You should carefully consider all of the information in this Prospectus including the risks and uncertainties described below before making an investment in our H Shares. The financial information set out below has been extracted without material adjustment from "Appendix I — Accountants' Report" to this Prospectus. You should pay particular attention to the fact that our Company is a PRC company and is governed by a legal and regulatory environment that may differ from that which prevails in other countries. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed "Regulation" and "Appendix VII — Summary of Principal Legal and Regulatory Provisions."

There are certain risks involved in our operations and investing in our H Shares, including: (i) risks related to our business; (ii) risks related to the airline industry; (iii) risks related to the PRC; and (iv) risks related to the Global Offering.

RISKS RELATED TO OUR BUSINESS

The net proceeds from the Global Offering and our future operating cash flows may not be sufficient to cover our planned capital expenditures, and we may require significant additional external financing, which may not be available on acceptable terms or at all.

We currently expect our capital expenditures required for the upgrade and expansion of our fleet and flight equipment from 2004 to 2006 to total approximately RMB14,934 million. Our future operating cash flows and the net proceeds from the Global Offering may not be sufficient to meet such planned capital expenditures. We may require significant additional external financing.

Our ability to obtain external financing may be affected by a variety of factors, many of which are beyond our control, including:

- applicable regulatory approvals required to obtain domestic or international financing or to undertake any project involving significant capital investments;
- our future results of operations, cash flows and overall financial condition;
- financing costs and the condition of financial markets in general;
- our relationship with Chinese and foreign lenders, including Chinese state-owned banks;
- potential changes to the monetary policy of the PRC government with respect to bank interest rates and lending practices; and
- our ability to continue to obtain bank guarantees from Chinese and foreign banks or other acceptable bank guarantors.

If we are unable to obtain additional external financing for our planned capital expenditure requirements, our ability to acquire new aircraft, to enter into international aircraft lease financings or to expand our operations may be adversely affected.

Our high level of indebtedness and other fixed payment obligations could adversely affect our liquidity and profitability.

We have a high level of indebtedness and other fixed payment obligations, including our obligations under aircraft finance leases. As of June 30, 2004, we had total outstanding debt (including bank and other loans, obligations under finance leases and bills payable) of RMB34.8 billion, representing a debt-to-equity ratio of 3.4 times, which is significantly higher than certain other major Asian airlines. Our ability to make scheduled payments in connection with the repayment of our indebtedness and other fixed payment obligations will depend heavily upon our future operating performance and cash flow, which in turn will depend upon prevailing economic and political conditions and other factors, many of which are beyond our control. If we are unable to make scheduled payments in connection with our indebtedness and other fixed payment obligations as they become due, we may need to renegotiate such obligations or to obtain additional equity or debt financing. We cannot assure you that our renegotiation efforts would be successful or timely or that we could refinance our obligations on acceptable terms, or at all. Additionally, servicing our debt and other fixed payment obligations will divert cash flow from our operations and planned capital expenditures. Furthermore, the interest cost of such obligations could impair our future profitability.

As of June 30, 2004, we had a net current liabilities position of approximately RMB11,732.2 million, due primarily to short-term loans from Chinese banks used to satisfy our long-term liquidity and working capital needs. Historically, we have repaid a significant portion of such short-term loans by rolling over the loans on an annual basis. Although we have in place agreed credit limits for such loans and rollovers, consistent with our experience of Chinese lending practice, the terms of any lending thereunder are not set and remain to be agreed prior to any advance. As of June 30, 2004, we had substantial debt due within less than one year, including repayment of RMB7,214.2 million and RMB2,087.7 million of outstanding short-term and long-term bank and other loans, respectively. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations to meet our debt obligations as they become due and on our ability to maintain adequate external financing to meet our committed future capital expenditures. Our operating cash flows could be adversely affected by numerous factors, including increased competition, decreased demand for airline passenger and cargo services or higher jet fuel prices. Since we have a high level of indebtedness, a decrease in our operating cash flows could negatively affect our financial position and hence weaken our ability to obtain additional debt to renew our short-term debt facilities as they become due and payable.

We may expand our business through acquisitions of airlines or airline-related businesses, which exposes us to uncertainties and integration risks related to future acquisitions.

We may acquire airlines or airline-related businesses to expand our business. Such acquisitions involve uncertainties and risks, including the following:

- difficulty with integrating the assets and operations of the acquired airlines or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airlines or airline-related businesses;
- difficulty with exercising control and supervision over the newly acquired operations; and
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airlines or airline-related businesses.

If we are unable to manage or integrate the newly acquired airlines or airline-related businesses successfully without substantial expense, delay or other operational or financial problems, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

We are controlled by CNAHC, a state-owned enterprise, whose interests may conflict with those of the holders of the H Shares.

CNAHC is our largest shareholder and is wholly owned by the PRC government. Upon the completion of the Global Offering, CNAHC will hold 53.65% of our issued share capital, assuming the Over-allotment Option is not exercised. Certain of our Directors are also executive officers of CNAHC. Accordingly, even while fully complying with our Articles of Association and applicable laws and regulations, CNAHC will effectively be able to: control the composition of our Board of Directors; exercise substantial influence over our management and policies; determine the timing and amount of our dividend payments; approve increases and decreases of our share capital and the issuance of new securities; amend our Articles of Association; and approve mergers and acquisitions and other major corporate transactions. The interests of CNAHC as a state-owned enterprise and our controlling shareholder may conflict with the interests of the holders of the H Shares. See also "Risk Factors — Risks Related to the People's Republic of China — China's economic, political and social conditions and government policies could affect our business." Moreover, CNAHC's control could deter hostile take-overs or delay or prevent changes in control or changes in management that could be financially or strategically beneficial to our other Shareholders.

Future changes in interest rates may adversely affect our profitability.

As of June 30, 2004, approximately 22.8% of our total debt was short-term debt, which is exposed to fluctuations in prevailing market rates. Thus, an increase in prevailing interest rates could increase our cost of borrowings. The remaining 77.2% was long-term debt, most of which was in fixed-interest rates. If the prevailing interest rates fall below that of our fixed-interest rates, we would not be able to take advantage of the lower interest rates. Moreover, the interest rates of our Renminbi-denominated borrowings are regulated by the PBOC. Changes in such interest rates could impact our finance costs.

We are required to make a distribution to CNAHC and CNACG, which could be substantial. Such distribution should not be treated as indicative of our future dividend policy nor can we provide any assurances on the amount of future dividends, if any.

In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" and the Restructuring Agreement, we are required to make a distribution to CNAHC in the amount equal to the net profit attributable to shareholders generated during the period from January 1, 2004 to September 30, 2004 (our date of incorporation) (the "Relevant Profit Period") by the businesses and operations (excluding those of CNAC) contributed to us by CNAHC pursuant to the Restructuring. The net profit mentioned above for the Relevant Profit Period will be determined on the basis of audited accounts prepared under PRC GAAP and could be substantial. Moreover, it was also agreed in the Restructuring Agreement that we shall make a distribution to CNACG in the amount equal to the net profit attributable to shareholders generated by the businesses and operations contributed to us by CNAC Group during the Relevant Profit Period (but excluding an amount equal to approximately 69% of the dividends that had been declared by CNAC during the Relevant Profit Period). The special payments that we have agreed to pay to CNAHC and CNACG were not made in accordance with our dividend policy as described in the section headed "Financial Information — Dividend Policy" and therefore you should not infer those special payments to be indicative of our future dividend policy. As a result, purchasers of our H Shares in the Global Offering will not be entitled to receive the above-mentioned net profits attributable to shareholders with respect to periods prior to September 30, 2004. Furthermore, we cannot provide any assurances on the amount of any future dividends, if any. See the sections headed "Our Restructuring — Distribution to CNAHC and CNACG" and "Financial Information — Distribution to CNAHC and CNACG."

RISKS RELATED TO THE AIRLINE INDUSTRY

The PRC government exercises substantial influence over the Chinese airline industry.

Although the Chinese economy has been transitioning towards a market-oriented economy, the PRC government exercises substantial influence over economic and social policies, including policies relating to the Chinese airline industry. The PRC government has historically played a key role, and will continue to play a key role, in reforming and restructuring the Chinese airline industry through the implementation of relevant laws, regulations and policy directives. For example, in 2002, the PRC government encouraged industry consolidations to merge the then existing nine major Chinese airlines into three major groups to improve the competitiveness of the industry. The PRC government also exercises substantial influence over the growth of the industry, for example, by requiring NDRC and CAAC approval for aircraft acquisition. The public policy considerations of the PRC government in regulating the Chinese airline industry may conflict with the interests of our public shareholders.

The Chinese airline industry is rapidly changing. Deregulation and other changes may adversely affect our competitiveness, results of operations and business prospects.

The PRC government is currently implementing numerous changes to the Chinese airline industry. The PRC government has in recent years gradually and orderly deregulated many aspects of China's domestic airline industry and allowed international air passenger, cargo and airline-related service providers greater access to China's aviation market. Recent reform measures include easing market-entry restrictions for regional feeder airlines and privately funded airlines (which may include low-cost carriers), granting additional third-, fourth- and fifth-freedom traffic rights and raising the foreign ownership ceiling of Chinese airlines. For example, China signed a new air services agreement with the United States in July 2004 that significantly expands air links between the two countries. Additionally, China and the governments of the Hong Kong and Macau Special Administrative Regions have recently entered into new air services arrangements significantly expanding air services between the mainland of China and each of Hong Kong and Macau. Deregulation and other changes in the Chinese airline industry may result in additional competition and impact our results of operations in future periods. See the section headed "Industry Overview — Deregulation of the Chinese Airline Industry."

The airline industry is highly regulated, and changes in the regulatory framework could have an adverse effect on our results of operations and our business prospects.

Although the PRC government has implemented reforms in the past decade to further deregulate the Chinese airline industry, many aspects of the industry remain highly regulated. Regulations and policies issued or implemented by the CAAC include:

- international, domestic and Hong Kong and Macau route allocation;
- public civil aviation transportation licences;
- airfare pricing;
- pilot qualifications;
- aircraft acquisition;
- price and supply of jet fuel purchased in China;
- the administration of airports and air traffic control systems in China; and
- standards for aircraft maintenance and airworthiness certification.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximise our profitability. We are also subject to certain operational and environmental laws in each country and region where we fly, which may be more onerous than the regulations in effect in our home market. See the section headed ''Regulation.'' Changes to these regulations and policies may result in significant operational and compliance costs and may limit our flexibility to respond to market conditions, competition from international airlines or changes to our cost structure.

The airline industry is intensely competitive. If we are unable to compete effectively in this industry, our growth prospects and profitability may be adversely affected.

The airline industry is intensely competitive. We face various degrees of competition in each of the markets we serve. The primary competitive factors include price, schedule, route networks, service quality and type and age of aircraft. Many of our Hong Kong-based and international competitors have significantly longer operating histories, greater brand recognition, more extensive route networks and greater financial and technological resources than us. Many of such competitors also have larger sales networks and participate in more comprehensive and widely accessible reservation systems than ours, or engage in promotional activities, such as marketing alliance programmes, or enjoy public perception of superior safety and service records, that may enhance their ability to attract passengers. If we are unable to compete effectively in this environment, our business prospects and profitability may be adversely affected.

Certain of our international, domestic and Hong Kong routes face significant fare discounting which reduces our passenger yields. The possible entry of new airlines, including low-cost carriers, in each of the markets we serve may result in further price competition. We cannot assure you that our present or future competitors will not engage in price-cutting or other tactics in an attempt to gain market share, which may have a material adverse effect on our financial condition and results of operations.

The airline business is characterised by high fixed costs.

The airline business is generally characterised by high fixed costs, including depreciation expenses, interest expense and operating lease payments. The costs associated with operating our flights do not vary proportionately with the number of passengers carried, while revenues generated from a flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a relatively small change in the number of passengers or in pricing or traffic mix could have a disproportionately large effect on our operating and financial results.

Our results of operations may fluctuate from period to period due to the highly cyclical and seasonal nature of the airline industry.

Since the airline industry is vulnerable to economic cycles, the airline industry has historically experienced significant financial losses during economic downturns and periods of political and social instability. Any future general reduction in airline passenger traffic (which may be caused by economic, political and social factors that we cannot control) may adversely affect our financial condition and results of operations. In addition, the airline industry tends to be seasonal in nature. We generate a substantial portion of our passenger revenues during the second half of each year with the highest demand for our passenger services occurring during the months of July, August, September and October. Seasonality may affect our passenger services revenues and profitability from quarter to quarter.

Increases in the price of jet fuel or shortages in jet fuel supply could increase our operating expenses and adversely affect our results of operations.

The supply and price of jet fuel significantly impact our operating expenses and results of operations. Jet fuel costs accounted for 24.6%, 22.9%, 24.3% and 28.1% of our operating expenses in 2001, 2002, 2003 and the six months ended June 30, 2004, respectively. International jet fuel prices have been, and will in the future continue to be, subject to price volatility and fluctuations in supply and demand. Due to the intensely competitive nature of the airline industry, we may be unable to pass such future increased fuel costs on to our customers. Moreover, if major reductions in the availability of jet fuel or significant increases in domestic or international jet fuel prices occur, our business and the airline industry generally would be adversely affected.

We depend on China Aviation Oil Holding Company for our domestic jet fuel supply.

We purchase a significant portion of our domestic jet fuel supply from CAOHC, the dominant jet fuel supplier in China. If we are unable to obtain jet fuel in sufficient quantities from CAOHC, if CAOHC increases its prices for jet fuel or if CAOHC experiences disruptions to its distribution network, our operations could be adversely impacted.

An outbreak of SARS, or other contagious diseases, or the perception that such outbreaks may occur, may adversely affect demand for air travel.

In the first half of 2003, the mainland of China, Hong Kong, Taiwan, Singapore, Vietnam, Canada and certain other regions experienced an outbreak of SARS, which is a highly contagious form of atypical pneumonia. The SARS outbreak adversely affected our results of operations, and those of our affiliates, for the first half of 2003. We cannot assure you that future outbreaks of SARS or other contagious diseases will not occur and that any future outbreaks, or the measures taken by the governments of China and other countries against SARS or other contagious diseases, will not have a material adverse affect on our results of operations. Furthermore, adverse publicity regarding concerns related to communicable diseases and the susceptibility of air passengers thereto, whether or not valid, may discourage passengers from traveling or cause delays or disruptions to our flight schedule, thereby adversely affecting our results of operations.

Future terrorist attacks, or the threat of such attacks, may increase the cost of our operations and reduce demand for our services.

Terrorist attacks and their aftermath may negatively affect the airline industry. The potential impacts on the airline industry include the substantial loss of passenger traffic and revenues, increased security and insurance costs, increased concerns about future terrorist attacks, airport delays due to heightened security and reduced passenger yields resulting from lower demand for air travel. Additional terrorist attacks, even if not directed at or effected through the airline industry, or the fear of such attacks, could negatively affect the airline industry and result in further decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates and increased security, fuel, insurance and other costs. We cannot assure you that these events will not harm the airline industry generally or our business.

The reputation and financial results of an airline could be harmed in the event such airline experiences an aircraft accident or incident.

An aircraft accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also significant potential claims from injured passengers and survivors of deceased passengers. Although we believe that we maintain sufficient insurance coverage comparable to other Chinese airlines, our coverage levels may be inadequate and we may be forced to bear substantial losses arising from an accident or incident. Substantial claims resulting from an aircraft accident or incident in excess of related insurance coverage could have a material adverse effect on our results of operations and financial condition. Moreover, any aircraft accident or incident, even if fully insured, could create a public perception that we are less safe or reliable than other airlines, which would harm our business and results of operations. On April 15, 2002, Air China Flight CA129 crashed while on approach to Gimhae International Airport near Busan, Korea. The investigation into the cause of the accident was conducted by the Korean aviation authorities and the CAAC. As of the Latest Practicable Date, the official investigation report has not been released. See the section headed "Business — Safety."

Insurance may become more difficult or expensive to obtain.

Since the September 11, 2001 terrorist attacks in the United States, airline insurers have significantly reduced the maximum amount of third-party war liability insurance coverage for claims resulting from acts of terrorism, war or similar events. At the same time, insurers and reinsurers have raised premiums for such coverage and airline insurance in general. Certain airline insurance could become unavailable or available only for reduced levels of coverage that are insufficient to comply with the requirements of aircraft lessors, lenders or applicable government regulations. If airline insurers continue to reduce available insurance coverage or raise the premiums for such coverage when we renew our insurance coverage, these events would increase our operating expenses. Such increases cannot effectively be passed on to our customers during sustained periods of reduced demand and could adversely affect our financial condition and results of operations.

The PRC government recently reduced the scope of its insurance guarantees which were provided to Chinese airlines after the September 11, 2001 terrorist attacks for war risk liabilities exceeding the maximum coverage under PICC's master policy. Consequently, we purchased additional insurance and expect our insurance costs to increase in future periods. We cannot assure you that the PRC government will not further reduce such guarantees in the future. See the section headed "Business — Insurance."

The limitations of the Chinese commercial aviation infrastructure may inhibit our ability to increase aircraft utilisation rates and to provide safe and efficient air transportation.

Although China's commercial aviation infrastructure has improved substantially in recent years, the resources of many segments of the Chinese commercial airline industry, including airport facilities and air traffic control systems, have been strained by the rapid increase in air traffic volume. Our ability to increase utilisation rates and to provide safe and efficient air transportation in the future depends in part on factors beyond our control, including:

- capacity of landing slots at existing airports that we serve;
- the improved quality of maintenance services and national air traffic control; and
- the quality of navigational systems and ground control operations at Chinese airports.

If any of these factors is inadequate, our ability to expand our route network or to increase the frequency of flights on our existing routes and to provide safe air transportation will be compromised, and our business prospects and results of operations may be materially adversely affected.

We may have difficulty recruiting additional qualified pilots.

The rapid development of the Chinese airline industry in recent years has contributed to a shortage of pilots in China, resulting in competition among Chinese airlines for qualified pilots. We have faced, and may continue to face, difficulty recruiting and retaining qualified pilots. We intend to accelerate our recruitment and training of qualified domestic pilots and to begin recruiting pilots from foreign countries. There can be no assurances, however, that we will be successful in recruiting and retaining a sufficient number of qualified pilots, which could limit our ability to expand our business or result in increased pilot labour costs.

Consolidation or new alliances in the airline industry may reduce our relative competitiveness.

The global airline industry has experienced substantial consolidation and the formation of international alliances over the last decade, and this trend may continue. Airline consolidation may improve market share, provide cost structure advantages, enhance operating efficiency and expand sales and marketing channels for the participants. Consolidation of other airlines may increase the competitive pressures that we experience and may adversely affect our growth prospects. Moreover, international alliances, through which member airlines advertise their status as alliance partners to increase passenger traffic and brand recognition, may also increase competition. Although we currently have bilateral codeshare agreements with some airlines, we are not currently a member of any international alliance and our results of operations and ability to compete effectively may be adversely affected as a result.

Limitations on foreign ownership of Chinese airlines may adversely affect our ability to attract foreign investment.

Under the current policies of the CAAC, ownership of a Chinese airline by non-PRC persons and Hong Kong, Macau or Taiwan persons in the aggregate must be less than 50% of the airline's issued share capital. In addition, no single non-PRC investor (including its affiliates) is permitted to own more than 25% of the issued share capital of a Chinese airline. Due to such foreign ownership restrictions, our ability to attract foreign investment or to form equity-based strategic alliances with foreign carriers may be limited.

RISKS RELATED TO THE PEOPLE'S REPUBLIC OF CHINA

China's economic, political and social conditions and government policies could affect our business.

Substantially all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While China's economy has experienced significant growth in the past 20 years, such growth has been concentrated in certain geographic areas and economic sectors. The PRC government has implemented various measures to encourage economic growth and to allocate resources. Some of these measures benefit China's overall economy, but may also have a negative effect on us.

The PRC government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any changes in the economic and social conditions in China, in the policies of the PRC government or in the laws and regulations of China, could affect China's overall economic growth and investment in the Chinese airline industry. Such developments could have a material adverse effect on our business.

Changes in relations between the mainland of China and Taiwan could affect demand for our passenger and cargo services, those of our affiliate, Dragonair, and our consolidated subsidiary, Air Macau.

Direct scheduled passenger and cargo flights between the mainland of China and Taiwan are currently not permitted. Carriers route a substantial majority of passenger and cargo traffic between the mainland of China and Taiwan through Hong Kong and, to a lesser extent, Macau. If direct scheduled flights between the mainland of China and Taiwan were permitted, demand for passenger and cargo services between the mainland of China and Hong Kong or Macau and between Hong Kong or Macau and Taiwan could be adversely affected. Furthermore, we cannot assure you that we will be able to obtain sufficient mainland China-Taiwan routes if direct scheduled flights are permitted in the future or that the passenger yields on these routes would adequately offset any adverse effect derived from reduced revenues from our Hong Kong and Macau routes.

Although the mainland of China and Taiwan have established significant economic and cultural relations in recent years, any change in relations between the mainland of China and Taiwan could adversely affect regional stability and the economic growth of the mainland of China and Taiwan, thereby adversely affecting the demand for passenger and cargo services.

Changes in foreign exchange regulations may materially and adversely affect our results of operations and dividend payments.

A significant portion of our revenues and operating expenses is denominated in Renminbi, while some of our revenues, capital expenditures and debts are denominated in U.S. dollars, Japanese yen and other foreign currencies. The Renminbi is not a freely convertible currency, and PRC government regulations govern our ability to obtain or hold foreign currencies. Limitations on our foreign exchange activities could adversely impact our results of operations and financial performance, particularly due to our substantial foreign currency obligations.

A portion of our profits must be converted into other currencies to allow us to make payments on declared dividends, if any, on our H Shares. Under China's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange if we satisfy certain administrative requirements. The PRC government, however, may, at its discretion, restrict access to foreign currencies for current account transactions in the future. If this were to occur, we might be unable to pay dividends in foreign currencies to our Shareholders, despite the existence of distributable profits.

Fluctuations in exchange rates may materially and adversely affect our operations and financial results.

A significant portion of our revenues and obligations is denominated in foreign currencies. As such, our results of operations are significantly affected by fluctuations in foreign exchange rates, particularly as against the U.S. dollar and Japanese yen. The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China. The exchange rate may become volatile and the Renminbi may be devalued against the U.S. dollar or other currencies, or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the Renminbi against the U.S. dollar, any of which could have an uncertain effect on our business and operating results.

Since we may be unable to hedge our exposure to foreign currencies fully, future Renminbi exchange rate movements could adversely affect our results of operations and financial condition. Any devaluation of the Renminbi may also materially and adversely affect the value of, and any dividends payable on, our H Shares in foreign currency terms, since we will receive substantially all of our revenues and express our profits in Renminbi. Further, our financial condition and results of operations may be adversely affected by changes in the value of certain currencies other than the Renminbi.

Interpretation of PRC laws and regulations involves uncertainty.

We are organised under the laws of China and are governed by our Articles of Association. The legal system in China is a civil law system based on written statutes. Prior court decisions may be cited for reference, but are not binding on subsequent cases and have limited precedential value. Since 1979, legislative bodies in China have promulgated laws and regulations concerning foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations were only recently enacted and due to the limited number of published decisions and the non-binding nature of such decisions, the interpretation and enforcement of such laws and regulations involve uncertainties. Such uncertainties may adversely impact your ability to avail yourself of legal protections in China, thereby potentially causing a loss of some or all of your investment.

You may be subject to Chinese taxation should the current tax regime change.

Under current Chinese tax laws, regulations and rulings, dividends paid by us to holders of our H Shares outside China currently are exempted from Chinese income tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are currently exempted from Chinese income tax. If these exemptions are withdrawn in the future, you may be required to pay withholding taxes on dividends, which are currently imposed at the rate of 20%, or capital gains tax, which is currently imposed upon individuals at the rate of 20%. See "Appendix VI — Taxation and Foreign Exchange."

Our ability to increase our share capital by issuing new Shares is subject to certain conditions and approvals of PRC regulatory authorities.

Under PRC law, we may increase our share capital by issuing new Shares if, among other conditions, we have recorded a profit in each of the three financial years preceding the public offer of Shares and are in a position to distribute dividends to our shareholders. In addition, the issuance of new Shares must be approved by our Shareholders and the authorised department of the State Council or of the provincial people's government. The relevant PRC securities administration authority must also approve any issuance of public offering of Shares. If we are unable to satisfy the conditions for issuing new Shares or fail to obtain the necessary approvals by the relevant authorities, our ability to raise additional capital as required would be adversely affected. For more information on the conditions and approvals, see the section headed "The PRC Company Law, Special Regulations and Mandatory Provisions — Increase of Share Capital" in "Appendix VII — Summary of Principal Legal and Regulatory Provisions."

RISKS RELATED TO THE GLOBAL OFFERING

The trading prices of our H Shares may fluctuate significantly.

Prior to the Global Offering, there was no public trading market for our H Shares. The Offer Price for our H Shares was the result of negotiations between us, the Selling Shareholders and the Joint Global Coordinators on behalf of the Underwriters, and may differ significantly from the market price for the H Shares following the Global Offering. Accordingly, the trading prices and trading volume of our H Shares may be highly volatile.

It may be difficult to effect service of process upon us or our Directors, Supervisors or executive officers who reside in China or to enforce against them in China any judgements obtained from non-Chinese courts.

We are a joint stock limited company incorporated in China with limited liability. Substantially all of our Directors, Supervisors and executive officers reside in China, and substantially all of our assets and substantially all of the assets of those persons are located within China. Therefore, it may not be possible for investors to effect service of process upon us or those persons residing in China or to enforce against them in China any judgements obtained from non-Chinese courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan or most other Western countries, and therefore recognition and enforcement in China of judgements of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Our Articles of Association and the Hong Kong Listing Rules provide that disputes between holders of H Shares and us, our Directors, Supervisors, executive officers or holders of Domestic Shares, arising out of our Articles of Association or the PRC Company Law and related regulations concerning our affairs or with respect to the transfer of our H Shares, are to be resolved through arbitration by arbitration organisations in Hong Kong or China, rather than by a court of law. Under the reciprocal enforcement of arbitral awards arrangements between China and Hong Kong, awards that are made by Chinese arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.