangements

Pursuant to the relevant rules of the CSRC, new A Shares to be subscribed by CNAHC shall not be disposed of within 36 months from the completion date of the issuance of such new A Shares. Accordingly, CNAHC is restricted from disposing its newly subscribed A Shares within the relevant 36 months period.

In assessing the impact on the Independent Shareholders after imposing such lock-up arrangements, we have reviewed the relevant documents in respect of the A share issues of the Comparable Companies and noted that the lock-up arrangements under the share issues of the Comparable Companies had restricted the connected subscribers from disposing their newly subscribed A shares within 36 months. In view of the lock-up arrangements of the A Share Issue are in line with all of the Comparable Companies, we are not aware of any adverse impact arising from the aforesaid lock-up arrangements of the Non-public A Share Issue on the Independent Shareholders.

V. Possible financial effects of the Non-public A Share Issue

The Directors confirm that net proceeds from the Non-public A Share Issue will not be more than approximately RMB1,050.74 million. The Group plans to apply the net proceeds from the Non-public A Share Issue towards (i) reduction of the bank borrowings of the Group and its working capital; or (ii) its working capital only. Upon the completion of the Non-public A Share Issue, the following financial effects on the Group's financial positions will be arisen:

(i) *Net assets*

According to the 2011 Annual Report, the Group had audited net assets of approximately RMB48,325 million as at 31 December 2011. The net assets of the Group will be enhanced by the net proceeds of not more than RMB1,050.74 million upon completion of the Non-public A Share Issue.

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(ii) Current ratio

According to the 2011 Annual Report, the audited current assets and current liabilities of the Group were approximately RMB23,353 million and approximately RMB61,332 million respectively as at 31 December 2011. The current ratio, being current assets divided by current liabilities, of the Group as at 31 December 2011 was approximately 0.38. With the receipt of the net proceeds of not more than approximately RMB1,050.74 million in cash, current assets of the Group would be increased accordingly and hence the current ratio would be improved upon completion of the Non-public A Share Issue.

(iii) Gearing ratio

According to the 2011 Annual Report, the Group recorded audited total assets and total liabilities of approximately RMB175,850 million and approximately RMB127,525 million respectively. The gearing ratio, being total liabilities divided by total assets, of the Group as at 31 December 2011 was approximately 72.52%. With the receipt of the net proceeds of not more than approximately RMB1,050.74 million in cash, the total assets of the Group would be increased accordingly and hence the gearing ratio would be improved upon completion of the Non-public A Share Issue.

In view of the above positive financial effects on the Group, we consider that the Non-public A Share Issue is in the interests of the Company and the Independent Shareholders as a whole given the financial positions of the Group will be strengthened upon completion of the Non-public A Share Issue.

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VI. Dilution effect on shareholding

Immediately following the completion of the Non-public A Share Issue, assuming that (i) CNAHC has subscribed for 188,642,729 new A Shares and (ii) no other shares has been issued by the Company after the Latest Practicable Date until completion of the Non-public A Share Issue, it is anticipated that the shareholding structure of the Company will be as follows:

		As at the Latest Practicable Date		Upon completion of the Non-public A Share Issue	
		<i>Approximate percentage</i>		<i>Approximate percentage</i>	
		<i>No. of shares</i>	<i>(Note 1)</i>	<i>No. of shares</i>	<i>(Note 1)</i>
CNAHC	– A Shares	5,154,163,886	39.98%	5,342,806,615	40.85%
CNACG	– A Shares	1,332,482,920	10.34%	1,332,482,920	10.19%
	– H Shares	<u>223,852,000</u>	<u>1.74%</u>	<u>223,852,000</u>	<u>1.71%</u>
	Subtotal	6,710,498,806	52.05% <i>(Note 2)</i>	6,899,141,535	52.74% <i>(Note 2)</i>
Cathay Pacific	– H Shares	2,517,385,455	19.53%	2,517,385,455	19.25%
Public	– A Shares	1,842,624,503	14.29%	1,842,624,503	14.09%
	– H Shares	<u>1,821,445,909</u>	<u>14.13%</u>	<u>1,821,445,909</u>	<u>13.92%</u>
	Subtotal	6,181,455,867	47.95%	6,181,455,867	47.26%
	Total	<u>12,891,954,673</u>	<u>100.00%</u>	<u>13,080,597,402</u>	<u>100.00%</u>

Notes:

- (1) The percentages shown are rounded to the nearest 2 decimal places.
- (2) The percentage is not added up exactly due to rounding.

As illustrated in the table above, CNAHC's shareholding will slightly increase from approximately 39.98% to approximately 40.85% while CNACG's shareholding will decrease from approximately 12.08% to approximately 11.90% respectively immediately upon completion of the Non-public A Share Issue. At the same time, the shareholding of the public A Share Shareholders will be slightly diluted from approximately 14.29% to approximately 14.09% whilst the shareholding of the public H Share Shareholders will be slightly diluted from approximately 14.13% to approximately 13.92% upon completion of the Non-public A Share Issue.

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As advised by the Directors, given (i) the shareholding interest of the public Shareholders will only be diluted slightly and (ii) the financial position of the Group will be strengthened upon completion of the Non-public A Share Issue, we concur with the Directors' view that the dilution effect on the shareholding interest of the public Shareholders arising from the Non-public A Share Issue is acceptable.

RECOMMENDATION

Having considered the above principal reasons and factors, we concur with the Directors' view that the Non-public A Share Issue is (i) on normal commercial terms which are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned; and (ii) in the ordinary and usual course of business of the Company and in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the specific resolutions in respect of the Non-public A Share Issue to be proposed at the EGM.

Yours faithfully

For and on behalf of

China Merchants Securities (HK) Co., Limited

Ronald T.L. Wan

Managing Director

Investment Banking Department

Christine Au

Executive Director

Investment Banking Department

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

(I) PROPOSED USE OF PROCEEDS

The proceeds to be raised from the Non-public A Share Issue by Air China Limited (“**Company**”, “**the Company**” or “**Air China**”) will be RMB1,050.74 million, of which, after deduction of the fees and expenses relating to the Non-public A Share Issue, RMB1 billion will be used to repay the loans incurred by the Company for the acquisition of additional equity interests in Cathay Pacific Airways Limited (“**Cathay Pacific**”) and the remainder will be applied towards the investments made in 2010 in two energy conservation projects, namely “Installation of the Winglet on Aircraft” and “Improvement of Fuel Efficiency of Engine” pursuant to the relevant government approvals.

As part of the proceeds, pursuant to the relevant government approvals, RMB1 billion was planned to be applied towards the repayment of the loans incurred by the Company for the acquisition of additional equity interests in Cathay Pacific. In the event that the proceeds have not been received by the Company upon the maturity of such loans, the Company will repay such loans with its own funds and then apply the relevant proceeds towards its working capital. Further, as the Company has already completed the capital investment for the two energy conservation projects “Installation of the Winglet on Aircraft” and “Improvement of Fuel Efficiency of Engine”, the proceeds that are originally planned to be used for the abovementioned two projects will be directly applied towards the Company’s working capital.

The bank loans which are intended to be repaid with the proceeds from the Non-public A Share Issue are syndicated loans denominated in Hong Kong dollars incurred by the Company due to the shareholding increase in Cathay Pacific (see “Analysis of the Necessity for the Shareholding Increase in Cathay Pacific” for details of the project), and are detailed as follows:

(in HK\$)

Lenders	Initial Loan Size
The Export-Import Bank of China	2,600,000,000.00
Bank of China Limited, Beijing Branch	2,000,000,000.00
Nanyang Commercial Bank (China) Limited, Beijing Branch	400,000,000.00
Bank of Tokyo-Mitsubishi UFJ (China), Ltd., Beijing Branch	330,000,000.00
Total	<u>5,330,000,000.00</u>

The final maturity date for the syndicated loans with a total amount of HK\$5.330 billion is 25 November 2012. As of 31 March 2011, the outstanding principal of the loans was HK\$5.326 billion.

1. Analysis of the Necessity for the Shareholding Increase in Cathay Pacific

(1) Basic information on Cathay Pacific

Cathay Pacific, established in 1946, is an international airline incorporated and based in Hong Kong. It provides regular passenger and freight services across several countries and regions around the world, with an aim to enable Hong Kong to become one of the main air shipping hubs in the world. In addition to owning a fleet with more than one hundred aircraft, the business and investment scope of Cathay Pacific includes airline catering, aircraft maintenance, ground handling service with its headquarter Cathay City based at the Hong Kong International Airport. Cathay Pacific also wholly owns Hong Kong Dragon Airlines Limited, a regional airline in Hong Kong.

(2) Basic information on the shareholding increase

The Company originally held 17.49% of the share capital of Cathay Pacific. In 2009, the Company's shareholdings in Cathay Pacific amounted to 29.99%, through an acquisition of 12.5% of the equity interests of Cathay Pacific for a consideration of HK\$6.335 billion.

(3) Necessity for increasing the shareholdings of Cathay Pacific

The shareholding increase in Cathay Pacific is an internal demand of the Company and the necessary step to implement its international operational strategy. The project is significant for the enhancement of competitive strengths of the Company and the international brand recognition of the Company.

Firstly, the shareholding increase helps the Company to enhance its international competitive strengths. Leveraging on the mutual shareholding, the Company realised a closer operational cooperation with Cathay Pacific, further improved and consolidated its airline network. Thus, the Company became a large network airline comparable with European and American aviation giants, resulting in a competitive landscape for the aviation industry in Asia Pacific region, as well as an enhanced position in the global aviation industry.

Secondly, the shareholding increase helps the Company to enhance its international brand influence. Cathay Pacific is a world-class outstanding airline, with high reputation in the industry around the world. Cathay Pacific is recognised by the global aviation industry in terms of the product design for long-haul international flights, brand name, sales and services to large corporate customers and high-end customers. The business cooperation, which was driven by the mutual shareholding, will significantly facilitate the enhancement of the operational quality and management level of the Company, thereby improving its international brand value.

(4) Project achievements

The shareholding increase further enhanced the influences of the Company on Cathay Pacific, realising strategic synergy effects and achieving leap-forward development of the core competitiveness and the international brand influence of the Company.

Firstly, the influences of the Company on Cathay Pacific were enhanced. As the shareholding held by the Company in Cathay Pacific reached 29.99% after the shareholding increase, the Company became the second largest shareholder of Cathay Pacific, and the seats in its board of directors increased to 4. Pursuant to the relevant Hong Kong regulations, special resolutions of Cathay Pacific (such as amendments to the articles of association, objectives of the company and the company name, capital reduction and liquidation) are subject to approval by shareholders holding more than 3/4 of the share capital of Cathay Pacific. Accordingly, the Company enhanced its influences on the operational decisions of Cathay Pacific.

Secondly, the Company realised synergy with Cathay Pacific. The Company and Cathay Pacific conducted comprehensive and full business integration and improved the network synergy between the two parties. Significant improvements were achieved with respect to Beijing-Hong Kong dual-hub operation, products and services, cost control, staff training, market control, brand influence and risk tolerance.

Thirdly, a low-cost merger and acquisition was achieved. Since 2008, the global aviation industry and economics in Hong Kong were affected by the international financial crisis and the share price of Cathay Pacific dropped almost 60% as compared to the high point in October 2007. In 2009, the Company acquired 12.5% of the equity interests of Cathay Pacific for a consideration of HK\$6.335 billion, achieving a shareholding increase with a low cost.

(5) Relevant information on state-owned capital operations budget (funds allocation)

China National Aviation Holding Company (“CNAHC”) received from the Ministry of Finance of the People’s Republic of China (“**Ministry of Finance**”) the Notice of the Ministry of Finance Concerning the Centralised State-owned Capital Operations Budget (Funds Allocation) of China National Aviation Holding Company for the year 2011 and received from the State-owned Assets Supervision and Administration Commission of the State Council the Approval Reply to the Centralised State-owned Capital Operations Budget of China National Aviation Holding Company for the year 2011. In accordance with the aforesaid documents, the centralised state-owned capital operations budget for CNAHC in the amount of RMB1.0 billion was approved by the Ministry of Finance, which will be injected into the Company by CNAHC to facilitate the Company’s shareholding increase in Cathay Pacific.

2. Analysis of the Necessity for the Two Energy Conservation Projects of “Installation of the Winglet on Aircraft” and “Improvement of Fuel Efficiency of Engine”

(1) Significance of energy conservation in the civil aviation transportation industry

In recent years, with the increasing pressure from the environmental protection and sustainable development, energy conservation has become an important and urgent task for business development of the civil aviation transportation enterprises in the PRC. Approximately 98% of the energy consumed by airlines is aviation fuel. As the cruising altitude of aircraft is generally between 8,400 meters and 12,000 meters, and comparing with the emissions of carbon dioxide on the ground, aircraft flying at a high altitude directly emit carbon dioxide on the stratosphere, making a more direct impact on the global warming. Promotion of energy conservation is not only a significant measure to boost income increase and energy efficiency and improve competitiveness of an enterprise, but also a specific manifestation of conscious fulfillment of the social responsibility by an airline.

(2) Implementation of the projects of “Installation of the Winglet on Aircraft” and “Improvement of Fuel Efficiency of Engine”

Installation of the winglet on aircraft may reduce the air resistance, improve the climb performance of aircraft and increase fuel efficiency, resulting in a significant reduction of emissions. In 2010, the Company invested RMB27.78 million in aggregate for the project of installation of the winglet on aircraft, achieving emission reduction of 4,813 tonnes per annum.

The engine is the source of operating power of aircraft, as well as a key factor for the aviation sector to achieve energy conservation. The Company achieved energy conservation through a variety of engine management measures in its operation: firstly, conducting engine modifications to reduce the inherent level of fuel consumption through application of the world’s advanced technologies and materials to engines; secondly, renovating engines with worsening performance and higher fuel consumption in the fleet through sound performance monitoring platforms and technologies, in order to restore the performance of the engines and maintain the fuel consumption at a low level; thirdly, monitoring the sudden significant changes in fuel consumption of engines with its daily monitoring system and promptly formulating solutions to ensure the stability of fuel consumption of engines. The funds invested for the work above totaled RMB225.92 million in 2010.

(3) Relevant information on state-owned capital operations budget (funds allocation)

CNAHC received from the Ministry of Finance the Notice of the Ministry of Finance Concerning the Centralised State-owned Capital Operations Budget for Energy Efficiency (Funds Allocation) for the year 2011 (Cai Qi [2011] No. 340). In accordance with such notice, the centralised state-owned capital operations budget for energy conservation projects of CNAHC for the year 2011 in the amount of RMB50.74 million was approved by the Ministry of Finance, which will be injected into the Company by CNAHC to facilitate the Company’s investments in the two energy conservation projects of “Installation of the Winglet on Aircraft” and “Improvement of Fuel Efficiency of Engine” for the year 2010.

3. Analysis on the Necessity for Repaying Bank Loans and Replenishing Working Capital with the Proceeds

(1) Optimising the financial structure

The financial structure of the Company has been improving after years of significant growth of its operation results, but the level of its liabilities has been increasing year by year due to the expanding size of its business. As of 31 December 2011, the Company had total assets of RMB173.324 billion and total liabilities of RMB123.822 billion with the gearing ratio of 71.44%. In addition, the Company had a net cash flow from operating activities of RMB21.640 billion for the year 2011 and its long-term borrowings (including the long-term borrowings due within one year) and short-term borrowings totaled RMB56.100 billion as of the end of 2011. The proceeds raised from the Non-public A Share Issue help the Company to improve its ability to pay its debts and achieve a more sound debt structure, thereby further enhancing its financial strength and laying a foundation for its healthy and rapid development in the future.

(2) Alleviating the pressure on working capital

Aviation companies have greater demand for working capital and, in order to maintain a normal operation, they need substantial amount of funds to meet the cash expenditure arising from its operating activities. Such massive expenditure consists primarily of aviation fuel costs, take-off and landing charges, en-route charges, expenses for procurement of aviation materials, aircraft maintenance, repair and overhaul costs and aircraft advance payment. Meanwhile, the Company has formulated its aircraft introduction plan for next several years in order to sustain its leading competitive edge in the industry. Under the aircraft introduction plan, the Company will introduce 56, 56 and 55 aircraft (on a consolidated basis) in 2012, 2013 and 2014 respectively. The aircraft introduction will result in heavy capital expenditure and the expansion of the fleet will in turn increase the demand for working capital.

(II) IMPACT OF THE NON-PUBLIC A SHARE ISSUE ON THE FINANCIAL POSITION OF THE COMPANY

1. Consolidating Capital Strength and Enhancing Shareholders' Equity

The proceeds to be raised from the non-public offering will be RMB1,050.74 million. As of 31 December 2011, shareholders' equity attributable to the parent company was RMB46.738 billion. Upon completion of the non-public offering, the shareholders' equity attributable to the parent company will further increase and the capital strength of the Company will be consolidated.

2. Further Improving the Financial Position of the Company and Reducing its Financial Risks

As projected from the financial data of the Company as of 31 December 2011, the gearing ratio of the Company will reduce by 0.60 percentage point from 71.44% to 70.84% upon completion of the non-public offering, assuming all of the proceeds raised will be used for repaying bank loans and replenishing working capital. The non-public offering will improve the Company's financial position and enhance the Company's risk-resistance capability to a certain extent, which will in turn provide safeguards for the sustainable development of the Company in the future.

3. Reducing the Financial Costs

The Company generally covers the repayments of bank loans and working capital by way of short-term borrowings. With the proceeds to be raised from the non-public offering, the debt financing of the Company can be reduced accordingly, which in turn would reduce its financial costs. Based on the prevailing one-year loan interest rate of 6.56%, the Company will save an interest expense of approximately RMB69 million per annum after repaying the bank loans and replenishing its working capital with the proceeds to be raised from the non-public offering.

Accordingly, the Non-public A Share Issue will help the Company to improve its financial condition, satisfy the capital needs of its business development, maintain its competitive advantage and ensure its sustainable and sound development, all in the best interest of the Shareholders.

Air China Limited

26 April 2012

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

According to the “Approval Reply to the Issue of Additional Overseas Listed Foreign Shares by Air China Limited” issued by the China Securities Regulatory Commission (“CSRC”) on 22 October 2010 (Zheng Jian Xu Ke [2010] No.1454), and the “Approval Reply to the Non-public Offering of Shares by Air China Limited” (Zheng Jian Xu Ke [2010] No.1495) issued by the CSRC on 27 October 2010, the Company conducted the A Share (“A Share”) non-public offering and the H Share (“H Share”) private placement in November 2010. According to the Administrative Rules for the Issue of Securities of Listed Companies (Zheng Jian Hui Ling No. 30) and the Rules Concerning the Report on the Use of Proceeds from Previous Fund Raising Activities (Zheng Jian Fa Xing Zi [2007] No. 500), the use of proceeds from previous fund raising activities as at 31 December 2011 of the Company is reported as follows:

I. AMOUNT OF PROCEEDS FROM THE PREVIOUS FUND RAISING ACTIVITIES AND STATUS OF RECEIPT

According to the approval reply issued by the CSRC on 27 October 2010 (Zheng Jian Xu Ke [2010] No.1495), the Company was allowed to conduct a non-public offering of not more than 585 million A Shares. The Company issued 483,592,400 A Shares with a par value of RMB1.00 per share in November 2010 at an issue price of RMB11.58 per share. The gross proceeds from the issuance was RMB5,599,999,992 and the net proceeds was RMB5,536,436,399.73 (the “**Proceeds from Previous A Shares Fund Raising Activities**”) after deduction of the issuance expenses of RMB63,563,592.27.

According to the capital verification report issued by Grant Thornton China and Ascenda Certified Public Accountants (Grant Thornton China and Ascenda (Yan) Zi [2010] No.165), as at 10 November 2010, the aforesaid Proceeds from Previous A Shares Fund Raising Activities of RMB5,536,436,399.73 was paid into the following special accounts opened by the Company with the following banks: account number 824300605748091001 with the Beijing Tianzhu Road Sub-branch of the Bank of China Limited and account number 0200006029000044276 with the Beijing Airport Sub-branch of Industrial and Commercial Bank of China Limited. As at 31 December 2011, all of the funds in these accounts have been used in accordance with the plan for the use of proceeds as disclosed in the Company’s proposal relating to the non-public offering of A Shares.

According to the approval reply issued by the CSRC on 22 October 2010 (Zheng Jian Xu Ke [2010] No.1454), the Company was allowed to conduct a private placement of not more than 157 million overseas listed foreign shares to China National Aviation Corporation (Group) Limited (“CNACG”). The Company issued 157,000,000 H Shares with a par value of RMB1.00 per share on 24 November 2010 at an issue price of HK\$6.62 per share. The gross proceeds from the issuance was HK\$1,039,340,000 (equivalent to RMB892,055,128.60, which was translated using the middle exchange rates for HKD to RMB of 0.85829 on 24 November 2010, the same hereinafter) and the net proceeds was HK\$1,030,784,621.92 (equivalent to RMB884,712,133.15) (the “**Proceeds from Previous H Shares Fund Raising Activities**”) after deduction of the issuance expenses of HK\$8,555,378.08 (equivalent to RMB7,342,995.45).

According to the capital verification report issued by Grant Thornton China and Ascenda Certified Public Accountants (Grant Thornton China and Ascenda (Yan) Zi [2010] No.165), as at 24 November 2010, the aforesaid Proceeds from Previous H Shares Fund Raising Activities of HK\$1,030,784,621.92 was paid into the following special account opened by the Company with the following bank: account number 01287511546836 with the Bank of China (Hong Kong) Limited. As at 31 December 2011, all the funds in this account have been used in accordance with the plan for the use of proceeds as disclosed in the Company's circular to Shareholders relating to the private placement of H Shares.

II. ACTUAL USE OF PROCEEDS FROM PREVIOUS FUND RAISING ACTIVITIES

In accordance with the plan for the use of proceeds as disclosed in the Company's proposal relating to the non-public offering of A Shares and the Company's circular to Shareholders relating to the private placement of H Shares, after deduction of the issuance expenses, the Proceeds from Previous A Shares Fund Raising Activities and the Proceeds from Previous H Shares Fund Raising Activities have been used to replenish the working capital of the Company.

As at 31 December 2011, the comparisons between the actual use of the Proceeds from Previous A Shares Fund Raising Activities and the Proceeds from Previous H Shares Fund Raising Activities and the intended use of proceeds in the Company's proposal relating to the non-public offering of A Shares and the Company's circular to Shareholders relating to the private placement of H Shares are as follows:

(in ten thousand RMB)

Total amount of the proceeds	<u><u>642,115</u></u>
Total amount of the proceeds used for other purposes	<u><u>–</u></u>
Total amount of the proceeds used for other purpose expressed as percentage	<u><u>–</u></u>
Accumulated amount of the proceeds used	<u><u>642,115</u></u>
Total amounts of the proceeds used in each year:	
2011	<u><u>88,471</u></u>
2010	<u><u>553,644</u></u>

Investment projects		Total investment amount of the proceeds			Accumulated investment amount of the proceeds as at 31 December 2011*			Difference between the actual investment amount and the committed investment amount after the Offering	The project reaches the usable condition as scheduled; or the completion progress as at 31 December 2011
		Committed investment amount prior to the offering	Committed investment amount after the offering	Actual investment amount	Committed investment amount prior to the offering	Committed investment amount after the offering	Actual investment amount		
Committed investment projects	Actual investment projects								
Replenishment of the working capital of the Company	Replenishment of the working capital of the Company	642,115	642,115	642,115	642,115	642,115	642,115	-	N/A

* From the date of receipt of the proceeds from the previous fund raising activities to 31 December 2011.

III. RETURN ON THE PROJECTS FUNDED BY THE PROCEEDS FROM THE PREVIOUS FUND RAISING ACTIVITIES

In accordance with the plan for the use of proceeds as disclosed in the Company's proposal relating to the non-public offering of A Shares, after deduction of the issuance expenses, the Proceeds from Previous Fund Raising Activities have been used to replenish the working capital of the Company. Therefore, the economic return of the project could not be calculated independently.

The Proceeds from Previous Fund Raising Activities were used to replenish the working capital of the Company. It helped the Company meet its production and operation needs, facilitate the improvement in its financial position, enhance its profitability and implement its development strategies.

IV. COMPARISON OF THE ACTUAL USE OF THE PROCEEDS FROM PREVIOUS FUND RAISING ACTIVITIES WITH RELEVANT CONTENTS OF REGULAR REPORTS AND OTHER INFORMATION DISCLOSURE DOCUMENTS

Below is a table to compare the actual use of the Proceeds from Previous Fund Raising Activities with the relevant contents of regular reports and other information disclosure documents as at 31 December 2011:

(in ten thousand RMB)

	As at 31 December 2011 [#]			As at 31 December 2010 [#]		
	Actual Amount Used	in 2011 Annual Report	Difference	Actual Amount Used	in 2010 Annual Report	Difference
Investment Projects						
Proceeds from Previous A Shares Fund Raising Activities: Replenish the working capital of the Company	553,644	553,644	-	553,644	553,644	-
Proceeds from Previous H Shares Fund Raising Activities: Replenish the working capital of the Company	88,471	88,471	-	-	-	-
Total	642,115	642,115	-	553,644	553,644	-

The actual use of proceeds by the Company is not different from the relevant information disclosed in the documents for information disclosure published by the Company.

[#] From the receipt of the proceeds to the closing date of the reporting period.

V. CONCLUSIONS

The Board of Directors believes that the Company has used the Proceeds from the Previous Fund Raising Activities in accordance with the plan for use of the proceeds as disclosed in the Company's proposal relating to the non-public offering of A Shares. The Company has faithfully performed its disclosure obligation with regard to the investments made with the Proceeds from the Previous Fund Raising Activities and the related investment progress.

The Report on Use of Proceeds from Previous Fund Raising Activities has been prepared in accordance with the Rules Concerning the Report on Use of Proceeds from Previous Fund Raising Activities (Zheng Jian Fa Xing Zi [2007] No. 500) as issued by the CSRC. All the directors of the Company undertake that this report contains no false description, misleading representation or material omission and they are willing to assume joint and several legal liability for the truthfulness, accuracy and completeness of this report.

Board of Directors of
Air China Limited

26 April 2012

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

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

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

None of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2011 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, to any member of the Group.

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

Mr. Christopher Dale Pratt is a non-executive Director of the Company and is concurrently the chairman and an executive director of Cathay Pacific. Mr. Ian Sai Cheung Shiu is a non-executive Director of the Company and is concurrently a non-executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,517,385,455 H Shares in the Company as at 4 May 2012, and it wholly owns Hong Kong Dragonair Airlines Limited (“**Dragonair**”). Mr. Wang Changshun, who is the chairman and a non-executive director of the Company and Mr. Cai Jianjiang and Mr. Fan Cheng, who are both executive directors of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

3. SERVICE CONTRACTS

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

4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group’s financial or trading position since 31 December 2011, being the date to which the latest published audited accounts of the Group have been made up.

5. EXPERT

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

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

- (a) As at the Latest Practicable Date, China Merchants Securities did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011 (the date to which the latest published audited financial statements of the Group were made up);

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

6. MISCELLANEOUS

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

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong during normal business hours on any business day from the date of this circular until 22 May 2012:

- (a) the Share Subscription Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 to 14 of this circular;
- (c) the letter from China Merchants Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 24 of this circular; and
- (d) the consent letter issued by the expert referred to in this circular.



中國國際航空股份有限公司
AIR CHINA LIMITED

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

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 2:00 p.m. on 26 June 2012 at the Conference Room, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC to consider and, if thought fit, to pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the announcement dated 27 April 2012 issued by the Company.

Ordinary Resolutions:

1. To consider and approve the satisfaction by the Company of the requirements for the Non-public A Share Issue.

In accordance with the relevant provisions of laws and regulations including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Rules Governing Issue of Securities by Listed Companies and the Implementation Rules Concerning the Non-public Issuance of Securities by Listed Companies, and after self inquiry by the Company, the Company is able to satisfy the requirements in relation to the Non-public A Share Issue.

Special Resolutions:

2. To consider and approve each of the following proposals concerning the Non-public A Share Issue of the Company by the Independent Shareholders:
 - (1) Class of Shares and Nominal Value
 - (2) Method of Issue
 - (3) Target Subscriber and Subscription Method

- (4) Use of Proceeds
 - (5) Pricing Base Day and Issue Price
 - (6) Offering Size
 - (7) Lock-up Period
 - (8) Place of Listing
 - (9) Accumulated Profit Arrangement
 - (10) Effectiveness of the Resolution Approving the Non-public A Share Issue
3. To consider and approve the feasibility study report on use of proceeds from the Non-public A Share Issue of the Company by the Independent Shareholders.
 4. To consider and approve the report on use of proceeds from previous fund raising activities of the Company by the Independent Shareholders.
 5. To consider and approve the Share Subscription Agreement entered into by and between the Company and CNAHC by the Independent Shareholders.
 6. To consider and approve the authorisation given to the Board, the chairman of the Board and/or any other person authorised by the chairman of the Board to handle all relevant matters relating to the Non-public A Share Issue by the Independent Shareholders.

“To ensure a smooth and orderly implementation of the Non-public A Share Issue by the Company in accordance with laws and regulations including the Company Law of the People’s Republic of China and the Securities Law of the People’s Republic of China and the articles of association of the Company, the following be and are hereby approved:

- (1) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to handle all matters relating to the share issue, including but not limited to making specific determination on the method of issue, offering size, issue price, pricing method, target subscribers, timing of issuance and adjustment to the size of the issue as a result of any adjustment to the issue price due to any *ex-right* or *ex-dividend* event in respect of the Non-public A Share Issue;

- (2) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to determine the engagement of intermediary agencies for the Non-public A Share Issue, to deal with reporting matters, to prepare, produce, amend, refine and execute all documents and information relating to the Non-public A Share Issue, and to sign and deliver all such contracts, agreements and documents relating to the Non-public A Share Issue;
- (3) in the case of any change in policies of regulatory bodies in relation to the Non-public A Share Issue, or any change of market conditions, except where voting at a general meeting is required by any relevant laws and regulations, the articles of association of the Company or any regulatory bodies, the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to make adjustments to the specific proposals for the Non-public A Share Issue;
- (4) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to carry out fund verification procedures relating to the Non-public A Share Issue;
- (5) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to establish a designated account for the proceeds raised from the Non-public A Share Issue;
- (6) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to handle matters such as share registration, lock-up arrangements and listing of the shares and to submit relevant documents upon completion of the Non-public A Share Issue;
- (7) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised, upon completion of the Non-public A Share Issue, to amend the relevant provisions in the articles of association of the Company and attend to relevant approval procedures and to handle registration regarding the alteration of the registered capital of the Company;
- (8) the Board, the chairman of the Board and/or any person authorised by the chairman of the Board be and is hereby authorised to handle all other matters relating to the Non-public A Share Issue; and

- (9) the authorisations as set forth in items no. 4 to 7 above shall be effective from the date on which this resolution is approved at the EGM until the termination or expiry of the relevant matters, whilst the authorisations under other items shall be effective from the date on which this resolution is approved at the EGM until the expiration of a 6-month period following the approval from the CSRC of the Non-public A Share Issue.”

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

Beijing, the PRC, 8 May 2012

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

* *Independent non-executive director of the Company*

Notes:

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

Holders of H Shares of the Company are advised that the register of members of the Company will close from Saturday, 26 May 2012 to Tuesday, 26 June 2012 (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 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 Friday, 25 May 2012.

Shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 25 May 2012 are entitled to attend the EGM.

2. Notice of attendance

H Share shareholders 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 Wednesday, 6 June 2012. 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 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 appointer 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 appointer, 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 businesses

- (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