

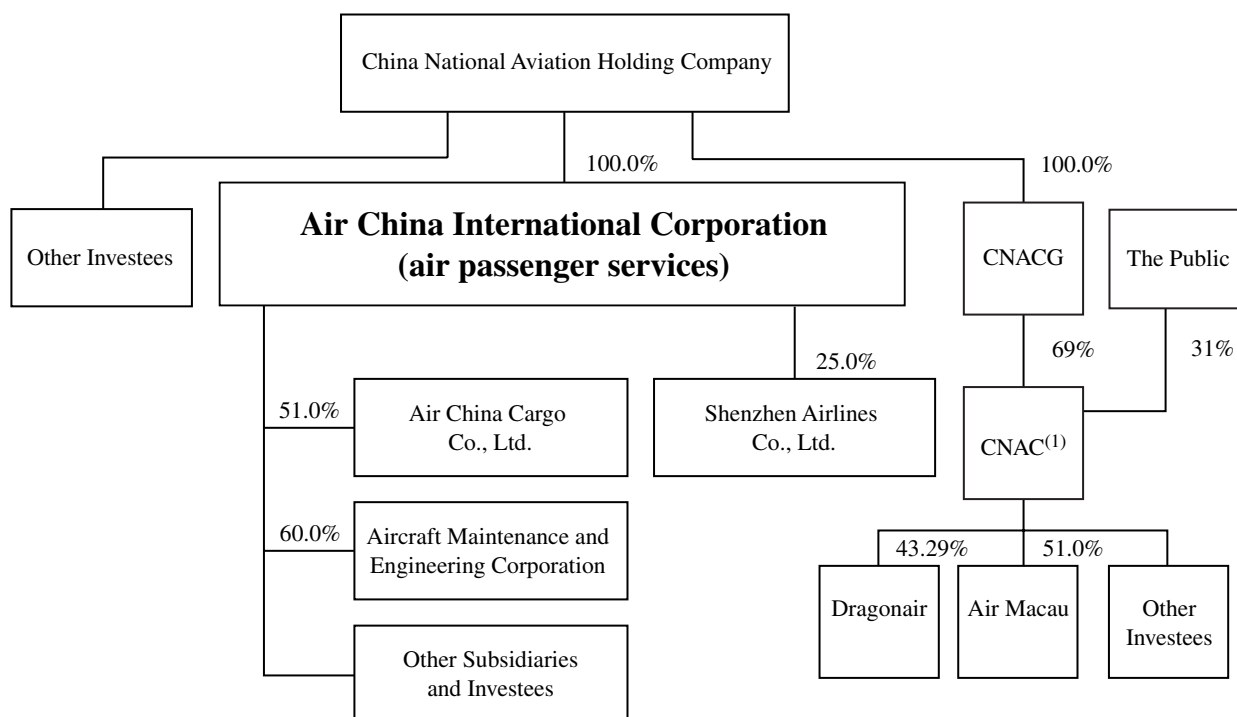
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## OUR RESTRUCTURING

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We were incorporated on September 30, 2004 as a joint stock company with limited liability under PRC law pursuant to the Restructuring undertaken by CNAHC. The Restructuring was effected through a Restructuring Agreement entered into on November 20, 2004 among us, CNAHC and CNACG, a wholly owned subsidiary of CNAHC. The effective date of the Restructuring was September 30, 2004, after which date we legally assumed the rights and obligations of the businesses, assets and liabilities transferred to us by CNAHC and CNACG.

The following chart shows CNAHC's corporate structure immediately prior to the Restructuring:



(1) Listed on the Hong Kong Stock Exchange with stock code 1110.

### TRANSFER BY CNAHC AND CNACG

CNAHC is a state-owned enterprise incorporated in the PRC in October 2002. It was formed in conjunction with a merger of Air China International Corporation, CNAC (PRC) and China Southwest Airlines. Prior to the Restructuring, CNAHC's core business included passenger and cargo air transportation services which were performed by Air China International Corporation. Its current businesses after the Restructuring include, among others, investment holding in airline-related businesses, provision of financial services, hotel operations, construction, media and advertising. In connection with the Restructuring, CNAHC transferred to us, among other things, the following:

- all of the airline and airline-related businesses operated by Air China International Corporation, our immediate predecessor;
- all related assets, including aircraft and other fixed assets, of Air China International Corporation;

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## OUR RESTRUCTURING

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- all related liabilities, including Air China International Corporation's bank loans; and
- the equity interests in various investees in airline and airline-related businesses owned by Air China International Corporation, including equity interests in Air China Cargo, Ameco and Shenzhen Airlines.

CNACG is a limited liability company incorporated in Hong Kong principally engaged in investment holding in airline-related businesses. In connection with the Restructuring, CNACG transferred its approximately 69% equity interest in CNAC to us by way of a capital contribution.

Approval from SASAC for both of the transfers by CNAHC and CNACG have been obtained.

CNAC, a public company listed on the Hong Kong Stock Exchange, is principally engaged in the provision of passenger and cargo air transportation services and airport ground services. CNACG will remain wholly owned by CNAHC after the Restructuring. See the section headed "Business — Affiliates and Investees."

### ISSUANCE OF SHARES

Upon our establishment on September 30, 2004, we issued to CNAHC 5,054,276,915 Domestic Shares, representing 77.76% of our issued share capital. In addition, we issued to CNACG 1,445,723,085 Non-H Foreign Shares, representing 22.24% of our issued share capital. The number of shares issued in connection with the Restructuring was determined by reference to the valuation of the net assets valued by China Enterprises Appraisals, an independent appraiser registered in China. The nominal value per share is RMB1.00.

In addition, we have entered into various arrangements with CNAHC, including:

- non-competition undertakings; and
- connected transaction agreements.

See the section headed "Business — Connected Transactions."

Immediately after completion of the Global Offering, the issued Shares of our Company will comprise H Shares, Domestic Shares and Non-H Foreign Shares. The rights attached to the H Shares and Domestic Shares are as set out in our Articles of Association. In relation to Non-H Foreign Shares, although our Articles of Association do not contain express provisions as to whether such shares constitute a different class of shares from the H Shares of our Company, Haiwen & Partners, the PRC counsel to the Company, has advised us that Non-H Foreign Shares are effectively a different class of shares from H Shares as to shareholder rights as a matter of PRC law, unless and until the Non-H Foreign Shares are approved to be converted into H Shares by the PRC government as well as the holders of H Shares. Holders of Non-H Foreign Shares should be treated as having the same rights and obligations as those of Domestic Shares, except that holders of Non-H Foreign Shares should enjoy the following additional rights:

- to receive dividends declared by us in foreign currencies; and
- in the event of our winding up, to participate in the distribution of surplus assets (if any) in foreign currencies and transfer such assets out of the PRC, subject to the applicable foreign exchange control regulations.

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## **OUR RESTRUCTURING**

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CNACG has confirmed to the Company that it understands the legal positions, rights and obligations of the holder of the Non-H Foreign Shares and it has agreed that the holder of the Non-H Foreign Shares enjoys the same rights (other than the above exceptional rights) as those enjoyed by the holders of the Domestic Shares.

CNACG, as the existing holder of the Non-H Foreign Shares, has given an irrevocable undertaking in favour of our Company and the Hong Kong Stock Exchange that upon the occurrence of certain events, the holders of Non-H Foreign Shares will, unless prohibited by the PRC laws or regulations, require the Company to convene such meetings of shareholders as required by PRC laws and regulations and the Articles of Association of the Company to consider and approve the proposal for conversion of Non-H Foreign Shares into H Shares. CNACG further undertakes that it will not join, participate or vote in our H Shares class meetings considering the proposal for conversion of the Non-H Foreign Shares into H Shares. That undertaking, unless prohibited by PRC laws and regulations, shall be binding on subsequent holders of Non-H Foreign Shares on any future transfer.

### **DISTRIBUTION TO CNAHC AND CNACG**

In accordance with the “Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment,” which was issued by the Ministry of Finance and became effective from August 27, 2002, 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 Relevant Profit Period by the businesses and operations (excluding those of CNAC) contributed to us by CNAHC pursuant to the Restructuring. Pursuant to the Restructuring Agreement, the special audit for CNAHC will be completed by April 30, 2005 to ascertain the level of the net profit as mentioned above for the Relevant Profit Period. The net profit for the Relevant Profit Period will be determined based on audited accounts prepared under PRC GAAP. It was agreed that we will make the payment to CNAHC in stages before December 31, 2005.

In addition, pursuant to the Restructuring Agreement, we are required to 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 the 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). It was agreed that the special audit for CNAC Group will be completed by April 30, 2005 to ascertain the level of net profit as mentioned above for the Relevant Profit Period. The net profit for the Relevant Profit Period will be determined based on audited accounts prepared under PRC GAAP. It was agreed that we will make the payment to CNACG in stages before December 31, 2005.

### **POST-RESTRUCTURING**

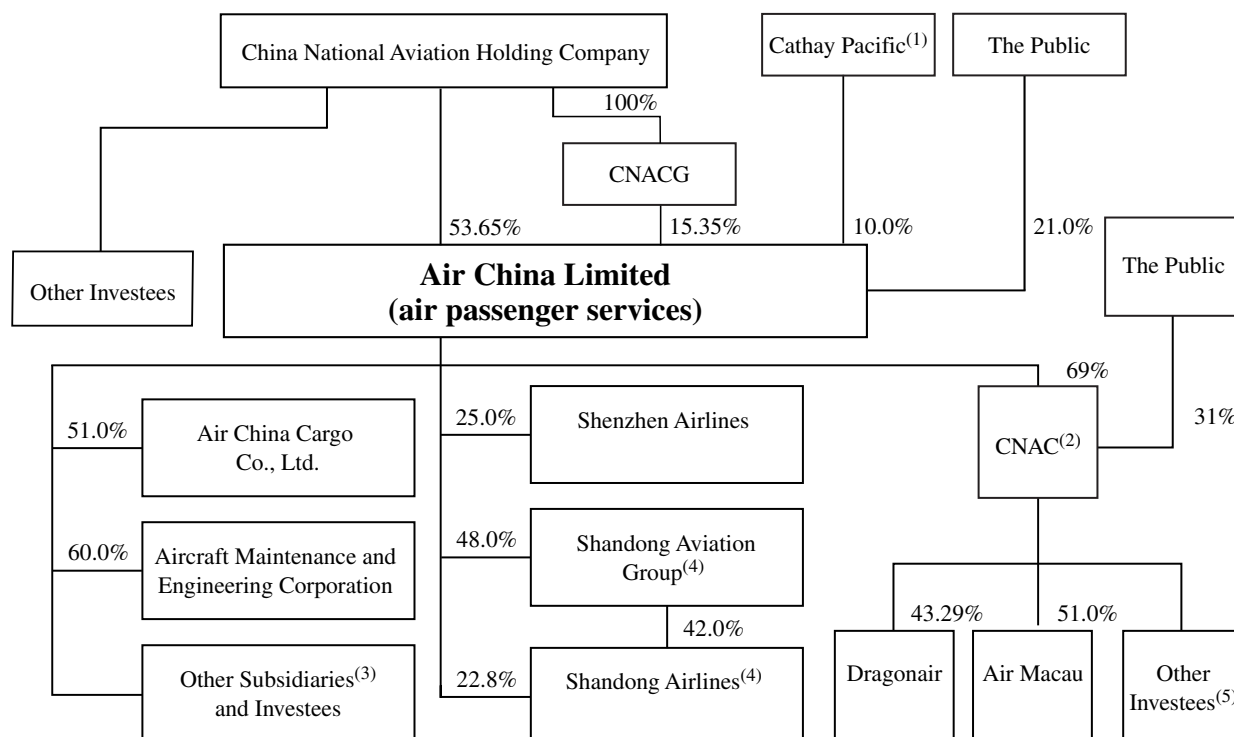
Upon completion of the Restructuring, CNAHC Group (including CNACG but excluding our Company, our subsidiaries and investees) will operate businesses other than passenger and cargo air transportation, such as airline-related businesses, investment holding in airline-related businesses, hotel operations, construction, media, advertising and provision of financial services. Such businesses are not in competition with our core business which is passenger and cargo transportation.

## OUR RESTRUCTURING

Air China International Corporation will continue to exist until its remaining non-airline related businesses are eventually transferred to other associates of CNAHC (apart from our Company, our subsidiaries and investees). Air China International Corporation will be dissolved by CNAHC when such transfer has been completed. As we have succeeded to all of the airline and airline-related businesses previously operated by Air China International Corporation, Air China International Corporation will no longer operate any airline and airline-related businesses upon the completion of the Restructuring and therefore there will not be any competition between us and Air China International Corporation.

### CORPORATE STRUCTURE AFTER THE RESTRUCTURING AND THE GLOBAL OFFERING

The following chart shows CNAHC's corporate structure after the Restructuring and after the Global Offering (assuming the Over-allotment Option is not exercised):



- (1) As of the Latest Practicable Date, (a) Cathay Pacific also held approximately 18.6% of the issued share capital of Dragonair and (b) CNACG held approximately 1.6% of the issued share capital of Cathay Pacific.
- (2) Listed on the Hong Kong Stock Exchange with stock code 1110.
- (3) For a list of our subsidiaries and the percentage of our shareholdings, please see Section 1 of "Appendix I — Accountants' Report."
- (4) On October 8, 2004, we entered into an assignment agreement with respect to our proposed acquisitions of a 48.0% equity interest in Shandong Aviation Group and a 22.8% equity interest in Shandong Airlines. We expect to complete such acquisitions upon receipt of certain procedural approvals from the PRC government. See the section headed "Business — Affiliates and Investees — Proposed Acquisitions of Shandong Aviation Group and Shandong Airlines."
- (5) For a list of CNAC's investees and the percentage of its shareholdings, please see Section 1 of "Appendix I — Accountants' Report."

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## OUR RESTRUCTURING

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### APPROVALS AND PERMITS

As advised by Haiwen & Partners, our PRC legal counsel, the Restructuring would require the following approvals:

- the approval from the SASAC on CNAHC's plan of restructuring and of establishing the Company as a joint stock limited company;
- the approval from the Ministry of Land and Resources on CNAHC's right and methods to dispose of its land assets in connection with the Restructuring;
- the approval from the SASAC on the asset appraisal in connection with the Restructuring and incorporation of the Company as a joint stock limited company and the overseas listing plan;
- the approval from the SASAC on CNAHC's administration of the state-owned Shares of the Company; and
- the approval from the SASAC on establishing Air China as a joint stock company.

As of the date of this Prospectus, all of the above approvals have been obtained.

Haiwen & Partners also confirm that:

- According to the Reply to the Opinion on Restructuring and Listing of CNAHC (Zong Ju Ting [2004] No. 59) from CAAC to SASAC dated April 27, 2004, after the establishment of our Company, we would succeed to all the principal business operations and assets, including all the domestic and international passenger carrying businesses, and the relating approvals, licences, permits, certificates and credentials of Air China International Corporation. Therefore, from the date of the establishment of our Company (that is, September 30, 2004), the original business operations of Air China International Corporation were transferred to us by operation of law. On that basis, Air China International Corporation is our immediate predecessor.
- According to the Approval on the Change to the Permit of Public Air Transport Business Operation Held by Air China International Corporation (Min Hang Yun Han [2004] No. 612) issued by CAAC on September 9, 2004, we obtained a Permit of Public Air Transport Business Operation and succeeded to the rights, obligations and route rights of Air China International Corporation.
- Pursuant to the Reply to the Opinion on Issues such as International Route Rights of Air China International Corporation (Min Hang Ji Han [2004] No. 619) from CAAC to Air China International Corporation dated September 13, 2004, from September 30, 2004 onwards, (1) all international route rights of Air China International Corporation would be transferred to us; (2) we are the airline designated by CAAC to operate the services on the specified international routes between the PRC and 36 other countries; and (3) we are entitled to use the aircraft mark, trademark, code name and trade name of Air China International Corporation on such international routes.
- The Huabei Administration Bureau of the CAAC agreed, as confirmed in the Approval on the Issues regarding the Name Change on the Transportation Qualification Certificate and Transportation Scope of Air China International Corporation to Air China Limited (Min Hang Hua Bei Ju Ji No. 383) issued by that bureau on September 21, 2004, before

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## OUR RESTRUCTURING

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we completed the name change formalities, the Transportation Qualification Certificate and the transportation scope of Air China International Corporation, together with the certificates and permits conferred to the crew and other personnel of Air China International Corporation, would remain valid until completion of the name change formalities.

- On the basis of the above, after the establishment of our Company, we are entitled to run all the business operations of Air China International Corporation and to all the relevant approvals, licences, permits, certificates, credentials and route rights (domestic and international) originally enjoyed by Air China International Corporation.
- We have obtained according to laws all the relevant approvals, licences, permits, certificates, credentials and route rights necessary for our business operations, or are following up on the formalities to change the relevant permits, licences, transportation authorisations and assessment of transportation qualifications pursuant to the Approval on the Change to the Permit of Public Air Transport Business Operation Held by Air China International Corporation (Min Hang Yun Han [2004] No. 612) issued by CAAC on September 9, 2004. Such formalities will not affect our business operations or the legality of such business operations.
- Our business scope includes international and domestic regular and irregular passenger, cargo, mail and luggage transportation business, domestic and international business flights business, aircraft management service, repair service of aircraft equipment, agency service between airlines, and other businesses related to the principal business including ground service and aviation courier service (except mail and objects of the same nature as mail), and in-flight duty free items.
- Our current businesses are within the approved and registered business scope and comply with the relevant PRC laws, regulations and industry policies. Furthermore, we are not in material violations of the relevant PRC laws, regulations and industry policies in our operation of such businesses.

As of the date of this Prospectus, our Directors are not aware of any material breach by the promoters of our Company, Air China International Corporation or any of our subsidiaries of relevant laws and regulations in relation to our operation or the conditions attached to our operating permits for international/domestic routes.

### TAKEOVERS CODE

Upon completion of the Restructuring, the Company shall be interested in approximately 69% of the total issued share capital of CNAC and would therefore be obliged under Rule 26 of the Takeovers Code to make an unconditional mandatory cash offer for all the issued shares of CNAC not to be acquired by the Company and parties acting in concert with it under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26 of the Takeovers Code has been granted by the Executive.

We have made an application to the Executive for, and the Executive has agreed to grant, a waiver from the Company's strict compliance with Rule 26 of the Takeovers Code. Further information on the waiver application was set out in the announcement made by CNAC dated September 30, 2004.