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

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**If you are in doubt** as to any aspect of this circular 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 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 NON-PUBLIC ISSUE OF A SHARES (REVISED);**  
**AND**  
**(2) CONNECTED TRANSACTION:**  
**SUBSCRIPTION OF NEW A SHARES BY CNAHC**

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

**Opus** | Capital Limited  
創富融資有限公司

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A letter from the Board is set out on pages 5 to 19 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 20 to 21 of this circular.

A letter from Opus Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 22 to 46 of this circular.

Notices of the EGM and the H Shareholders' Class Meeting setting out the resolutions to be approved at the EGM and the H Shareholders' Class meeting, together with the relevant forms of proxy and notice of attendance have been despatched by the Company to the Shareholders on 11 December 2015. If you intend to attend the EGM and/or the H Shareholders' Class Meeting, you should complete and return the notice of attendance in accordance with the instructions printed thereon.

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## DEFINITIONS

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

“A Shareholders”	holders of A Shares
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be convened by the Company to consider and, if thought fit, approve, among other things, the Non-public A Share Issue on 26 January 2016
“A Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Articles of Association”	the articles of association of the Company
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited
“Class Meetings”	the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting
“CNACG”	China National Aviation Corporation (Group) Limited, 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 holds approximately 11.89% of the Company’s issued share capital as at the 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
“CNAHC”	China National Aviation Holding Company, a wholly PRC state-owned enterprise and the controlling shareholder of the Company, which directly and indirectly holds an aggregate of approximately 53.46% of the Company’s issued share capital as at the Latest Practicable Date and whose principal business is to manage the state-owned assets of CNAHC and the equity it holds in various companies
“CNAHC A Share Subscription”	the proposed subscription of new A Shares by CNAHC pursuant to the Share Subscription Agreement as part of the Non-public A Share Issue

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## DEFINITIONS

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“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange, 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 to consider and, if thought fit, approve, among other things, the Non-public A Share Issue on 26 January 2016
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“H Shareholders”	holders of the H Shares
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be convened by the Company to consider and, if thought fit, approve, among other things, the Non-public A Share Issue on 26 January 2016
“H Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Pan Xiaojiang, Mr. Simon To Chi Keung and Mr. Stanley Hui Hon-chung, all being the independent non-executive directors of the Company

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## DEFINITIONS

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“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the CNAHC A Share Subscription
“Independent Shareholders”	the shareholders of the Company, other than CNAHC and its associates
“Investor(s)”	the investor(s) other than CNAHC which would subscribe for the new A Shares to be issued by the Company under the Non-public A Share Issue
“Issue Price”	the issue price of not less than RMB7.89 (subject to adjustment) per A Share under the Non-public A Share Issue
“Latest Practicable Date”	29 December 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-public A Share Issue”	the proposed issue of not more than 1,520,912,547 new A Shares to specified investors including CNAHC by the Company at the Issue Price
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Pricing Benchmark Date”	12 December 2015
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State Asset Supervision and Administration Commission of the State Council of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

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## DEFINITIONS

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“Share Subscription Agreement”	the subscription agreement entered into between CNAHC and the Company on 11 December 2015, pursuant to which, CNAHC agrees to commit no more than RMB4,000 million to subscribe for, and the Company agrees to issue, not more than 506,970,849 new A Shares at the Issue Price
“Shareholders”	the shareholders of the Company
“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
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent

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LETTER FROM THE BOARD

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中國國際航空股份有限公司  
AIR CHINA LIMITED

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

(Stock Code: 00753)

*Non-executive Directors:*

Mr. Cai Jianjiang  
Ms. Wang Yinxiang  
Mr. Cao Jianxiong  
Mr. Feng Gang  
Mr. John Robert Slosar  
Mr. Ian Sai Cheung Shiu

*Registered office:*

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

*Executive Directors:*

Mr. Song Zhiyong  
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. Pan Xiaojiang  
Mr. Simon To Chi Keung  
Mr. Stanley Hui Hon-chung  
Mr. Li Dajin

5 January 2016

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUE OF A SHARES (REVISED);  
AND  
(2) CONNECTED TRANSACTION:  
SUBSCRIPTION OF NEW A SHARES BY CNAHC**

**I. INTRODUCTION**

Reference is made to the announcements of the Company dated 28 July 2015 and 11 December 2015 in relation to, among others, the revised Non-public A Share Issue and the new CNAHC A Share Subscription.

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## LETTER FROM THE BOARD

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Having considered the operation of the Company and the considerable changes in the current market conditions, the Board approved the new Non-public A Share Issue and the new Share Subscription Agreement entered into between CNAHC and the Company on 11 December 2015 at the Board meeting of the Company held on 11 December 2015, which supersede the original nonpublic A Share issue and the original share subscription agreement entered into between CNAHC and the Company on 27 July 2015, respectively as set out in the announcement of the Company dated 28 July 2015. The purpose of this circular is to provide you with further information on the abovementioned matters so that you may make an informed decision on voting in respect of the relevant resolutions at the EGM and the H Shareholders' Class Meeting.

### II. PROPOSED NON-PUBLIC ISSUE OF A SHARES (REVISED)

#### 1. Structure of the Non-public A Share Issue

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

Subscribers:                              The new A Shares under the Non-public A Share Issue is proposed to be issued to not more than 10 Investors (including CNAHC). The Investors will be securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, other domestic legal person investors and natural persons that meet the requirements of the CSRC.

After the Company obtains the approval in respect of the Non-public A Share Issue from the CSRC, it will determine the Investors based on the subscription levels and price quoted by potential Investors, following the price priority principle.

CNAHC will remain as the controlling shareholder of the Company after the subscription of new A Shares under the Non-public A Share Issue by CNAHC and the Investors.

As at the Latest Practicable Date, the Company has not entered into any agreements with any Investor in connection with the Non-public A Share Issue. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the potential Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. It is expected that each of the Investors and their ultimate



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## LETTER FROM THE BOARD

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beneficial owners, upon subscription of the new A Shares under the Non-public A Share Issue, will remain an independent third party of the Company. The Company will use its best efforts to ensure that the Investors and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

Number of A Shares to be issued:

The number of A Shares to be issued under the Non-public A Share Issue will not be more than 1,520,912,547 A Shares (including A Shares to be subscribed by CNAHC under the CNAHC A Share Subscription), which is subject to adjustment to the Issue Price as set forth in the paragraph “Basis for determining the Issue Price” below if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance. Within the range of the issuance mentioned above, the ultimate number of A Shares to be issued will be determined by the Board and its authorised person(s) in accordance with the authorisation granted by the Shareholders at the EGM and the market conditions after consultation with the lead underwriter of the Non-public A Share Issue.

Method of issue:

Non-public offering. The new A Shares will be issued within 6 months after the Company obtains the relevant approval from the CSRC.

Basis for determining the Issue Price:

The Issue Price of new A Shares shall be not less than RMB7.89 per A Share. The Issue Price is determined with reference to a benchmark price, which is 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date, which is RMB8.77 per A Share. The Issue Price so determined is in accordance with the requirements under the Implementation Rules for Non-public Issue of Shares by Listed Companies (《上市公司非公开发行股票实施细则》).

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## LETTER FROM THE BOARD

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After obtaining the relevant approval from the CSRC, the final Issue Price will be determined by the Board and its authorised person(s) in accordance with the authorisation granted by the Shareholders at the EGM and the subscription levels and price quoted by potential Investors based on the price priority principle after consultation with the lead underwriter for the Non-public A Share Issue. CNAHC will not take part in the bidding in the bookbuilding under the Non-public A Share Issue and will make subscription at the same price as the other subscribers. The Issue Price will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance.

The Issue Price shall be paid in cash.

Assuming the Issue Price is fixed at RMB7.89 per A Share, it represents: (i) a discount of approximately 2.71% of the closing price of RMB8.11 per A Share immediately prior to the Pricing Benchmark Date; and (ii) a discount of approximately 5.30% of the average closing price of A Shares for the last five trading days immediately prior to the Pricing Benchmark Date.

The net price to the Company of each new A Share to be issued will be determined and disclosed upon completion of the Non-public A Share Issue and the determination of relevant expenses incurred or to be incurred in relation to the Non-public A Share Issue in accordance with the requirements of the Listing Rules.

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 Non-public A Share Issue to take effect:

The Non-public A Share Issue is subject to:

- (1) the approvals by the Shareholders at the EGM and the Class Meetings, respectively; and
- (2) the approval by the SASAC and the CSRC, etc.

Gross Proceeds from the Non-public A Share Issue:

Gross proceeds to be raised from the Non-public A Share Issue will be not more than RMB12,000 million before deduction of the fees and expenses relating to the Non-public A Share Issue.

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## LETTER FROM THE BOARD

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Use of proceeds: Proceeds to be raised from the Non-public A Share Issue are intended to be used in the following ways:

No.	Name of Project	Proceeds to be utilised (RMB in million)
1	Purchase of 15 Boeing B787 aircraft (including supplemental in-cabin facilities such as seats)	7,450
2	Upgrade of e-commerce direct sale project	800
3	On-board WIFI (first phase) project	150
4	Replenish working capital	<u>3,600</u>
Total		<u><u>12,000</u></u>

### **Purchase of 15 Boeing B787 aircraft (including supplemental in-cabin facilities such as seats)**

Based on the relevant agreement between the Company and The Boeing Company, it is expected that the Company would take delivery of 7, 6 and 2 Boeing B787 aircraft in 2016, 2017 and 2018, respectively. The 15 Boeing B787 aircraft would be equipped with seats and other facilities that are designed to enhance passenger experience. The basic price of each of the 15 Boeing B787 aircraft to be purchased by the Company from The Boeing Company is US\$257 million, equivalent to approximately RMB24,000 million for the 15 Boeing B787 aircraft in aggregate. The Company plans to use RMB7,450 million from the proceeds of the Non-public A Share Issue for the payment of part of the total consideration to The Boeing Company for the 15 Boeing B787 aircraft. The Company plans to deploy the 15 Boeing B787 aircraft to routes originating from its Beijing hub to enhance its coverage and frequency of flights to North America and Europe.

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## LETTER FROM THE BOARD

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### **Upgrade of e-commerce direct sale project**

The Company plans to use RMB800 million from the proceeds of the Non-public A Share Issue to upgrade its flight tickets e-commerce direct sale platform so as to increase the proportion of direct sale of flight tickets and to cut down cost of sales, and to unify order data and user data on various e-commerce channels, including website, call centre and mobile phone applications to enable consistent user experience on various e-commerce channels. In the meantime, the integration of user information and order information is to be realised through the upgrade of e-commerce platform, laying down a technological foundation for the big data collection of passengers in the future.

### **On-board WIFI (first phase) project**

The Company plans to develop its on-board WIFI project in two phases by first establishing the aircraft wireless network platform and then constructing air-ground integration system based on big data cloud computing. The Company plans to use RMB150 million from the proceeds of the Non-public A Share Issue to fund part of the total estimated costs of the first phase of its on-board WIFI project, which includes conducting the necessary retrofitting of its aircraft and developing related software platform.

The Company plans to achieve wireless network coverage on all of its long-haul wide-body jets within the next three years. As of the Latest Practicable Date, the Company had completed the necessary retrofitting on 20 of its 90 long-haul wide-body jets. It is expected that the Company would spend approximately RMB123 million to complete the retrofitting of the remaining 70 long-haul wide-body jets, based on an estimated cost of retrofitting of approximately RMB1.75 million per aircraft. It is expected that the development of the related software platform will incur a cost of RMB35 million.

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## LETTER FROM THE BOARD

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### **Replenish working capital**

With the continued development of the Company's business and improvement of its results of operation, the scale of its indebtedness has been increasing in recent years. As at 30 September 2015, the current ratio and the quick ratio of the Company was 0.38 and 0.35, respectively. As at the same date, the Company's non-current liabilities due within one year was RMB12,867 million and its short-term loan was RMB7,787 million.

In addition, the operation of the Company as an airline demands a fairly large amount of working capital. The Company also expects to incur large capital expenditure on purchase of new aircraft for each of 2015, 2016 and 2017 and its demand for working capital will increase as a result of the expansion of its fleet.

Based on the above, the Company plans to use RMB3,600 million from the proceeds of the Non-public A Share Issue to optimise its financial structure, enhance its repayment capability of its short-term debts and to satisfy its increasing need for working capital.

If the actual proceeds to be raised from the Non-public A Share Issue are less than the aggregate amount of the proceeds proposed to be invested in the aforementioned projects, the Company will adjust and determine the specific investment amount to each project based on the net proceeds actually raised and the priority of each project, and will make up for the shortfall by utilising internal resources or through other financing methods.

Before the actual receipt of the proceeds to be raised from the Non-public A Share Issue, the Company will, depending on the actual situations of the progress of the projects, finance these projects by proceeds raised through other measures, which will be replaced once the proceeds from the Non-public A Share Issue have been received according to procedures required by relevant regulations.

Please refer to the Feasibility Study Report on Use of Proceeds from the Non-public A Share Issue set out in Appendix I to this circular for an analysis on the use of proceeds of the Non-public A Share Issue.

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## LETTER FROM THE BOARD

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Lock-up Arrangement: The new A Shares to be subscribed for by the Investors shall not be disposed of within 12 months from the completion date of the issuance of such new A Shares.

Please refer to the paragraph headed “Lock-up arrangement” under “2. CNAHC A Share Subscription” below for details of the lock-up arrangement for CNAHC A Share Subscription.

Validity Period of the Resolution: The resolution with respect to the Non-public A Share Issue shall be valid for 12 months from the date of consideration and approval at the EGM and the Class Meetings.

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 new A Shares to be issued pursuant to the Non-public A Share Issue.

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 accumulated undistributed profits of the Company prior to the Non-public A Share Issue.

### **2. CNAHC A Share Subscription**

Parties: (1) the Company as issuer; and  
(2) CNAHC as subscriber.

Date: 11 December 2015

Number of A Shares to be subscribed for: CNAHC will commit no more than RMB4,000 million to subscribe for not more than 506,970,849 A Shares to be issued under the Non-public A Share Issue, which is subject to adjustment as a result of an adjustment to the Issue Price as set forth in the paragraph “Basis for determining the Issue Price” under “1. Structure of the Non-public A Share Issue” above if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance.

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## LETTER FROM THE BOARD

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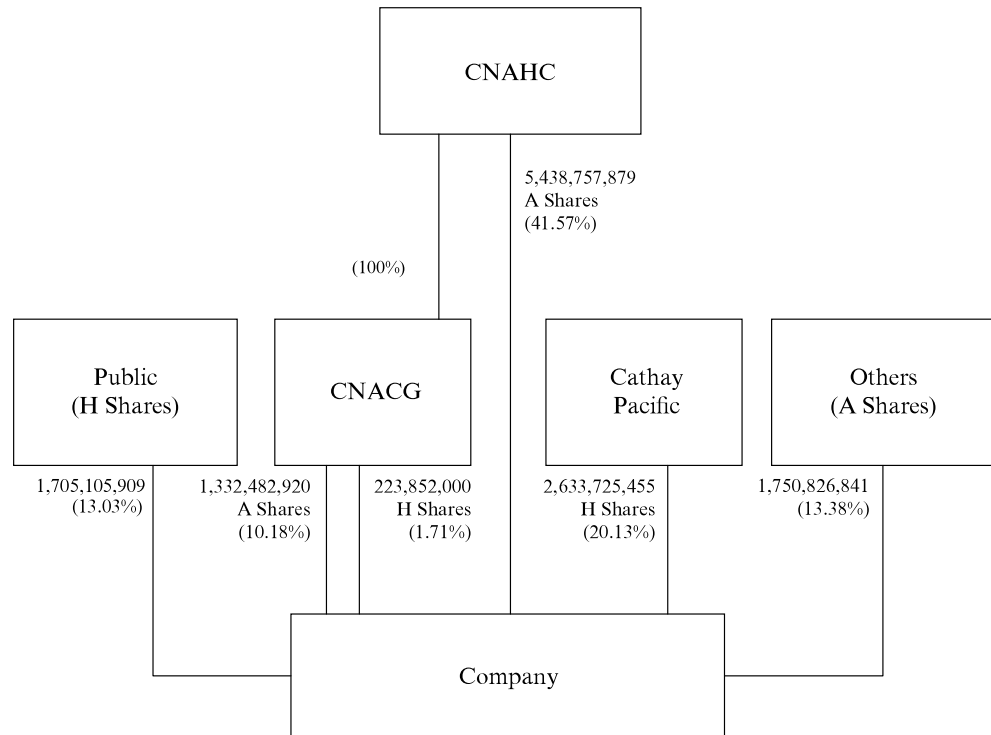
- Subscription price: The Issue Price of the new A Shares to be subscribed for by CNAHC shall be the same as the final Issue Price for the Investors to be determined by the Company in the manner as set forth in the paragraph “Basis for determining the Issue Price” under “1. Structure of the Non-public A Share Issue” above. The Company and CNAHC will execute a written confirmation in respect of the final Issue Price and the number of new A Shares to be issued to CNAHC under the CNAHC A Share Subscription once they are determined.
- The subscription price will, pursuant to the terms of the Share Subscription Agreement, be paid in cash into the special savings account as designated by the lead underwriter when the Company issues the new A Shares to CNAHC after the Company obtains, among other things, the approval from the CSRC for the Non-public A Share Issue.
- Conditions for the Share Subscription Agreement: The Share Subscription Agreement will take effect on the date when all of the following conditions are met:
- (1) the Share Subscription Agreement is duly executed by both the Company and CNAHC;
  - (2) the approvals from the Independent Shareholders by way of special resolutions of the Non-public A Share Issue at both the EGM and the Class Meetings are obtained;
  - (3) the approvals from the Independent Shareholders by way of special resolutions of the Share Subscription Agreement at both the EGM and the Class Meetings are obtained; and
  - (4) all necessary approvals, consents from the relevant governmental and regulatory authorities, including but not limited to the approvals from the SASAC and the CSRC, in relation to the Non-public A Share Issue are obtained.
- Lock-up Arrangement: Pursuant to the relevant rules of the 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

### 3. Effects of the Non-public A Share Issue on the Shareholding Structure of the Company

For illustration purpose only, set out below are the implication of the Non-public A Share Issue on the shareholding structure of the Company.

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



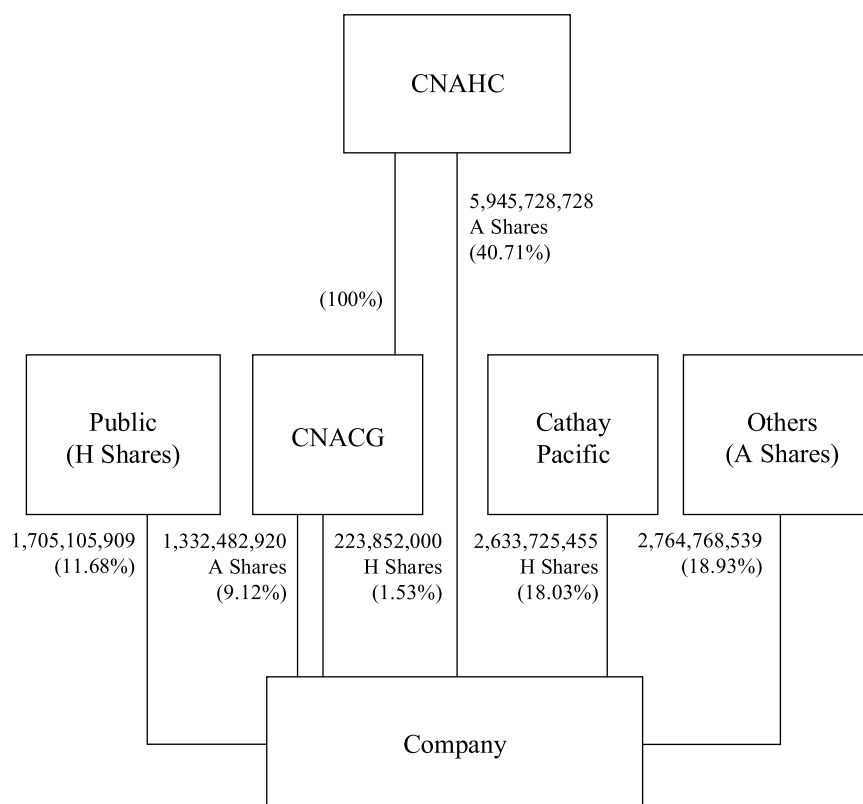
Shareholders	Number of Shares held	Percentage of the total issued share capital of the Company
A Shareholders	8,522,067,640	65.13%
H Shareholders	4,562,683,364	34.87%
Total	<u>13,084,751,004</u>	<u>100.00%</u>

*Note:* The percentages shown are rounded to the nearest 2 decimal places.



## LETTER FROM THE BOARD

3.2 *Immediately following the completion of the Non-public A Share Issue, assuming that (i) CNAHC has subscribed for 506,970,849 new A Shares; (ii) the Investors (which are all independent third parties of the Company after subscription of A Shares under the Non-public A Share Issue) have in aggregate subscribed for 1,013,941,698 new A Shares; and (iii) no additional Shares will be issued after the date of this circular until the completion of the Non-public A Share Issue, it is anticipated that the shareholding structure of the Company will be as follows:*



Shareholders	Number of Shares held	Percentage of the total issued share capital of the Company
A Shareholders	10,042,980,187	68.76%
H Shareholders	4,562,683,364	31.24%
Total	<u>14,605,663,551</u>	<u>100%</u>

*Note:* The percentages shown are rounded to the nearest 2 decimal places.

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## LETTER FROM THE BOARD

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3.3 *Set out below is the dilution impact immediately upon the completion of the Share Subscription Agreement and the Non-public A Share Issue on the existing A Shareholders not participating in the Non-public A Share Issue and H Shareholders, respectively, assuming that (i) CNAHC has subscribed for 506,970,849 new A Shares; (ii) the Investors have in aggregate subscribed for 1,013,941,698 new A Shares; and (iii) no additional Shares will be issued after the date of this circular until the completion of the Non-public A Share Issue:*

Shareholders	Before the Completion of the Share Subscription Agreement and the Non-public A Share Issue		Upon Completion of the Share Subscription Agreement but not counting A Shares to be subscribed by the Investors		Upon Completion of the Share Subscription Agreement and the Non-public A Share Issue	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
A Shareholders						
CNAHC (including A Shares held by CNACG)	6,771,240,799	51.75	7,278,211,648	53.55	7,278,211,648	49.83
Other A Shareholders not participating in the Non-public A Share Issue	1,750,826,841	13.38	1,750,826,841	12.88	1,750,826,841	11.99
Investors	-	-	-	-	1,013,941,698	6.94
Sub-total	8,522,067,640	65.13	9,029,038,489	66.43	10,042,980,187	68.76
H Shareholders						
CNACG	223,852,000	1.71	223,852,000	1.65	223,852,000	1.53
Cathay Pacific	2,633,725,455	20.13	2,633,725,455	19.38	2,633,725,455	18.03
Public shareholders	1,705,105,909	13.03	1,705,105,909	12.54	1,705,105,909	11.68
Sub-total	4,562,683,364	34.87	4,562,683,364	33.57	4,562,683,364	31.24
<b>Total</b>	<b>13,084,751,004</b>	<b>100</b>	<b>13,591,721,853</b>	<b>100</b>	<b>14,605,663,551</b>	<b>100</b>

*Note:* The percentages shown are rounded to the nearest 2 decimal places.

#### 4. Listing Rules Implications

##### *CNAHC A Share Subscription*

As at the Latest Practicable Date, CNAHC directly holds 5,438,757,879 A Shares in the Company, representing 41.57 % of the existing issued share capital of the Company. As at the Latest Practicable Date, CNACG holds 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing 10.18% and 1.71% 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 53.46% of the existing issued share capital of the Company.

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## LETTER FROM THE BOARD

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Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, CNAHC A Share Subscription 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 has been formed to advise the Independent Shareholders on the terms of the Share Subscription Agreement. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

### *Non-public A Share Issue*

The new A Shares under the Non-public A Share Issue will be issued pursuant to a specific mandate to be sought from the Shareholders at the EGM and the Class meetings. According to the relevant requirements of Chapter 19A of the Listing Rules, the Company will proceed with the Non-public A Share Issue after obtaining approvals from the Independent Shareholders at the EGM by way of special resolution and from the A Shareholders at the A Shareholders' Class Meeting and from the H Shareholders at the H Shareholders' Class Meeting to be convened in accordance with the Articles of Association by way of special resolutions. The notices of the EGM and the H Shareholders' Class Meeting have been despatched to the Shareholders on 11 December 2015.

CNAHC, being a subscriber under the Non-public A Share Issue, has a material interest in the Non-public A Share Issue. CNAHC and its close associates (including CNACG) shall therefore abstain from voting on the resolutions at the EGM and the Class Meetings approving the Non-public A Share Issue.

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the issue of new A Shares under the Non-public A Share Issue and the Share Subscription Agreement are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole.

Mr. Cai Jianjiang, Ms. Wang Yinxiang, Mr. Cao Jianxiong and Mr. Feng Gang are considered to have a material interest in CNAHC A Share Subscription and therefore have abstained from voting on the relevant Board resolutions approving the Share Subscription Agreement and the Non-public A Share Issue. Save as mentioned above, none of the other Directors has a material interest in CNAHC A Share Subscription and the Non-public A Share Issue and hence no other Director has abstained from voting on such 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 enhance the capital structure and improve its financial condition, satisfy the capital needs of its business development, maintain its competitive advantage and ensure its sustainable and sound development. The Non-public A Share Issue can also raise funds for the Company to finance its purchase of 15 Boeing B787 aircraft, upgrade of e-commerce direct sale project and its on-board WIFI project.

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## LETTER FROM THE BOARD

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### **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.

### **III. EGM AND H SHAREHOLDERS' CLASS MEETING**

The Company will convene the EGM and H Shareholders' Class Meeting at 2:00 p.m. on 26 January 2016 at The Conference Room One, 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 and CNAHC A Share Subscription. The notices of the EGM and the H Shareholders' Class Meeting setting out the resolutions proposed have been despatched to the Shareholders on 11 December 2015.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the connected transactions must abstain from voting on the relevant resolutions at the EGM and the H Shareholders' Class Meeting. 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 and CNAHC A Share Subscription at the EGM and the H Shareholders' Class Meeting.

The relevant notices of attendance and forms of proxy to be used at the EGM and the H Shareholders' Class Meeting respectively have been despatched to the Shareholders together with the notices of the EGM and the H Shareholders' Class Meeting on 11 December 2015. The relevant notices, notices of attendance and forms of proxy are also published on the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). If you are eligible and intend to attend the EGM/H Shareholders' Class Meeting, you should have completed and returned the notice(s) of attendance in accordance with the instructions printed thereon on or before Wednesday, 6 January 2016. Shareholders who intend to appoint a proxy to attend the EGM/H Shareholders' Class Meeting shall complete and return the form(s) of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the meetings or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM/H Shareholders' Class Meeting or any adjourned meeting and voting in person if you so wish.

The H Share register of members of the Company will be temporarily closed from Friday, 25 December 2015 to Tuesday, 26 January 2016 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Any holders of H Shares, whose names appear on the Company's register of members at the close of business on Tuesday, 24 December 2015, are entitled to attend and vote at the EGM and the H Shareholders' Class Meeting after completing the registration procedures for attending such meeting.

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## LETTER FROM THE BOARD

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### IV. RECOMMENDATION OF THE BOARD

The Board (including the independent non-executive Directors) considers that the terms and conditions of the issue of new A Shares under the Non-public A Share Issue and the Share Subscription Agreement are fair and reasonable, and the connected transaction contemplated thereunder is on normal commercial terms or better and is in the interests of the Company and the Shareholders as a whole.

The Board recommends the Shareholders to vote in favour of the resolutions which will be proposed at the EGM and the H Shareholders' Class Meeting respectively.

### V. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 20 to 21 of this circular which contains its recommendation to the Independent Shareholders of the Company regarding the CNAHC A Share Subscription.

Your attention is also drawn to the letter from Opus Capital as set out on pages 22 to 46 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 CNAHC A Share Subscription 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 and the CNAHC A Share Subscription are subject to certain conditions being satisfied, and consequently the Non-public A Share Issue and the CNAHC A Share Subscription 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  
**Cai Jianjiang**  
*Chairman*

Beijing, PRC

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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中國國際航空股份有限公司  
AIR CHINA LIMITED

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

**(Stock Code: 00753)**

*Independent Board Committee:*

Mr. Pan Xiaojiang

Mr. Simon To Chi Keung

Mr. Stanley Hui Hon-chung

5 January 2016

*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 5 January 2016 (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 11 December 2015, CNAHC entered into the new Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit no more than RMB4,000 million in cash to subscribe for not more than 506,970,849 new A Shares at the Issue Price, 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 CNAHC A Share Subscription 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 and the H Shareholders’ Class Meeting respectively.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the terms of the CNAHC A Share Subscription are fair and reasonable so far as the Independent Shareholders are concerned and whether the CNAHC A Share Subscription is in the interests of the Company and the Shareholders as a whole. Opus 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 the CNAHC A Share Subscription and the terms and basis upon which their terms have been determined. We have also considered the key factors taken into account by Opus Capital in arriving at its opinion regarding the CNAHC A Share Subscription as set out in the letter from Opus Capital on pages 22 to 46 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Opus Capital, considers that the terms and conditions of the issue of new A Shares under the Share Subscription Agreement are fair and reasonable, and the connected transaction contemplated thereunder is on normal commercial terms or better and is in the interests 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 and the H Shareholders' Class Meeting respectively.

Yours faithfully,  
**Independent Board Committee**

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

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

**Mr. Stanley Hui Hon-chung**  
*Independent*  
*non-executive director*

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## LETTER FROM OPUS CAPITAL

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*Set out below is the text of a letter received from Opus Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the CNAHC A Share Subscription for the purpose of inclusion in the circular.*

**Opus** | Capital Limited  
創富融資有限公司

18th Floor, Fung House  
19-20 Connaught Road Central  
Central, Hong Kong

5 January 2016

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

Dear Sirs,

**(1) PROPOSED NON-PUBLIC ISSUE OF A SHARES (REVISED);  
AND  
(2) CONNECTED TRANSACTION:  
SUBSCRIPTION OF NEW A SHARES BY CNAHC**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 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 5 January 2016 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 11 December 2015, the Company entered into the Share Subscription Agreement with CNAHC, pursuant to which, CNAHC agrees to commit no more than RMB4,000 million in cash to subscribe for not more than 506,970,849 new A Shares at the Issue Price.

As at the Latest Practicable Date, CNAHC directly held 5,438,757,879 A Shares in the Company, representing approximately 41.57% 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 10.18% and approximately 1.71% of the existing issued share capital of the Company, respectively. Accordingly, CNAHC, by itself and through CNACG, owns in aggregate approximately 53.46% of the existing issued share capital of the Company as at the Latest Practicable Date. Hence, CNAHC, being the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. The CNAHC A Share Subscription therefore 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 under the Listing Rules.



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## LETTER FROM OPUS CAPITAL

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CNAHC and its close associates (including CNACG) shall abstain from voting for the relevant resolutions approving the Non-public A Share Issue and the transactions contemplated thereunder at the EGM and the Class Meetings.

### INDEPENDENT BOARD COMMITTEE

The Independence Board Committee, comprising Mr. Pan Xiaojiang, Mr. Simon To Chi Keung and Mr. Stanley Hui Hon-chung, all being the independent non-executive Directors, has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the CNAHC A Share Subscription. Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

Our role as the Independent Financial Adviser is to advise the Independent Board Committee and the Independent Shareholders as to: (i) whether the terms of the Share Subscription Agreement are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) how the Independent Shareholders should vote on the relevant resolutions in relation to the CNAHC A Share Subscription at the EGM and the H Shareholders' Class Meeting.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and Independent Shareholders, we have reviewed, inter alia, the announcement relating to the non-public A share issue published on 28 July 2015, the announcement relating to the revised Non-public A Share Issue published on 11 December 2015, the Share Subscription Agreement, the annual reports of the Company for the years ended 31 December 2013 (the "**2013 Annual Report**") and 31 December 2014 (the "**2014 Annual Report**"), the third quarterly report of the Company for the nine months ended 30 September 2015 (the "**2015 Third Quarterly Report**"), and other information set out in the Circular.

We have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable

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## LETTER FROM OPUS CAPITAL

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Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility, including particulars given in compliance with the Listing Rules, for the accuracy of the information contained in the Circular and have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters of facts the omission of which would make any statement herein or the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the CNAHC A Share Subscription and the terms of the Share Subscription Agreement, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the CNAHC A Share Subscription and the Share Subscription Agreement, we have taken into consideration the following principal factors and reasons:

#### **Business overview of the Group**

According to the 2014 Annual Report, the Company and its subsidiaries are principally engaged in providing air passenger, air cargo and airline-related services in China.

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## LETTER FROM OPUS CAPITAL

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Set out below are the audited consolidated financial results of the Group for the two financial years ended 31 December 2013 (“**FY2013**”) and 2014 (“**FY2014**”) as extracted from the 2014 Annual Report:

**Table 1: Highlights of the financial results of the Group**

	<b>For the year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue	105,884.32	98,180.79
Gross profit	7,261.65	4,118.06
Gross profit margin (%)	6.86	4.19
Profit for the year	4,285.01	3,614.96

*Source: 2014 Annual Report*

As shown in the above table, the revenue of the Group has increased from approximately RMB98,180.79 million in FY2013 to approximately RMB105,884.32 million in FY2014, representing an increase of approximately 7.85%. The profit for the year of the Group for FY2014 has increased from approximately RMB3,614.96 million in FY2013 to approximately RMB4,285.01 million, representing an increase of approximately 18.54%. The gross profit margin of the Group has also increased from approximately 4.19% in FY2013 to approximately 6.86% in FY2014.

Set out below are the Group’s revenue segmental breakdown for FY2013 and FY2014 as extracted from the 2014 Annual Report:

**Table 2: Revenue breakdown of the Group by geographical location**

	<b>FY2014</b>	<b>Percentage to total revenue</b>	<b>FY2013</b>	<b>Percentage to total revenue</b>
	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>
Mainland China	68,003.28	64.22	64,386.66	65.58
Hong Kong, Macau and Taiwan	6,186.25	5.84	5,491.53	5.59
Europe	11,304.06	10.68	10,152.70	10.34
North America	9,339.40	8.82	7,929.40	8.08
Japan and Korea	5,452.77	5.15	5,023.17	5.12
Asia Pacific and others	5,598.57	5.29	5,197.34	5.29
<b>Revenue</b>	<b>105,884.32</b>	<b>100.00</b>	<b>98,180.79</b>	<b>100.00</b>

*Source: 2014 Annual Report*

As shown in the table above, over 60% of the total revenue of the Group for both FY2013 and FY2014 was generated in China.

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## LETTER FROM OPUS CAPITAL

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As stated in the 2015 Third Quarterly Report, the revenue of the Group was approximately RMB82,381.03 million for the nine months ended 30 September 2015, representing an increase of approximately 11.65% as compared to approximately RMB73,786.99 million for the corresponding period in FY2014. The profit for the nine months ended 30 September 2015 was approximately RMB6,680.31 million, representing an increase of approximately 95.29% as compared to approximately RMB3,420.65 million for the corresponding period in FY2014.

Set out below are highlights of the financial position of the Group as at 30 September 2015, 31 December 2014 and 31 December 2013, as extracted from the 2015 Third Quarterly Report and the 2014 Annual Report:

**Table 3: Highlights of the financial position of the Group**

	<b>As at 30 September 2015</b>	<b>As at 31 December 2014</b>	<b>As at 31 December 2013</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Cash and cash equivalents	10,260.92	9,659.99	15,507.68
Total assets	220,456.99	209,310.70	205,361.88
Total liabilities	152,274.92	150,200.80	147,418.89
Net assets	68,182.07	59,109.90	57,942.99

*Source: 2014 Annual Report and 2015 Third Quarterly Report*

As shown in the table above, as at 30 September 2015, the Group's cash and cash equivalents amounted to approximately RMB10,260.92 million. As stated in the Letter from the Board, the Company expects to raise not more than RMB12,000 million. In view of the Group's financial position where the Group requires a significant amount of cash float for its daily operating business, we concur with the Directors' view that the Non-public A Share Issue is required to raise the required funds for the Group's business development without reducing the liquidity of the Group.

### **REASON FOR THE NON-PUBLIC A SHARE ISSUE AND THE USE OF PROCEEDS**

As stated in the Letter from the Board, the Group intends to apply approximately RMB12,000 million of the proceeds for the Group's business development. The proceeds to be raised from the Non-public A Share Issue, being approximately RMB12,000 million, are intended to be utilised as follows:

- (i) approximately RMB7,450 million will be allocated to the purchase of 15 new Boeing B787 aircrafts (including supplemental in-cabin facilities such as seats);
- (ii) approximately RMB800 million will be allocated to the upgrade of the e-commerce direct sale project of the Group;
- (iii) approximately RMB150 million will be allocated to the on-board WIFI (first phase) project; and

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## LETTER FROM OPUS CAPITAL

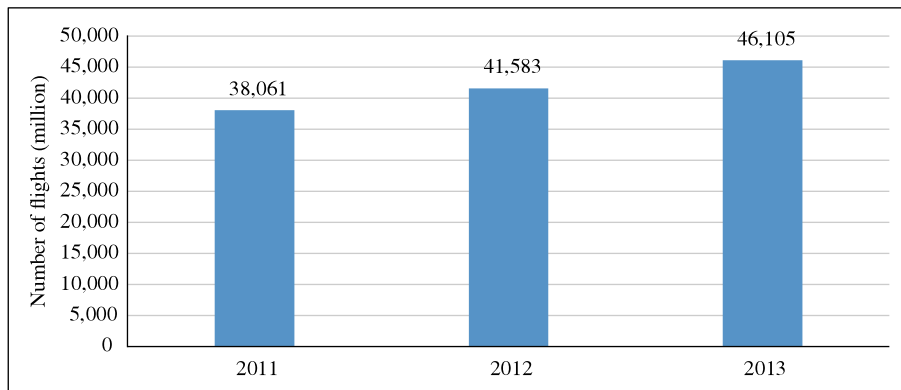
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- (iv) remaining balance of approximately RMB3,600 million will be used as general working capital.

### Market outlook of China's aviation industry

As stated earlier, since over 60% of the total revenue of the Group for both FY2013 and FY2014 was generated in China, we have therefore assessed the aviation market in China. Set out below is the total number of domestic flights in China as quoted from the Civil Aviation Administration of China ("CAAC"):

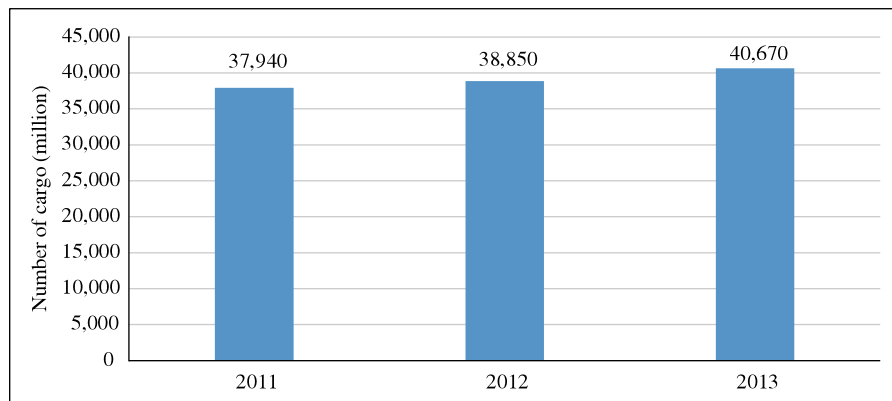
*Chart 1: Total number of domestic flights in China*



Source: CAAC

As shown in the above chart, the total number of domestic flights per year has increased from approximately 38,061 million in 2011 to approximately 46,105 million in 2013, representing a compound annual growth rate ("CAGR") of approximately 10.06%.

*Chart 2: Total number of domestic cargo in China*



Source: CAAC

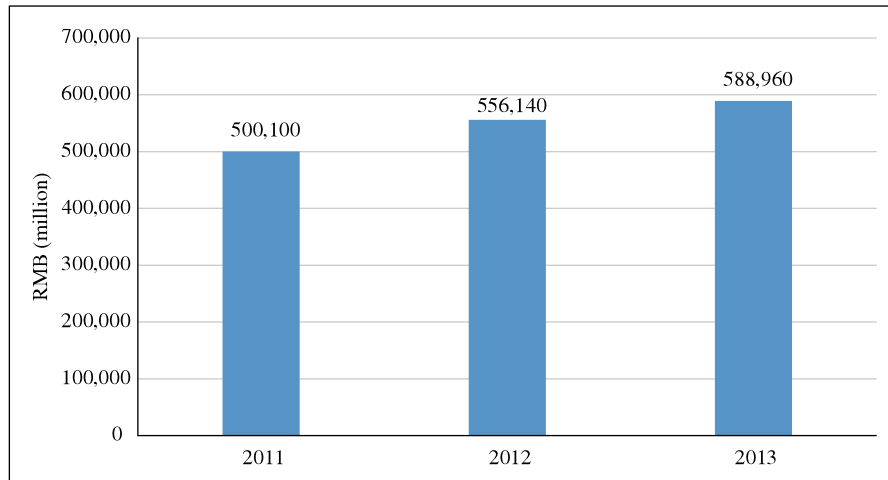
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## LETTER FROM OPUS CAPITAL

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As shown in the above chart, the total number of domestic cargo in China has increased from approximately 37,940 million in 2011 to approximately 40,670 million in 2013, representing a CAGR of approximately 3.54%.

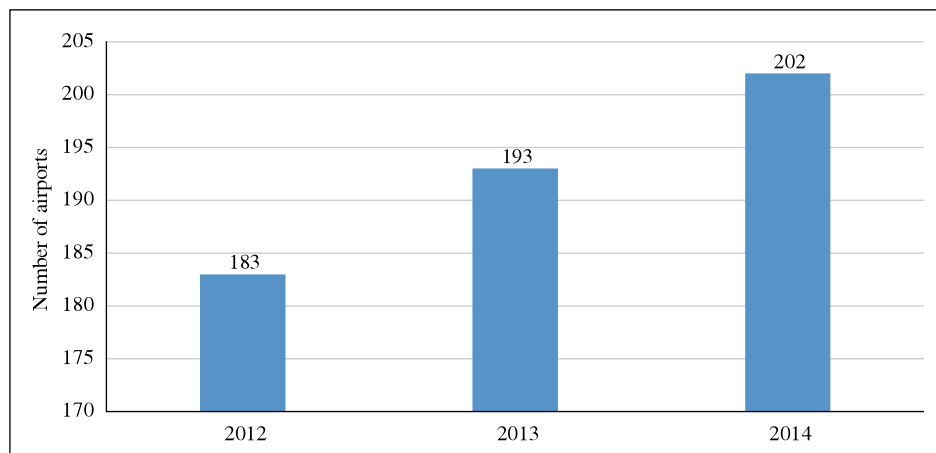
**Chart 3: Total revenue of the aviation industry in China**



Source: CAAC

As shown in the above chart, the total revenue of the aviation industry in China has increased from approximately RMB500,100 million in 2011 to approximately RMB588,960 million in 2013, representing a CAGR of approximately 8.52%.

**Chart 4: Total number of airports in China**



Source: CAAC

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## LETTER FROM OPUS CAPITAL

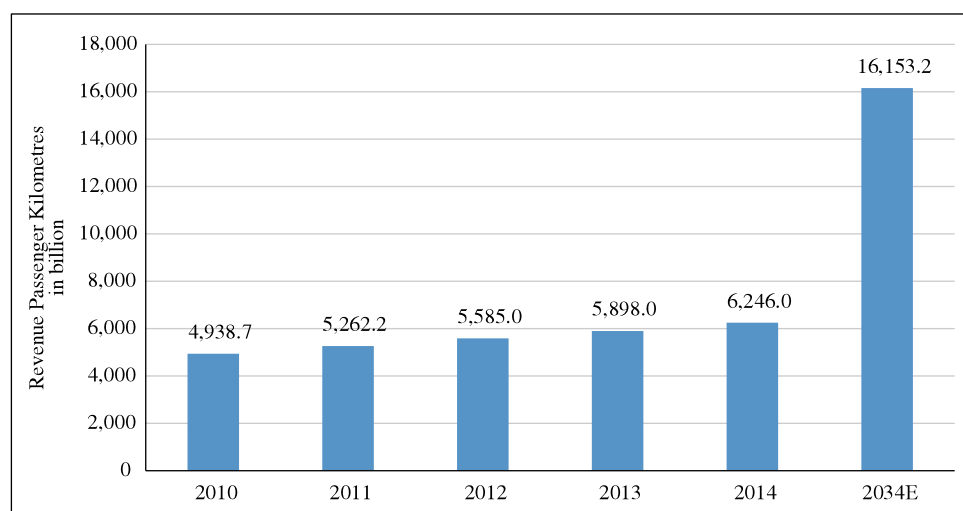
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As shown in the above table, the total number of airports in China has increased from 183 airports in 2012 to 202 airports in 2014, representing a CAGR of approximately 5.06%. In addition, according to an article by Thomson Reuters (<http://www.reuters.com/article/2015/06/24/china-aviation-investment-idUSL3N0ZA1KH20150624>), CAAC intends to invest approximately RMB500,000 million to develop 193 aviation projects in China, including but not limited to the construction of new airports and expansion of existing airports.

In view of the various positive data shown in the charts above, we are of the view that the outlook of the aviation industry in China appears to be positive and encouraging.

As stated above, over 30% of the total revenue of the Group was generated from countries/cities other than China. We have, therefore, also assessed the global market outlook of the aviation industry. Set out below is the global airline passenger traffic trends as quoted from a report titled “Current Market Outlook” issued by Boeing Company.

**Chart 5: Global airline passenger traffic trends**



Source: Current Market Outlook

As shown in the chart above, the global airline passenger traffic has shown an increasing trend from 2010 to 2014. The revenue passenger kilometres (“**RPKS**”), which is calculated by multiplying the number of revenue-paying passengers aboard by the distance travelled and is a measurement for the volume of passenger traffic, has increased from approximately 4,938.7 billion in 2010 to approximately 6,246.0 billion in 2014, representing a CAGR of approximately 6.05%. The estimated RPKS is expected to reach

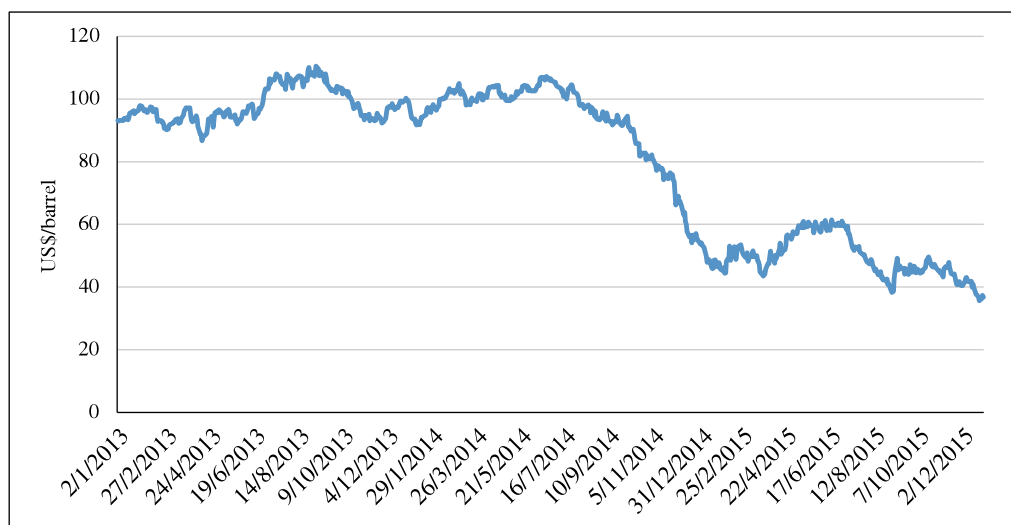
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## LETTER FROM OPUS CAPITAL

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approximately 16,153.2 billion in 2034. The increasing trend of global airline traffic has indicated a positive market outlook for the global aviation industry. Set out below is the indicator on oil prices trend, which is a major cost of operation for the aviation industry:

**Chart 6: Oil prices futures as quoted on the New York Mercantile Exchange**



Source: Bloomberg

As shown in the above chart, the oil price futures has recently indicated a general downward trend of the oil prices. The decreasing oil price will lower the cost for aviation companies and therefore encourage the growth of the aviation industry.

In light of the above, we consider that the Company is able to benefit from the continuous growth in the aviation market in China and globally. As discussed with the Management, as at the Latest Practicable Date, the current fleet of the Company consist of 263 Boeing's airplanes, 256 Airbus' airplanes and 21 other airplanes, where Boeing's airplanes constitute approximately 48.70% of the current fleet of the Company. The price of the Boeing 787 series ranges from US\$224.6 million to US\$306.1 million as stated on the website of Boeing Company. Therefore the quoted total cost of 15 Boeing B787 aircrafts ranges from approximately US\$3,369.0 million (equivalent to approximately RMB20,917 million) to US\$4,591.5 million (equivalent to approximately RMB28,507 million). As discussed with the Management, it is the Company's intention to finance the remaining amount required for the purchase of the 15 Boeing aircrafts by internal funding.

As stated in the Appendix I of this Circular, pursuant to the purchase agreement entered into between the Company and Boeing Company, seven, six and two Boeing B787 aircrafts will be delivered in 2016, 2017 and 2018, respectively. The 15 Boeing B787 aircrafts will be deployed mainly to routes originating from the Beijing hub of the Company, in an effort to increase the route coverage and flight frequency from the Beijing hub to North America and Europe and to enhance the competitiveness of the Company's air transportation business.



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## LETTER FROM OPUS CAPITAL

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Accordingly, we concur with the Directors' view that the allocation of approximately RMB7,450 million in the purchase of 15 new Boeing B787 aircrafts is reasonable.

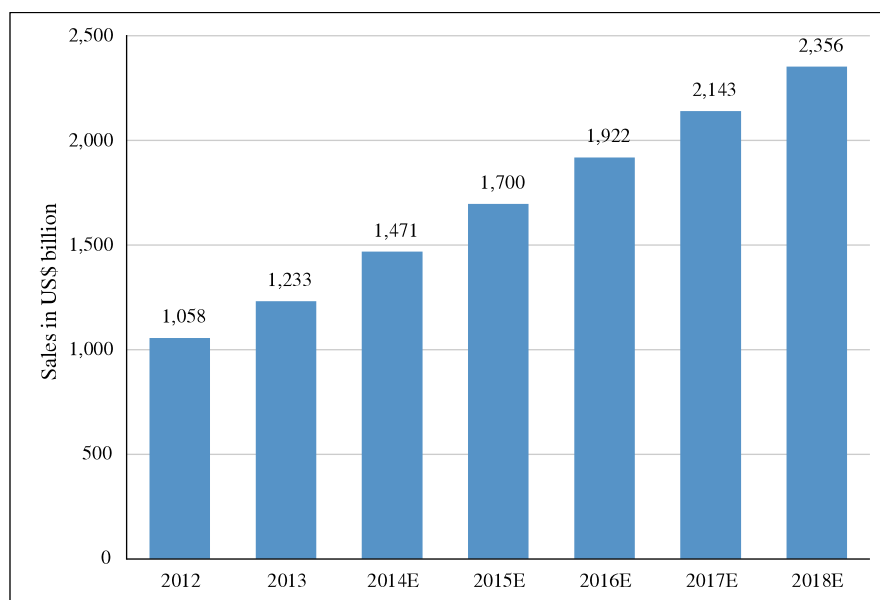
### Market outlook of e-commerce sales

As stated in the 2014 Annual Report, the e-commerce revenue of the Group has increased by approximately 26% as compared to FY2013 due to the strengthening of its direct marketing efforts and the launch of the reconstruction of the Group's business-to-consumer ("B2C") mobile application platform. As discussed with the Management, approximately 7.7%, 10.4% and 16.0% of the Group's ticket sales in FY2013, FY2014 and six months ended 30 June 2015 was generated via e-ticket sales channels respectively. Therefore, e-commerce sales is gradually becoming an important sales channel of the Group.

As stated in the Appendix I of this Circular, the Company plans to implement the upgrading of e-commerce platform for direct sales with approximately RMB800 million raised from the Non-public A Share Issue in a bid to increase its proportion of direct sales and reduce the marketing costs, so as to unify the order data and user data from various e-commerce channels (including the official website, call centres and mobile apps), ensuring consistency in user experience across all e-commerce channels.

Set out in the chart below is the B2C e-commerce sales worldwide from 2012 to 2018.

**Chart 7: B2C e-commerce sales worldwide 2012-2018**



Source: <http://ecommercenews.eu/key-e-commerce-trends-in-2015>

As shown in the chart above, worldwide e-commerce sales increased from approximately US\$1.06 trillion in 2012 to approximately US\$1.47 trillion in 2014, representing a CAGR of approximately 17.91%. It is expected to continue growing in the future years, with revenue reaching approximately US\$2.36 trillion by 2018, implying an estimated CAGR of approximately 14.27% from 2012.

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## LETTER FROM OPUS CAPITAL

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*Table 4: E-commerce sales share worldwide, by region, 2013-2018*

	2013	2014	2015	2016	2017	2018
North America	34.9%	32.9%	31.7%	31.1%	30.7%	30.6%
Asia-Pacific	28.3%	31.2%	33.4%	35.1%	36.4%	37.4%
Western Europe	26.4%	25.4%	24.6%	23.9%	23.3%	22.7%
Latin America	4.2%	4.3%	4.2%	4.1%	3.9%	3.7%
Central & Eastern Europe	4.1%	4.0%	3.8%	3.5%	3.3%	3.2%
Middle East & Africa	2.2%	2.3%	2.3%	2.4%	2.4%	2.5%

*Source: Emarketer, July 2014*

B2C e-commerce sales worldwide reached approximately US\$1.47 trillion in 2014, representing an increase of nearly 20% from 2013. As shown in the table above, Asia Pacific is the leading region for e-commerce sales in 2015 and represents approximately 33.4% of the total, compared with approximately 31.7% in North America and approximately 24.6% in Western Europe. This demonstrates the continuous growth in the Asia Pacific region, which augurs well for the Group's development of its e-commerce business.

In view of the various positive data on e-commerce sales as stated above, we are of the view that the outlook of the e-commerce industry appears positive and encouraging. Therefore, we concur with the Directors' view that the allocation of approximately RMB800 million to the development of the e-commerce business is reasonable.

As discussed with the Management and as stated in the news article titled "Three major Chinese airlines to provide in-flight wifi services" by China Daily.com.cn (the "**China Daily Article**"), we understand that the Company is one of the few aviation companies in China which have been approved by the China Government to launch in-flight wifi services. As discussed with the Management, we understand that it is the Company's business strategy to provide in-flight wifi services to maintain its competitiveness, as many other major airlines have already launched the in-flight wifi services as stated in the China Daily Article.

As discussed with the Management and as stated in the Appendix I of this Circular, the Company plans to make onboard WIFI service available on all its long-haul wide-body aircraft in the next three years. As at the Latest Practicable Date, the Company had a total of 90 long-haul wide-body aircrafts, of which 20 aircrafts have already completed their WIFI modification work. As discussed with the Management, based on the Company's current onboard WIFI modification cost of approximately RMB1.75 million each, the total modification cost of the remaining 70 will amount to approximately RMB123 million. Taking into account the costs for development and construction of the software platform under the project plan, the total investment of the Company's on-board WIFI (first phase) project is estimated to be approximately RMB158 million.

Therefore, we are of the view that the allocation of approximately RMB150 million to the on-board WIFI (first phase) project is fair and reasonable.

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## LETTER FROM OPUS CAPITAL

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As stated in the Letter from the Board, approximately RMB3,600 million will be allocated as general working capital of the Group. As disclosed in the 2014 Annual Report, the total selling and administrative expenses for FY2014 was approximately RMB6,468 million whilst such expenses was approximately RMB7,756 million for the nine months ended 30 September 2015. As the Group requires a significant amount of cash float for its daily operating expenses, we are of the view that applying approximately RMB3,600 million of the proceeds from the Non-public A Share Issue for general working capital of the Group is acceptable.

### **Other financing alternatives available to the Group**

As discussed with the Management, we note that when formulating the terms of the Non-public A Share Issue, the Directors have considered other various fund raising alternatives for the Group, including both debt financing and equity financing. We have enquired into and were informed by the Directors that in considering debt financing alternatives, they are of the view that additional bank borrowings will increase interest burden and repayment obligations of the Group and potentially may be subject to assets pledge by the Group.

Furthermore, according to the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》) and the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) issued by the CSRC (the “Measures”), the non-public issuance of new A shares is generally subject to a lock-up period of not less than: (i) 36-month period for (a) the controlling shareholders, their beneficial owners, or their associates; (b) investors who obtain the controlling power upon the completion of the issuance; and (c) strategic investors as introduced by the board of the company; or (ii) 12-month period for the other investors from the date of the completion of the issuance. With reference to the Letter from the Board, the A Shares to be issued under the Non-public A Share Issue to CNAHC shall not be transferable for a period of 36 months commencing from the completion of the Non-public A Share Issue. However, there is no similar compulsory regulatory requirement in relation to lock-up for H shares issuance listed in Hong Kong. In light of the aforementioned, the Directors are of the view that the issuance of new A Shares will defer and has limited any potential negative impact to the A Share market price of the Company with a lock-up period.

Having considered the above, we concur with the Directors’ view that the Non-public A Share Issue is fair and reasonable as far as the Independent Shareholders are concerned and in the interest of the Company.

### **PRINCIPAL TERMS 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

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## LETTER FROM OPUS CAPITAL

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Subscribers:

The new A Shares under the Non-public A Share Issue is proposed to be issued to not more than 10 Investors (including CNAHC). The Investors will be securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, other domestic legal person investors and natural persons that meet the requirements of the CSRC.

After the Company obtains the approval in respect of the Non-public A Share Issue from the CSRC, it will determine the Investors based on the subscription levels and price quoted by potential Investors, following the price priority principle.

CNAHC will remain as the controlling shareholder of the Company after the subscription of new A Shares under the Non-public A Share Issue by CNAHC and the Investors.

As at the Latest Practicable Date, the Company has not entered into any agreements with any Investor in connection with the Non-public A Share Issue. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the potential Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. It is expected that each of the Investors and their ultimate beneficial owners, upon subscription of the new A Shares under the Non-public A Share Issue, will remain an independent third party of the Company. The Company will use its best efforts to ensure that the Investors and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

Number of A Shares to be issued:

The number of A Shares to be issued under the Non-public A Share Issue will not be more than 1,520,912,547 A Shares (including A Shares to be subscribed by CNAHC under the CNAHC A Share Subscription), which is subject to adjustment to the Issue Price as set forth in the paragraph "Basis for determining the Issue Price" below if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance. Within the range of the issuance mentioned above, the ultimate number of A Shares to be issued will be determined by the Board and its authorised person(s) in accordance with the authorisation granted by the Shareholders at the EGM and the market conditions after consultation with the lead underwriter of the Non-public A Share Issue.

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## LETTER FROM OPUS CAPITAL

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Basis for determining the Issue Price:

The Issue Price of new A Shares shall be not less than RMB7.89 per A Share. The Issue Price is determined with reference to a benchmark price, which is 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date, which is RMB8.77 per A Share. The Issue Price so determined is in accordance with the requirements under the Implementation Rules for Non-public Issue of Shares by Listed Companies (《上市公司非公开发行股票实施细则》).

After obtaining the relevant approval from the CSRC, the final Issue Price will be determined by the Board and its authorised person(s) in accordance with the authorisation granted by the Shareholders at the EGM, and the subscription levels and price quoted by potential Investors based on the price priority principle after consultation with the lead underwriter for the Non-public A Share Issue. CNAHC will not take part in the bidding in the bookbuilding under the Non-public A Share Issue and will make subscription at the same price as the other subscribers. The Issue Price will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance.

Lock-up Arrangement:

The new A Shares to be subscribed for by the Investors shall not be disposed of within 12 months from the completion date of the issuance of such new A Shares.

### CNAHC A SHARES SUBSCRIPTION

Parties:

- (1) the Company as issuer; and
- (2) CNAHC as subscriber.

Number of A Shares to be subscribed for:

CNAHC will commit no more than RMB4,000 million to subscribe for not more than 506,970,849 A Shares to be issued under the Non-public A Share Issue, which is subject to adjustment as a result of an adjustment to the Issue Price as set forth in the paragraph “Basis for determining the Issue Price” above if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Benchmark Date to the date of issuance.

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## LETTER FROM OPUS CAPITAL

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Subscription price: The Issue Price of the new A Shares to be subscribed for by CNAHC shall be the same as the final Issue Price for the Investors to be determined by the Company in the manner as set forth in the paragraph “Basis for determining the Issue Price” above. The Company and CNAHC will execute a written confirmation in respect of the final Issue Price and the number of new A Shares to be issued to CNAHC under the CNAHC A Share Subscription once they are determined.

The subscription price will, pursuant to the terms of the Share Subscription Agreement, be paid in cash into the special savings account as designated by the lead underwriter when the Company issues the new A Shares to CNAHC after the Company obtains, among other things, the approval from the CSRC for the Non-public A Share Issue.

Conditions for the Share Subscription Agreement: The Share Subscription Agreement will take effect on the date when all of the following conditions are met:

- (1) the Share Subscription Agreement is duly executed by both the Company and CNAHC;
- (2) the approvals from the Independent Shareholders by way of special resolutions of the Non-public A Share Issue at both the EGM and the Class Meetings are obtained;
- (3) the approvals from the Independent Shareholders by way of special resolutions of the Share Subscription Agreement at both the EGM and the Class Meetings are obtained; and
- (4) all necessary approvals, consents from the relevant governmental and regulatory authorities, including but not limited to the approvals from the SASAC and the CSRC, in relation to the Non-public A Share Issue are obtained.

Lock-up Arrangement: Pursuant to the relevant rules of the 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.

### ANALYSIS ON THE SUBSCRIPTION PRICE BY CNAHC

As stated in the Letter from the Board, the subscription price of new A Shares pursuant to the CNAHC A Shares Subscription (the “**Subscription Price**”), which shall be the same as the final Issue Price, shall not be less than RMB7.89 per A Share. For illustrative purpose, we have analysed the Subscription

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## LETTER FROM OPUS CAPITAL

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Price using the minimum Issue Price of RMB7.89 per A Share. For the purpose of assessing the fairness and reasonableness of the Subscription Price, we have compared the Subscription Price with reference to: (i) the recent price performance of the A Shares; and (ii) the market comparable analysis, as follows:

### Review on A Shares price performance

The following table illustrates the highest and lowest closing price and the average closing price of the A Shares as quoted on Bloomberg in each of the months during the 12-month period prior to 12 December 2015, being the Pricing Benchmark Day, which commenced from 13 December 2014 up to and including the Pricing Benchmark Day (the “**Review Period**”). We consider the 12-month review period is sufficient to illustrate the recent performance of the A Shares.

*Table 5: Historical daily closing prices of the A Shares*

Month	Highest daily closing price of the Shares (RMB)	Lowest daily closing price of the Shares (RMB)	Average daily closing price of the Shares (RMB)	Number of trading days in each month
<b>2014</b>				
December ( <i>Note</i> )	8.50	7.06	7.67	13
<b>2015</b>				
January	9.17	7.69	8.45	20
February	7.90	6.84	7.33	15
March	10.03	7.25	8.65	22
April	13.59	9.84	11.08	21
May	12.82	10.56	11.68	20
June	15.36	11.72	13.04	20
July	14.50	11.75	13.10	3
August	12.28	6.85	10.18	21
September	8.59	7.21	7.87	20
October	9.46	7.77	8.72	17
November	9.86	8.07	9.19	21
December (up to the Pricing Benchmark Day)	8.67	8.11	8.40	9

*Source: Bloomberg*

*Note:* For December 2014, the daily closing price of the Shares taken is from 13 December 2014.

During the Review Period, the daily closing price of the A Shares ranged from a low of RMB6.84 per A Share in February 2015 to a high of RMB15.36 per A Share in June 2015. In addition, the following chart highlights the movements of: (i) the daily closing price of the A Shares as quoted on Bloomberg during the

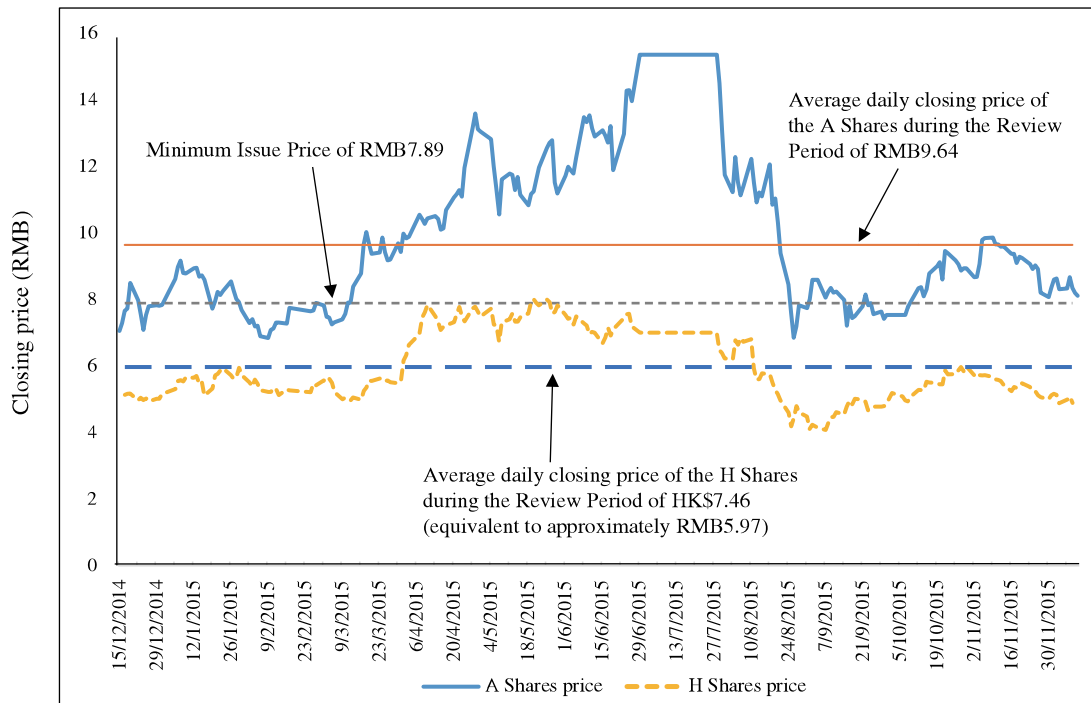
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## LETTER FROM OPUS CAPITAL

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Review Period; and (ii) the daily closing price of the H Shares (presented in RMB equivalent based on the exchange rate of RMB1.00 to HK\$1.25) as quoted on the Hong Kong Stock Exchange during the Review Period, respectively:

**Chart 8: Closing price of the A Shares and the H Shares during the Review Period**



Source: Bloomberg

During the Review Period, the H Shares traded at closing prices in the range of HK\$5.10 (equivalent to approximately RMB4.08) per H Share to HK\$10.02 (equivalent to approximately RMB8.02) per H Share, with an average closing price of approximately HK\$7.46 (equivalent to approximately RMB5.97) per H Share during the Review Period. In addition, the A Shares traded at closing prices in the range of RMB6.84 per A Share to RMB15.36 per A Share, with an average closing price of approximately RMB9.64 per A Share for the Review Period.

We note that the minimum Issue Price is below the average daily closing price of the A Shares and above the average closing price the H Shares during the Review Period. The minimum Issue Price of RMB7.89 represents:

- (i) a discount of approximately 48.63% from the highest daily closing price of the A Shares of RMB15.36 during the Review Period;
- (ii) a premium of approximately 15.35% from the lowest daily closing price of the A Shares of RMB6.84 during the Review Period;



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## LETTER FROM OPUS CAPITAL

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- (iii) a discount of approximately 18.15% from the average daily closing price of the A Shares of RMB9.64 during the Review Period;
- (iv) a discount of approximately 1.62% from the highest daily closing price of the H Shares of HK\$10.02 (equivalent to RMB8.02) during the Review Period;
- (v) a premium of approximately 93.38% from the lowest daily closing price of the H Shares of HK\$5.10 (equivalent to RMB4.08) during the Review Period; and
- (vi) a premium of approximately 32.16% from the average daily closing price of the H Shares of HK\$7.46 (equivalent to RMB5.97) during the Review Period.

Although the minimum Issue Price of RMB7.89 is below the average daily closing price of the A Shares of approximately RMB9.64 for the Review Period, the minimum Issue Price is set at 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Day, which is in accordance with the requirements under the Implementation Rules for Non-public Issue of Shares by Listed Companies.

### **Comparison with other comparable companies**

In order to reflect the general trend of non-public A share issues in the recent market, we have on a best effort basis, conducted a search of all recent non-public A share issues that were announced by companies listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange or the Shenzhen Stock Exchange during the six-month period immediately before the Pricing Benchmark Day, which commenced from 13 June 2015 up to and including the Pricing Benchmark Day (the “**Comparison Period**”). We are of the opinion that due to the volatility of the share price of the companies listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the Comparison Period reflects a fair and recent period of comparison for the Non-public A Share Issue. During the Comparison Period and based on our research conducted, we have identified a total of 8 non-public A share issues announced (the “**Non-public A Share Issue Comparables**”). To the best of our knowledge effort and endeavour and based on our search conducted, the list of the Non-public A Share Issue Comparables is an exhaustive list of non-public A share issues for comparison purpose. However, Shareholders should note that the businesses, operations and prospects of the Company are not the same as those companies involved in the Non-public A Share Issue Comparables and we have not conducted any in-depth investigation into their businesses and operations. As such, we believe that the Non-public A Share Issue Comparables are fair and indicative in reflecting the current market conditions although not all the A shares under the Non-public A Share Issue Comparables are issued to connected persons of the respective issuers. The details are set out below:

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**LETTER FROM OPUS CAPITAL**

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**Table 6: Comparable analysis of the Non-public A Share Issue Comparables**

Date of announcement	Name of issuer	Stock code		Premium/(discount) of the issue price to the closing price per share on the last trading days prior to/on the date of the announcements (%)	
		A Shares	H Shares	A Shares	H Shares
3/7/2015	Zijin Mining Group Company Ltd.	601899.SH	2899.HK	(8.02)	102.45
25/8/2015	Metallurgical Corporation of China Ltd.	601618.SH	1618.HK	(11.17)	202.45
28/8/2015	Great Wall Motor Co. Ltd.	601633.SH	2333.HK	1.52	42.80
10/9/2015	Chongqing Iron & Steel Co. Ltd.	601005.SH	1053.HK	(12.47)	228.23
8/10/2015	Shandong Xinhua Pharmaceutical Company Ltd.	000756.SZ	0719.HK	(22.84)	134.00
2/11/2015	Livzon Pharmaceutical Group Inc.	000513.SZ	1513.HK	(44.76)	19.89
12/11/2015	Shenji Group Kunming Machine Tool Co. Ltd.	600806.SH	0300.HK	(18.76)	218.06
4/12/2015	Shanghai Electric Group Co. Ltd.	601727.SH	2727.HK	(7.30)	170.53
Minimum premium/maximum discount				(44.76)	19.89
Maximum premium/minimum discount				1.52	228.23
Average				(15.48)	139.80
<b>Company</b>	<b>Air China Ltd.</b>	<b>601111.SH</b>	<b>0753.HK</b>	<b>(2.71)</b>	<b>63.29</b>

Source: Hong Kong Stock Exchange, Bloomberg

As shown in the above table, the respective issue prices of the Non-public A Share Issue Comparables ranged from discount of approximately 44.76% to premium of approximately 1.52% with an average discount of approximately 15.48% to the relative closing prices of their A shares on the last trading days prior to/on the date of the release of the respective non-public A share issue announcements. The discount of approximately 2.71% to the closing price of the A Shares prior to the Pricing Benchmark Day as represented by the minimum Issue Price hence falls below the average discount.

The respective subscription prices/issue prices of the Non-public A Share Issue Comparables represented a premium ranging from approximately 19.89% to approximately 228.23% with an average premium of approximately 139.80% to the relative closing prices of their H shares on the last trading days prior to/on the date of the release of the respective non-public A share issue announcements. The premium

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## LETTER FROM OPUS CAPITAL

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of approximately 63.29% to the closing price of the H Shares on the Last Trading Day as represented by the minimum Issue Price hence falls within the premium range and is below the average premium of that of the Non-public A Share Comparables.

In addition, the minimum Issue Price of RMB7.89 is the lowest possible Subscription Price and eventually may be set at a higher price than RMB7.89. As stated in the Share Subscription Agreement, CNAHC will not be involved in the process of determination of the final Issue Price and will subscribe at the same final Issue Price as the Investors. Therefore, in light of the above, we are of the view that the Subscription Price is fair and reasonable.

Based on the above and having considered in particular that:

- (i) the Company has specific funding needs for development of its existing business as discussed in the sub-section in this letter headed “Reasons for the Non-public A Share Issue and the use of proceeds”;
- (ii) the discount represented by the minimum Issue Price to the closing price of the A Shares prior to the Pricing Benchmark Day is below the average discount of the corresponding subscription/issue prices of the A shares of the Non-public A Share Issue Comparables to the A share prices on the last trading days of the respective non-public A share issue announcements; and
- (iii) although the minimum Issue Price represents a discount of the average daily closing price of the A Shares, it presents a premium over the H Shares respectively during the Review Period,

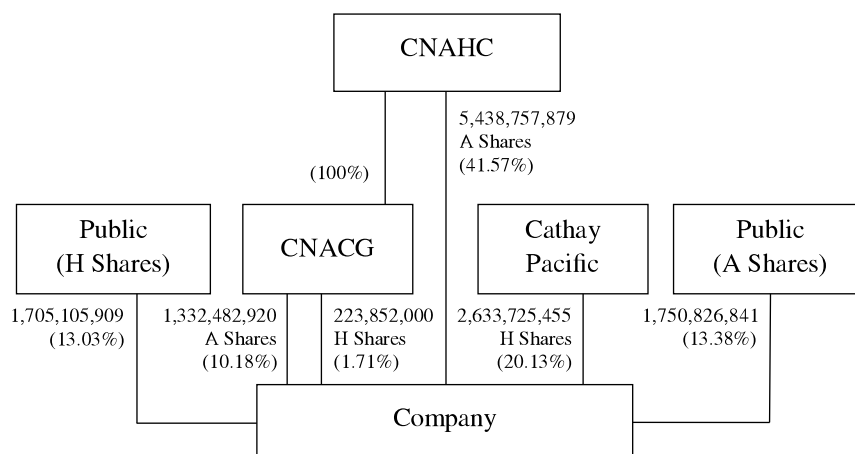
we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM OPUS CAPITAL

### POSSIBLE DILUTION EFFECT OF THE NON-PUBLIC A SHARE ISSUE

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

*Chart 9: The shareholding structure of the Company as at the Latest Practicable Date*



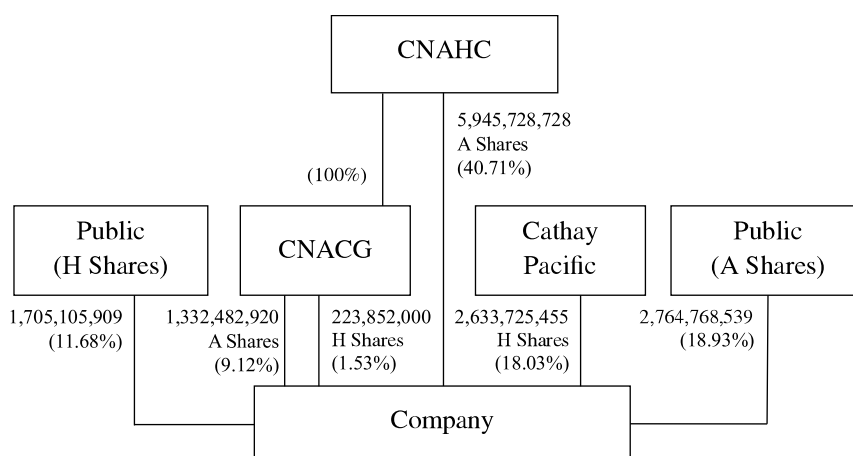
Shareholder	Number of Shares held	Percentage of the total issued share capital of the Company
A Shareholders	8,522,067,640	65.13%
H Shareholders	4,562,683,364	34.87%
<b>Total</b>	<b>13,084,751,004</b>	<b>100.00%</b>

*Note: The percentages shown are rounded to the nearest 2 decimal places.*

## LETTER FROM OPUS CAPITAL

Immediately following the completion of the Non-public A Share Issue, assuming that: (i) CNAHC has subscribed for 506,970,849 new A Shares; (ii) the Investors (which are all independent third parties of the Company after subscription of A Shares under the Non-public A Share Issue) have in aggregate subscribed for 1,013,941,698 new A Shares; and (iii) no additional Shares will be issued after the date of this Circular until the completion of the Non-public A Share Issue, it is anticipated that the shareholding structure of the Company will be as follows:

**Chart 10: The shareholding structure of the Company immediately following the completion of the Non-public A Share Issue**



Shareholder	Number of Shares held	Percentage of the total issued share capital of the Company
A Shareholders	10,042,980,187	68.76%
H Shareholders	4,562,683,364	31.24%
<b>Total</b>	<b>14,605,663,551</b>	<b>100.00%</b>

*Note: The percentages shown are rounded to the nearest 2 decimal places.*

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## LETTER FROM OPUS CAPITAL

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The table below sets out the dilution impact immediately upon the completion of the Share Subscription Agreement and the Non-public A Share Issue on the existing A Shareholders not participating in the Non-public A Share Issue and H Shareholders, respectively, assuming that (i) CNAHC has subscribed for 506,970,849 new A Shares; (ii) the Investors have in aggregate subscribed for 1,013,941,698 new A Shares; and (iii) no additional Shares will be issued after the date of this Circular until the completion of the Non-public A Share Issue.

Shareholders	Before the Completion of the Share Subscription Agreement and the Non-public A Share Issue		Upon Completion of the Share Subscription Agreement but not counting A Shares to be subscribed by the Investors		Upon Completion of the Share Subscription Agreement and the Non-public A Share Issue	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
A Shareholders						
CNAHC (including A Shares held by CNACG)	6,771,240,799	51.75	7,278,211,648	53.55	7,278,211,648	49.83
Other A Shareholders not participating in the Non- public A Share Issue	1,750,826,841	13.38	1,750,826,841	12.88	1,750,826,841	11.99
Investors	—	—	—	—	1,013,941,698	6.94
Sub-total	8,522,067,640	65.13	9,029,038,489	66.43	10,042,980,187	68.76
H Shareholders						
CNACG	223,852,000	1.71	223,852,000	1.65	223,852,000	1.53
Cathay Pacific	2,633,725,455	20.13	2,633,725,455	19.38	2,633,725,455	18.03
Public shareholders	1,705,105,909	13.03	1,705,105,909	12.54	1,705,105,909	11.68
Sub-total	4,562,683,364	34.87	4,562,683,364	33.57	4,562,683,364	31.24
<b>Total</b>	13,084,751,004	100	13,591,721,853	100	14,605,663,551	100

*Note: The percentages shown are rounded to the nearest 2 decimal places.*

As shown in the table above, the shareholding structure of the A Shareholders who are not participating in the Non-public A Share Issue will be diluted from approximately 13.38% of the issued share capital of the Company before the Share Subscription Agreement and the Non-public A Share Issue to approximately 11.99% immediately after completion of the Share Subscription Agreement and the Non-public A Share Issue. The H Shareholders will be diluted from approximately 34.87% of the issued share capital of the Company before the Share Subscription Agreement and the Non-public A Share Issue to approximately 31.24% immediately after completion of the Share Subscription Agreement and the Non-public A Share Issue.

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## LETTER FROM OPUS CAPITAL

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Having considered that: (i) the Non-public A Share Issue is required to raise funds for the Group's existing business development; (ii) the CNAHC A Share Subscription can serve as an incentive to motivate CNAHC to be more committed to the development of the Group's business; (iii) the terms of the Share Subscription Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iv) the terms of the CNAHC A Share Subscription are at the same terms as the other Investors in the Non-public A Share Issue, we are of the view that the dilution effect is acceptable.

### **POSSIBLE FINANCIAL EFFECTS OF THE NON-PUBLIC A SHARE ISSUE**

#### **Effect on net asset value**

According to the 2015 Third Quarterly Report, the net assets of the Group as at 30 September 2015 was approximately RMB68,182.07 million. Upon completion of the Non-public A Share Issue, the net assets of the Group will increase. As such, the Non-public A Share Issue is expected to have a positive impact on the financial position of the Group.

#### **Effect on working capital and liquidity**

As stated in the Letter from the Board, the gross proceeds from the Non-public A Share Issue is estimated to be approximately RMB12,000 million. Immediately after the completion of the Non-public A Share Issue, the net proceeds should therefore have a positive effect on the working capital and improve the Group's liquidity position.

#### **Effect on gearing**

As confirmed by the Directors, the total assets of the Group would be enlarged upon completion of the Non-public A Share Issue but there is no change to the total liabilities of the Group due to the Non-public A Share Issue. As stated in the 2014 Annual Report, the Group's gearing ratio is calculated from total liabilities divided by total assets. Consequently, the gearing ratio of the Group will reduce immediately upon completion of the Non-public A Share Issue.

### **RECOMMENDATION**

Having taken into consideration, in particular that:

- (i) the proceeds of the Non-public A Share Issue will be allocated to the development of the existing business of the Group;
- (ii) although the minimum Issue Price is at a discount to the average daily closing price of A Shares, it represents a premium over average daily closing price of the H Shares during the Review Period;
- (iii) the discount represented by the minimum Issue Price to the closing price of the A Shares prior to the Pricing Benchmark Day is below the average discount of the corresponding subscription/issue prices of the A shares of the Non-public A Share Issue Comparables to the A share prices on the last trading day of the respective non-public A share issue announcements;

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## LETTER FROM OPUS CAPITAL

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- (iv) the minimum Issue Price is the lowest possible Subscription Price and CNAHC will not be involved in the process of determination of the final Issue Price;
- (v) the terms of the Share Subscription Agreement are the same as the terms for the other Investors in the Non-public A Share Issue; and
- (vi) the dilution effect of the Non-public A Share Issue is acceptable,

we are of the view that although the CNAHC A Share Subscription is not in the ordinary and usual course of business of the Company, the terms of the CNAHC A Share Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the CNAHC A Share Subscription.

Yours faithfully,  
For and on behalf of  
**Opus Capital Limited**

**Alvin Lai**  
*Chief Executive Officer*

**Koh Kwai Yim**  
*Executive Director*

Mr. Alvin Lai is the Chief Executive Officer of the Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Lai has over 15 years of financial industry, investments, corporate finance and legal experience in Asia and Australia. Mr. Lai is a qualified legal practitioner in New South Wales, Australia. Mr. Lai has acted as financial adviser and/or independent financial adviser to many companies and transactions involving fundraising and/or mergers and acquisition in Asia.

Ms. Koh Kwai Yim is the Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Lina Koh has over 15 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.



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## APPENDIX I      FEASIBILITY STUDY REPORT ON USE OF PROCEEDS FROM THE NON-PUBLIC A SHARE ISSUE

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*The Feasibility Report on Use on 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:*

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

Air China/Company/Issuer	中國國際航空股份有限公司 (Air China Limited)
Board	the board of directors of Air China Limited
General Meeting	the general meeting of Air China Limited
Articles of Association	the articles of association of Air China Limited
A Shares	the ordinary shares of Air China, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
Issuance/Non-public Issuance/Non-public Issuance of A Shares	the proposed non-public issuance of not more than 1,520,912,547 (inclusive) A Shares with a par value of RMB1 per share to specific subscribers by Air China Limited
Feasibility Study Report	the feasibility study report on use of proceeds from the non-public issuance of A Shares of Air China Limited (Revision)
Pricing Base Day	the date of announcement of the resolution(s) in the 25th meeting of the 4th session of the Board of Air China
RMB, RMB10,000 and RMB100 million	Renminbi 1 Yuan, Renminbi 10,000 Yuan, Renminbi 100 million Yuan

*Note:* In the Feasibility Study Report, any discrepancies in any tables between totals and sums of amounts listed are due to rounding.

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**SECTION 1   PLAN ON USE OF PROCEEDS**

The total proceeds to be raised from the Issuance shall be no more than RMB12.00 billion (inclusive) and will be used for the following purposes after deducting the cost of Issuance:

<b>No.</b>	<b>Project name</b>	<b>Amount to be invested (RMB100 million)</b>	<b>Amount of proceeds to be used (RMB100 million)</b>
1	Purchase of 15 Boeing B787 aircraft (including other inflight ancillary facilities such as seatback)	240.00	74.50
2	Upgrading of the e-commerce platform for direct sales	8.90	8.00
3	Onboard WIFI Project (Phase I)	1.58	1.50
4	Replenishment of working capital	36.00	36.00
	<b>Total</b>	<b>286.48</b>	<b>120.00</b>

**1.   PURCHASE OF 15 BOEING B787 AIRCRAFT (INCLUDING OTHER INFLIGHT  
ANCILLARY FACILITIES SUCH AS SEATBACK)**

The Company plans to purchase 15 Boeing B787 aircraft with RMB7.45 billion raised from the Non-public Issuance of A Shares, for which approval (Fa Gai Jiao Yun [2005] No. 1215) has been issued by the National Development and Reform Commission.

According to the 2014 product catalogue published by Boeing, the price of each Boeing B787 aircraft is USD257.1 million, which is equivalent to approximately RMB1,594 million based on the exchange rate of USD1=RMB6.2. Therefore, the total catalogue price of 15 Boeing B787 aircraft will be approximately RMB24.00 billion, RMB7.45 billion of which is to be paid with the proceeds from the Non-public Issuance of A Shares by the Company.

**2.   UPGRADING OF THE E-COMMERCE PLATFORM FOR DIRECT SALES**

The Company plans to implement the upgrading of e-commerce platform for direct sales with RMB800.00 million raised from the Non-public Issuance of A Shares in a bid to increase its proportion of direct sales and reduce the marketing costs, so as to unify the order data and user data from various e-commerce channels (including the official website, call centres and mobile apps), ensuring consistency in user experience across all e-commerce channels. Meanwhile, the Company plans to integrate user data and order data by upgrading its e-commerce platform, thereby equipping ourselves with the technology required for big data mining of passengers in the future. The total investment of the project is RMB890 million, RMB800 million of which is to be paid by proceeds from the Issuance. The implementation period of the project is 36 months.

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### **3.     ONBOARD WIFI PROJECT (PHASE I)**

The Company intends to implement the Onboard WIFI Project (Phase I) with RMB150 million raised from the Non-public Issuance of A Shares by the Company. The project mainly includes installation of WIFI facilities and development of relevant software platforms. The total investment of the project is RMB158 million, RMB150 million of which is to be paid by the proceeds from the Issuance. The construction period of the project is 36 months.

### **4.     REPLENISHMENT OF WORKING CAPITAL**

The Company intends to replenish its working capital with RMB3.60 billion raised from the Non-public Issuance of A Shares, with a view to optimising financial structure, improving short-term solvency and catering to the funding needs arising from its growing operation.

In the event that the actual proceeds raised from the Non-public Issuance of A Shares, after deducting the cost of Issuance, is less than the total amount of the proceeds to be invested in the above-mentioned projects, the Company will adjust and finalise the priority of the proceeds to be invested and specific investment amount for each project based on, among others, the actual net proceeds raised and the priority of the projects. The shortfall will be paid out of the funds of the Company. Before the proceeds from the Non-public Issuance of A Shares are available, the Company will first advance the investment amount based on the actual progress of the projects, and the advance will be repaid in accordance with relevant laws and regulations upon receipt of the proceeds.

## **SECTION 2   POTENTIAL AND FEASIBILITY ANALYSIS OF THE INVESTMENT PROJECTS TO BE FINANCED BY THE PROCEEDS**

### **1.     PURCHASE OF 15 BOEING B787 AIRCRAFT (INCLUDING OTHER INFLIGHT ANCILLARY FACILITIES SUCH AS SEATBACK)**

#### **(1)     Potential of the project**

Thanks to various favourable factors including boosted domestic consumption, appreciation of the RMB and relaxed visa approval policy over the recent years, demand for outbound air transport services in China continues to maintain a rapid and healthy growth momentum. According to the *2014 World Tourism Barometer* recently released by the United Nations World Tourism Organization, China maintained its position as the world's largest outbound tourism market from 2012 to 2014. The number of China's outbound tourists reached 109 million in 2014, up from 98 million in the previous year, and is expected to jump to 250 million by 2020, with an annual growth rate of over 15%. Among all outbound destinations, America and Europe are increasingly popular.

In order to better meet the rapidly growing demand for outbound air transport services in China, Air China, while focusing on optimising its fleet structure by proactively phasing out aircraft with a long operating history and low efficiency, is expanding its fleet by adding new aircraft models with mature technology, excellent performance and high cost-efficiency in a timely manner, with an

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aim to improving its transport capacity and better serving its long-upheld business principle of “striking a balance between domestic and international markets while expanding overseas business on the back of the well-established domestic operation”.

The Boeing B787 is a new-generation medium-to-long-haul, mid-size, wide-body, twin-engine airliner developed by Boeing. Known for its high fuel efficiency, excellent travelling comfort and low maintenance cost, the Boeing B787 is capable of covering more point-to-point long-haul nonstop routes in an efficient manner. The 15 Boeing B787 aircraft will be deployed mainly to routes originating from the Beijing hub of Air China, in an effort to increase the route coverage and flight frequency from the Beijing hub to North America and Europe. In 2014, Air China (including Shenzhen Airlines) accounted for over 45% of the utilised time slots at the Beijing hub (for domestic aviation companies only), ranking first in market share. Upon inauguration, the deployment of the 15 Boeing B787 aircraft will further optimise the Company’s fleet structure and increase the Company’s influence at the Beijing hub.

### **(2) Approval status and investment budget of the project**

Approval (Fa Gai Jiao Yun [2005] No. 1215) issued by the National Development and Reform Commission has already obtained for the 15 Boeing B787 aircraft which the Company intends to purchase using the proceeds from the Issuance.

According to the 2014 product catalogue published by Boeing, the price of each Boeing B787 aircraft is USD257.1 million, which is equivalent to approximately RMB1,594 million based on the exchange rate of USD1=RMB6.2. Therefore, the total catalogue price of 15 Boeing B787 aircraft will be approximately RMB24.00 billion, RMB7.45 billion of which is to be paid with the proceeds from the Non-public Issuance of A Shares of the Company.

### **(3) Technical feasibility of the project**

The Boeing B787 aircraft, also known as the “Dreamliner”, is the first new model introduced by Boeing since its launch of the Boeing 777 Programme in 1990. The airliner had its successful test flight on 15 December 2009, and was delivered and put into service since 2011. The Boeing B787 aircraft has a length of 63 metres, wingspan of 60 metres, height of 16.92 metres, width of 5.75 metres, maximum takeoff weight of 247 tonnes, cruise speed of Mach 0.85, flight range of 8,000 nautical miles at full load, and is equipped with 250-290 seats. As at June 2015 Boeing delivered 292 Boeing B787 aircraft to users worldwide, with nearly 1,000 aircraft yet to be delivered.

Compared with other traditional airliners, the Boeing B787 is characterised by the following salient features: higher engine compression ratio to improve thrust and reduce fuel consumption; automatic curvature control for trailing-edge flaps achieved by the new onboard computer based on the altitude, speed and load conditions during the flight, so as to improve aerodynamic efficiency, reduce air resistance and reduce the load borne by the wings, allowing reduced weight of the wing structure; application of composite materials to manufacture airframe components including purlins and empennages, which has not only thoroughly eliminated the hidden hazards of metal fatigue, but also reduce subsequent safety maintenance costs by embedding optical fibre tubes in the composite

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materials to allow real-time monitoring of aircraft conditions; and integration of open-ended architecture design in the cockpit, which enables software upgrades and eliminates the need for more expensive hardware upgrades.

**(4) To further enhance passenger experience and optimize service quality upon completion of the project**

To improve passenger experience and customer service quality, Air China will introduce a range of advanced devices on the Boeing B787 aircrafts to be purchased.

For example, all business class seats are equipped with reverse-herringbone lie-down armchairs, to ensure every passenger enjoying the convenience of straight-through aisles and wide space as well as privacy, coupled with an exclusive table and a small cabinet. For coach class, the seatback featuring the latest ergonomic design can provide an appropriate arc to well support body weight, with an adjustable footrest to cater for passengers of different heights. There are pads at both sides of the adjustable pillow, to provide ideal protection and support to head and neck. The latest streamlined design of seatback allows for a wide storage space under the seat to accommodate bulky baggage. Each seat is equipped with an 11-inche high-resolution touch screen to provide flight information, audio on demand, video on demand, dynamic map, games, shopping, meal menu, passenger survey and other services through the journey, as well as independent audio jack and power and USB sockets for easy charging in a long-distance flight.

**(5) Economic feasibility analysis of the project**

The purchase and inauguration of Boeing B787 aircraft can improve the Company's operational transport capacity, expand the traffic volumes of its main routes and increase revenue from the relevant routes. Pursuant to the purchase agreement entered into between Air China and Boeing, seven, six and two Boeing B787 aircraft will be delivered in 2016, 2017 and 2018, respectively. The 15 Boeing B787 aircraft will be deployed mainly to routes originating from the Beijing hub of Air China, in an effort to increase the route coverage and flight frequency from the Beijing hub to North America and Europe and to enhance the competitiveness of the Company's air transportation business. It is preliminarily estimated that the 15 Boeing B787 aircraft after inauguration will contribute RMB7,215 million to the Company's revenue per annum.

## **2. UPGRADING OF THE E-COMMERCE PLATFORM FOR DIRECT SALES**

**(1) Potential of the project**

The current ticket sales channels of Air China can be classified into two models: distribution and direct sales. The former mainly comprises distribution channels including ticket agency companies, online travel agencies (OTAs), travel wholesalers and third-party travel management companies, and the latter mainly includes direct sales channels such as aviation companies' official websites, telesales service centres, mobile apps and counters of sales offices. Currently, tickets sold through distribution channels still account for more than 70% of the total tickets sold by domestic aviation companies each year. Despite securing a more extensive customer base for aviation

companies, distribution channels also have their disadvantages, such as high agency commission, vulnerability to vicious price competition and obstacles for airlines in advanced big data mining of passengers. In developed regional markets in Europe and America, revenue from direct sales of the hub network-oriented aviation companies accounts for nearly 50% of their total revenue. It is inevitable for aviation companies to “increase the proportion of direct sales and reduce the proportion of distribution” in the future, which will help to cut sales expenditures, enhance the automation level of air services and improve profitability.

The direct sales model of aviation companies has evolved rapidly in recent years due to the joint promotion and combined effects of various factors including the development of mobile Internet-based technology and e-commerce technology as well as changes in passengers’ preference in ticket booking channels. In 2014, revenue from direct sales accounted for 23% of the Company’s total revenue. In line with its established strategy, Air China will aggressively develop the direct sales model focusing on the e-commerce platform, step up the transformation of marketing and innovation and achieve precision direct sales by drawing upon its current “PhoenixMiles” frequent flyer programme and making full use of modern IT technology in the future in a bid to further increase its proportion of direct sales.

**(2) Feasibility of the project**

The current direct selling system of Air China, focusing on the e-commerce platform, covers its official website, telesales service centres and mobile apps. In future, the Company will further optimise its ticket booking process from passengers’ perspective by adding self-service functions, diversifying payment methods and offering more language versions so as to proactively explore overseas markets; at the same time, the Company will also strive to reduce unit marketing costs by expanding its network coverage through interconnection with Internet platforms featuring massive data flow.

In addition, the Company will, by capitalising on the integration of e-commerce platform systems for intensive mining of massive user data, establish its user grouping model and precision marketing model. In particular, the Company will provide customers with tailor-made products and services on the mobile platform through real-time push based on users’ individual needs and taking the actual conditions into consideration, and promote its various business units to optimise business processes by taking the opportunity of mobile network development, with a view to re-engineering its customer-based product and service processes. With the increasing proportion of its direct sales, Air China will also be able to broaden other sources of income through e-commerce platforms, such as onboard payment for seat selection, pre-paid luggage handling, higher-class upgrade at the gate, onboard booking for duty-free goods, etc., thus securing new revenue and profit growth drivers by identifying and meeting passengers’ potential needs.

**(3) Implementation content of the project**

For the purpose of further supporting the transformation of Air China’s direct sales model, the Company plans to utilise part of the proceeds to integrate and upgrade its e-commerce platform for direct sales. This project lays an important IT foundation for the future development of Air China’s e-

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commerce business, and targets at increasing the proportion of direct sales and reducing the marketing costs; unifying the order data from various e-commerce channels (including the official website, telesales service centres, mobile APPs) and user data; achieving consistent user experience across all e-commerce channels. Meanwhile, the Company intends to integrate real-time user data and order data of its e-commerce platform through structural upgrades, thereby making technical preparation to secure big data mining of passengers in the future.

### **(4) Investment budget of the project**

The Company has a planned total investment of RMB890 million for this project and intends to use for it RMB800 million of the proceeds raised from the Issuance. The implementation period of this project is 36 months.

## **3. ONBOARD WIFI PROJECT (PHASE I)**

### **(1) Potential of the project**

Against the backdrop of fierce market competition and severe homogeneity of aviation products, in order to maintain a stable growth momentum, aviation companies are required to actively seek for upgrades of their business models, explore new profit growth drivers and tap the resource value of passengers' flight time.

As a combination of the aviation industry and the Internet industry, onboard WIFI projects are characterised by prominent "cross-industry" and "cross-platform" operation features. Firstly, the in-flight Internet is the only "blue ocean" that has not been captured by the Internet giants and that enjoys exclusive and tremendous access advantages; the only way for Internet giants to expand into the in-flight business area is to cooperate with aviation companies. Secondly, China boasts an annual passenger traffic volume of almost 400 million travellers in the aviation industry, with nearly 1.0 billion flight hours each year. Such exclusive time provides strong support to the in-flight Internet business. Meanwhile, most of the air travellers in China are the young- and middle-aged, who highly rely on the Internet and are typically the most high-end consumer group. The consumption potential of these high net worth customers are far higher than general Internet customers. Lastly, aviation companies can also provide regular push contents based on the big data, including passengers' real-name personal travel information, preferences and behaviour, so as to achieve precision marketing and extend the in-flight cooperation relationship with the Internet providers into provision of ground services, bringing about a wide range of business opportunities for ground services.

### **(2) Feasibility of the project**

Since 2010, Air China has been in the lead among its peers in innovation and reform of the in-flight Internet business by actively exploring the in-flight Internet service model which satisfies the needs of passengers. On 16 November 2011, Air China witnessed the maiden flight of its first airliner with wireless LAN, offering in-flight entertainment content to passengers and putting an end to the history of no in-flight Internet access on board domestic airliners. On 3 July 2013, Air China became the first domestic airline offering in-flight Internet services via international maritime satellite

communications, truly achieving air-ground interconnection. On 16 April 2014, Air China realised broadband wireless communication access to the Internet through the air-to-ground (ATG) base station model, which marked that China's civil aviation had entered into a new era of broadband Internet integrated with air-ground interconnection. On 3 September 2015, the military parade in commemoration of the 70th anniversary for victories of China's Resistance War Against Japanese Aggression and the World's Anti-Fascist War was broadcasted live via CCTV to the video system at the Air China CA1369 flight from Beijing to Sanya as well as the passengers' tablets and laptops. This in-flight live telecast unprecedented in China's civil aviation and radio and television histories marked a new era for the application of China's broadcasting satellite in the aviation field. The Company plans to construct the onboard WIFI project by the following two phases: in phase I, the in-flight wireless network platform will be established; and in phase II, the big data cloud-based integrated air-ground system platform will be built to fully achieve air-ground network interconnection. The Company intends to invest RMB150 million of the proceeds from the non-public issuance of A shares in the construction of the Onboard WIFI Project (Phase I). As of the date of this report, Air China completed the onboard WIFI modification work on 24 aircraft (including four narrow-body aircraft), making WIFI service available to passengers on nearly 80 flights per day. On such Air China's aircraft, passengers have access to free WIFI network by using their own terminal devices and browse websites such as Jingdong Air Mall, Youku Tudou Air Theatre, Sina Weibo (in-flight version), Online Business Platform, etc.

On 11 November 2014, Air China promoted the establishment of China's first in-flight Internet industry alliance in Zhuhai, allowing alliance members from various industries including civil aviation, Internet, communications, finance and media to carry out in-depth cross-industry cooperation. The construction of the onboard business ecosystem achieved initial results. As of the date of this report, the Onboard WIFI Project of Air China established a total of 42 channels through cooperation with 22 business partners, preliminarily demonstrating the value of the platform.

### **(3) Implementation content of the project**

The Company plans to make onboard WIFI service available on all its long-haul wide-body aircraft in the next three years. As of the date of this report, the Company had a total of 90 long-haul wide-body aircraft, of which 20 aircraft have already completed their WIFI modification work. Based on the Company's current onboard WIFI modification cost of RMB1.75 million each, the total modification cost of the remaining 70 aircraft will amount to approximately RMB123 million. Taking into account the costs for development and construction of the software platform under the project plan, the total investment of Air China's Onboard WIFI Project (Phase I) is estimated to be approximately RMB158 million. The implementation content of this project mainly involves technology research and development, equipment procurement, WIFI modification, construction of the software platform and external testing.

### **(4) Estimation of project investment**

The Company has a planned total investment of RMB158 million for this project and intends to utilise RMB150 million out of the proceeds from the Non-public Issuance of A Shares. The implementation period of this project is 36 months.



#### **4. REPLENISHMENT OF WORKING CAPITAL**

The Company intends to utilise RMB3.60 billion of proceeds from the Non-public Issuance of A Shares to replenish its working capital, with a view to optimising financial structure, improving short-term solvency and meeting funding requirements as a result of its increasing scale of operation.

##### **(1) Optimising 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 at 30 September 2015, the Company had total assets of RMB220,457 million and total liabilities of RMB152,275 million, with a gearing ratio of 69.07% on the basis of the consolidated statements of the Company. In addition, in 2014, the Company had net cash generated from operating activities of RMB17,523 million. As at 30 September 2015, calculated on a consolidated basis, the Company had short-term borrowings of RMB7,787 million, and non-current liabilities due within one year, long-term borrowings and obligations under finance leases of RMB82,472 million, totalling RMB90,259 million. The proceeds raised from the Non-public Issuance of A Shares will help the Company improve its ability to pay debts and achieve a more reasonable debt structure, thereby further optimising its financial structure and laying a foundation for its healthy and rapid development in the future.

##### **(2) Improving short-term solvency**

With rapid development of the Company's business in recent years, the Company has seen mounting debts and gradually rising pressure on repayment of its short-term debts. As at the end of 2012, 2013 and 2014, the Company's current ratios stood at 0.38, 0.37 and 0.34 respectively, with quick ratios of 0.36, 0.35 and 0.32 respectively. As at 30 September 2015, the Company reported a current ratio and quick ratio of 0.38 and 0.35 respectively, and recorded non-current liabilities due within one year of RMB12,867 million and short-term borrowings of RMB7,787 million. The utilisation of part of the proceeds raised from the Non-public Issuance of A Shares to replenish the working capital of the Company can further improve the Company's short-term solvency and secure a more reasonable debt structure.

##### **(3) Catering to the funding needs arising from the growing scale of operation**

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 expenditures arising from operating activities. Such massive expenditures consist primarily of aviation fuel costs, take-off and landing charges, en-route charges, expenses for procurement of aviation materials and aircraft maintenance costs. Meanwhile, the Company has formulated its aircraft introduction plan for the next several years in order to sustain its leading competitive edge in the industry. Under the aircraft introduction plan, the Company will introduce 66, 38 and 38 aircraft (on a consolidated basis) in 2015, 2016 and 2017 respectively. The aircraft introduction will result in heavy capital expenditures and the expansion of the fleet will in turn increase the demand for working capital. As at 30 September 2015, the Company had current assets of RMB21,026 million, current liabilities of

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RMB54,685 million and shortfall in working capital of RMB11,490 million. In view of the operating characteristics of the industry in which the Company operates and the continuous expansion of its scale of operation, the Company has to replenish working capital in future, so as to meet the funding needs arising from the Company's business development and alleviate the pressure on working capital during the business course of the Company.

In conclusion, the proceeds from the non-public issuance of A shares by the Company are intended to be used to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities such as seatback), upgrade the e-commerce platform for direct sales, construct the Onboard WIFI Project (Phase I) and replenish working capital, which will further expand the Company's scale of operation and market coverage, improve its hub network, reducing marketing costs, improve passenger satisfaction and enhance the Company's capital strength and financing capabilities, which, in turn, will help the Company grasp market opportunities in a timely manner and secure funds through diversified financing channels to support the Company's operation and development, thereby laying a solid foundation for enhancement of the Company's economies of scale and promotion of the Company's strategic transformation.

### **SECTION 3    IMPLICATION OF THE NON-PUBLIC ISSUANCE OF A SHARES ON THE OPERATION MANAGEMENT AND THE FINANCIAL POSITION OF THE COMPANY**

#### **(I)    IMPLICATION OF THE NON-PUBLIC ISSUANCE OF A SHARES ON THE OPERATION MANAGEMENT OF THE COMPANY**

The proceeds from the non-public issuance of A shares by the Company are to be used to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities such as seatback), upgrade e-commerce platform for direct sales, construct the Onboard WIFI Project (Phase I) and replenish working capital. With the expansion of its fleet and optimisation of its fleet structure, the proportion of direct sales of the Company will increase while its marketing costs will be decreased, laying the foundation for big data mining. By seizing the opportunities of in-flight internet access, the service experience and satisfaction of passengers, as well as values of additional services will be enhanced, bringing forward the smooth implementation of the Company's strategies. The successful application of proceeds raised from the issuance will further enhance our core competitiveness and brand image, expand our market share, as well as safeguard and improve our profitability levels.

#### **(II)    IMPLICATION OF THE NON-PUBLIC ISSUANCE OF A SHARES ON THE FINANCIAL POSITION OF THE COMPANY**

##### **1.    Consolidating Capital Strength**

The proceeds raised from the Non-public Issuance of A Shares will be no more than RMB12.00 billion (inclusive). As at 30 September 2015, shareholders' equity attributable to the parent company was RMB61.455 billion. Upon completion of the Non-public Issuance of A Shares, shareholders' equity attributable to the parent company will further increase, the capital strength of

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the Company will be enhanced, and its capital structure will be optimised, thereby laying a solid foundation for fleet expansion, optimisation of fleet structure and improvement of fleet quality for furthering market share and profitability levels.

### **2.     Optimising financial indicators**

As at 30 September 2015, the Company had total assets of RMB220,457 million and total liabilities of RMB152,275 million, with a gearing ratio of 69.07% on the basis of the consolidated statements. Upon completion of the Non-public Issuance of A Shares, both the total assets and net assets of the Company will increase, while its gearing ratio will decrease and its solvency will improve, which is beneficial to strengthening its capability to withstand financial risks.

### **3.     Improving profitability**

With the development of its principal business, the expansion of fleet and the optimisation of fleet structure, the profitability of the Company will gradually improve following the inauguration of newly purchased aircraft models and by capitalising on the opportunities arising from international routes. Meanwhile, some existing old aircraft will be replaced by the newly introduced aircraft models, which will effectively reduce fuel consumption and maintenance costs, thus bringing operating costs under effective control; the Boeing B787 aircrafts to be purchased introduce a range of advanced devices, which will improve passenger experience and customer service quality and gradually improve profitability and return on net assets. Following implementation of the upgrading project of the e-commerce platform for direct sales, the Company will be able to increase the proportion of its direct sales, reduce its marketing costs and lay a foundation for big data mining, thereby securing revenue through precision marketing. With the construction and implementation of the Onboard WIFI Project (Phase I), the Company can effectively seize the opportunities of in-flight internet access for enhancing the service experience and satisfaction of passengers. The increase in revenue from additional services will further improve profitability and sustainable competitiveness of the Company.

(No text below)

The Board of Directors of Air China Limited

11 December 2015

*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 Rules Concerning the Report on the Use of Previous Proceeds (Zheng Jian Fa Xing Zi [2007] No. 500) issued by the China Securities Regulatory Commission (“CSRC”), the use of proceeds by Air China Limited (the “Company”) as at 31 December 2014 from the non-public issuance of shares in November 2010 and January 2013 (“Previous Proceeds”) is reported as follows:

## **I. GENERAL INFORMATION ON PREVIOUS PROCEEDS**

### **(I) Proceeds acquired by the Company by way of non-public issuance in November 2010 (“Proceeds from the Non-public Issuance in 2010”)**

According to the “Approval Reply regarding the Non-public Issuance of Shares by Air China Limited” (Zheng Jian Xu Ke [2010] No. 1495) and the “Approval Reply regarding the Issuance of Additional Overseas Listed Foreign Shares by Air China Limited” (Zheng Jian Xu Ke [2010] No. 1454) issued by CSRC, the Company conducted a domestic non-public issuance of 483,592,400 A shares (at an issue price of RMB11.58 per share) and a non-domestic non-public issuance of 157,000,000 foreign H shares (at an issue price of HK\$6.62 per share) respectively in November 2010. The gross proceeds from the issuance amounted to RMB6,492,055,121, with net proceeds of RMB6,421,148,533 after deduction of the issuance expenses of RMB70,906,588.

The aforesaid net proceeds were all credited on 10 November 2010 and 24 November 2010 respectively to a special account for the proceeds opened upon consideration and approval by the Board of Directors of the Company, on which capital verification reports (Grant Thornton China and Ascenda Yan Zi [2010] No. 165 and Grant Thornton China and Ascenda Yan Zi [2010] No. 166) were issued by Grant Thornton China and Ascenda Certified Public Accountants.

As at 31 January 2011, all the proceeds from the non-public issuance of A shares in 2010 and the interests thereon had been used up for replenishing working capital. As at 2 April 2013, the Company’s special accounts for the proceeds opened at the Beijing Capital International Airport Branch of the Industrial and Commercial Bank of China Ltd. and at the Beijing Tianzhu Road Branch of the Bank of China Ltd. had been cancelled.

As at 13 May 2011, all the principal of the proceeds from the non-public issuance of H shares in 2010 had been used up for replenishing working capital. As at 2 April 2013, the Company’s special account for the proceeds from the non-public offering of H shares in 2010 opened at the Bank of China (Hong Kong) Ltd. in Hong Kong had been cancelled. As at 31 December 2014, the balance in the special account for the proceeds from the non-public issuance of H shares in 2010 opened at the Beijing Tianzhu Road Branch of the Bank of China Ltd. in China was RMB0.05, which was the balance of interest income.

**(II) Proceeds acquired by the Company by way of non-public issuance in January 2013  
("Proceeds from the Non-public Issuance in 2013")**

According to the "Approval Reply regarding the Non-public Issuance of Shares by Air China Limited" (Zheng Jian Xu Ke [2013] No. 37) issued by CSRC, the Company conducted a non-public issuance of 192,796,331 A shares in January 2013 at an issue price of RMB5.45 per share. The gross proceeds from the issuance amounted to RMB1,050,740,003.95, with net proceeds of RMB1,044,449,183.47 after deduction of the issuance expenses of RMB6,290,820.48.

The aforesaid net proceeds were all credited on 25 January 2013 to a special account for the proceeds opened upon consideration and approval by the Board of Directors of the Company, on which a capital verification report (Jing Yong Yan Zi [2013] No. 22003) was issued by Beijing Yong Tuo Certified Public Accountant Co., Ltd.

For the year 2013, the Proceeds from the Non-public Issuance in 2013 generated interest income of RMB229,277.74. As at 20 March 2013, the Proceeds from the Non-public Issuance in 2013 and the interest income generated therefrom were used up for replenishing working capital. As at 20 March 2013, the Company's special account for the proceeds opened at the Beijing Tianzhu Road Branch of the Bank of China Ltd. had been cancelled.

**II. MANAGEMENT OF PREVIOUS PROCEEDS**

In April 2007, the Company formulated the Policy for the Use and Management of Proceeds of Air China Limited (hereinafter referred to as "Policy for the Use and Management of Proceeds") which was considered and approved at the 16th meeting of the first session of the Board of Directors of the Company. In July 2008, the policy was revised according to the requirements under the "Notice for Further Regulating the Use of Proceeds by Listed Companies" issued by CSRC and the "Rules of the Shanghai Stock Exchange for the Management of Proceeds of Listed Companies", and was considered and approved at the 15th meeting of the second session of the Board of Directors. In 2013, the Policy for the Use and Management of Proceeds was revised and improved in line with the "Rules of the Shanghai Stock Exchange for the Management of Proceeds of Listed Companies (2013 Revision)" issued by the Shanghai Stock Exchange, and was considered and approved at the 39th meeting of the third session of the Board of Directors of the Company. The Policy for the Use and Management of Proceeds lays down detailed provisions for the deposit, use, change in allocation, management and supervision of the proceeds.

**(I) Proceeds from the Non-public Issuance in 2010**

According to the Policy for the Use and Management of Proceeds, the Company opened domestic and non-domestic special savings accounts for the Proceeds from the Non-public Offering in 2010 respectively at the Beijing Capital International Airport Branch of the Industrial and Commercial Bank of China Ltd., the Beijing Tianzhu Road Branch of the Bank of China Ltd. and the Bank of China (Hong Kong) Ltd.

For the proceeds from the domestic non-public offering of shares, the Company entered into a “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts” with the Beijing Wangjing Branch of the Industrial and Commercial Bank of China Ltd., the Beijing Tianzhu Road Branch of the Bank of China Ltd. and sponsor CITIC Securities Co., Ltd. on 24 November 2010 in accordance with the requirements of the Shanghai Stock Exchange (since the Beijing Capital International Airport Branch of the Industrial and Commercial Bank of China Ltd. at which one of the accounts was opened was a sub-branch under the Beijing Wangjing Branch of the Industrial and Commercial Bank of China Ltd., it had no right to enter into contract with external parties, the tripartite regulatory agreement was entered into by the Company with the Beijing Wangjing Branch of the Industrial and Commercial Bank of China Ltd.). The principal terms of the agreement were consistent with the “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts (Template)” of the Shanghai Stock Exchange without any significant differences. The Company fulfilled its obligations with stringent enforcement of the terms as agreed in the “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts”, regularly providing the sponsor with bank statements and promptly notifying the sponsor of the major use of the Proceeds from the Non-public Issuance in 2010.

For the proceeds from the non-domestic private placement of shares, according to the approval reply and approval of the Beijing Foreign Exchange Administrative Department of the State Administration of Foreign Exchange, the Company has opened domestic and non-domestic special savings accounts at the Bank of China (Hong Kong) Ltd. and the Beijing Tianzhu Road Branch of the Bank of China Ltd. respectively, and has repatriated the non-domestic proceeds to the domestic special account for use.

As at 31 December 2014, details of the Company’s Proceeds from the Non-public Issuance in 2010 deposited in the special bank accounts were as follows:

*Unit: RMB*

<b>Bank</b>	<b>Account Number</b>	<b>Balance as at 31 December 2014</b>
Capital Airport Branch of the Industrial and Commercial Bank of China Ltd. (proceeds from A shares)	0200006029000044276 (account already cancelled)	0
Beijing Tianzhu Road Branch of the Bank of China Ltd. (proceeds from A shares)	824300605748091001 (account already cancelled)	0
Bank of China (Hong Kong) Ltd. (proceeds from H shares)	01287511546836 (account already cancelled)	0
Beijing Tianzhu Road Branch of the Bank of China Ltd. (proceeds from H shares)	319456851967	0.05

**(II) Proceeds from the Non-public Issuance in 2013**

According to the Policy for the Use and Management of Proceeds, the Company opened a special savings account for the Proceeds from the Non-public Issuance in 2013 at the Beijing Tianzhu Road Branch of the Bank of China Ltd. On 29 January 2013, the Company entered into a “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts” with the Beijing Tianzhu Road Branch of the Bank of China Ltd. and sponsor CITIC Securities Co., Ltd. The principal terms of the agreement were consistent with the “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts (Template)” of the Shanghai Stock Exchange without any significant differences. The Company fulfilled its obligations with stringent enforcement of the terms as agreed in the “Tripartite Regulatory Agreement on the Deposit of Proceeds into Special Accounts”, regularly providing the sponsor with bank statements and promptly notifying the sponsor of the major use of the Proceeds from the Non-public Issuance in 2013.

As at 31 December 2014, details about the Company’s Proceeds from the Non-public Issuance in 2013 deposited in the special bank account were as follows:

*Unit: RMB*

<b>Bank</b>	<b>Account Number</b>	<b>Balance as at 31 December 2014</b>
Beijing Tianzhu Road Branch of the Bank of China Ltd.	320759197815 (account already cancelled)	0

**III. ACTUAL USE OF PREVIOUS PROCEEDS****(I) Proceeds from the Non-public Issuance in 2010**

In line with the purposes of the proceeds disclosed in the Company’s plan for the non-public issuance in 2010, all the proceeds from the non-public issuance, after deducting issuance expenses, were used for replenishment of working capital. The use of the proceeds by the Company was in strict compliance with the purposes of the proceeds and the Policy for the Use and Management of Proceeds.

**(II) Proceeds from the Non-public Issuance in 2013**

In line with the purposes of the proceeds disclosed in the Company’s plan for the non-public issuance of A shares in 2012, all the proceeds from the non-public issuance of A shares, after deducting issuance expenses, were used for replenishment of working capital. The use of the proceeds by the Company was in strict compliance with the purposes of the proceeds and the Policy for the Use and Management of Proceeds.

**IV. CHANGE IN THE USE OF PROCEEDS FOR OTHER INVESTMENT PROJECTS**

There was no change in the use of proceeds for other investment projects by the Company.

**V. DIFFERENCES BETWEEN THE ACTUAL USE OF THE PREVIOUS PROCEEDS AND THE DETAILS DISCLOSED IN THE COMPANY'S REGULAR REPORTS AND OTHER INFORMATION DISCLOSURE DOCUMENTS**

The actual use of the Previous Proceeds was consistent with the details disclosed in the Company's regular reports and other information disclosure documents.

**VI. OPINION OF THE BOARD OF DIRECTORS**

The Board of Directors of the Company is of the opinion that the Previous Proceeds have been made available in full; that the Company managed the special accounts for the proceeds in strict compliance with the relevant rules of CSRC and the Policy for the Use and Management of Proceeds of the Company; that the Company used the proceeds in strict compliance with the purposes of the proceeds; and that the Company fulfilled the obligations of information disclosure.

Attached Table 1: Use of the Company's Proceeds from the Non-public Issuance in 2010

Attached Table 2: Use of the Company's Proceeds from the Non-public Issuance in 2013

The Board of Directors of Air China Limited

28 July 2015



**APPENDIX II**
**REPORT ON USE OF PROCEEDS FROM  
PREVIOUS FUND RAISING ACTIVITIES**
**ATTACHED TABLE 1: USE OF THE COMPANY'S PROCEEDS FROM THE NON-PUBLIC  
ISSUANCE IN 2010**
*Unit: RMB*

Net proceeds		642,115			Accumulated amount of the proceeds used				642,115
Total amount of the proceeds used for other purposes				-	Total amounts of the proceeds used in each year:				
Total amount of the proceeds used for other purpose expressed as a percentage				-	Year 2010				553,644
					Year 2011				88,471
Investment project		Total investment amount of the proceeds			Accumulated investment amount of the proceeds as at 31 December 2014				Extent to which the project is ready for its intended use or completed as at 31 December 2014
Committed investment project	Actual investment project	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	Difference between the actual investment amount and the committed investment amount after the offering	
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	-	Not applicable

**ATTACHED TABLE 2: USE OF THE COMPANY'S PROCEEDS FROM THE NON-PUBLIC  
ISSUANCE IN 2013**
*Unit: RMB*

Net proceeds		104,445			Accumulated amount of the proceeds used				104,445
Total amount of the proceeds used for other purposes				-	Total amounts of the proceeds used in each year:				
Total amount of the proceeds used for other purpose expressed as percentage				-	Year 2013				104,445
					Year 2014				
Investment project		Total investment amount of the proceeds			Accumulated investment amount of the proceeds as at 31 December 2014				Extent to which the project is ready for its intended use or completed as at 31 December 2014
Committed investment project	Actual investment project	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	Difference between the actual investment amount and the committed investment amount after the offering	
Replenishment of the working capital of the Company	Replenishment of the working capital of the Company	104,445	104,445	104,445	104,445	104,445	104,445	-	Not applicable

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and 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	Number of Shares			Total	Shareholding percentage as at the Latest Practicable Date
	Personal interest	Interest of children under the age of 18 or spouse	Corporate interest		
Cathay Pacific Airways Limited Ian Sai Cheung Shiu	1,000 (ordinary shares)	–	–	1,000 (ordinary shares)	0.00%
Air China Limited Zhou Feng	10,000 (A Shares)	–	–	10,000 (A Shares)	0.00%
Shen Zhen	33,200 (A shares)	–	–	33,200 (A shares)	0.00%

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

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

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

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

### 3. SERVICE CONTRACTS

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

### 4. NO MATERIAL ADVERSE CHANGE

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

### 5. EXPERT

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

<b>Name</b>	<b>Qualification</b>
Opus Capital	a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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

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

## **6. MISCELLANEOUS**

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

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

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong during normal business hours on any business day from the date of this circular until 26 January 2016:

- (a) the Share Subscription Agreement;
- (b) the share subscription agreement entered into between CNAHC and the Company on 27 July 2015;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 20 to 21 of this circular;
- (d) the letter from Opus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 46 of this circular; and
- (e) the consent letter issued by the expert referred to in this circular.