You should read the whole document before you decide to invest in our Offer Shares, and should not just rely on key or summarised information. The financial information in this section has been extracted without material adjustment from "Appendix I — Accountants' Report."

OVERVIEW

We are the national flag carrier of China and a leading provider of air passenger, air cargo and airline-related services in China. We are primarily based in Beijing, China's capital and a major hub for domestic and international air transportation. We have the largest share of air transportation business (as measured by total traffic volume) at Beijing Capital International Airport, China's busiest airport. With our operational centre in Beijing and extensive route network serving major Chinese cities and international destinations, we believe we are well positioned to capture the growing demand for airline services in greater China.

We attribute our leading position in the Chinese air transportation market primarily to our status as:

- China's largest commercial airline, accounting for approximately 30.4% of the total RTKs flown by all Chinese airlines in 2003, according to CAAC statistics;
- China's largest air cargo services provider, accounting for approximately 38.1% of the total RFTKs flown by all Chinese airlines in 2003, according to CAAC statistics; and
- the Chinese airline with the highest brand value, according to World Brand Lab, which ranked "Air China" the 32nd most valuable brand name in China — the highest-ranked Chinese airline brand.

We believe that we operate a well-balanced route network, with complementary domestic and international routes providing our passengers with convenient direct flights and transfer services. Our investments in Air Macau, Dragonair and Shenzhen Airlines allow us to benefit from growth in other aviation markets. We have formed business partnerships with numerous leading international and regional airlines, which we believe will assist us in broadening our service offerings, expanding our international customer base and providing additional customised services.

We provide airline-related services, including aircraft MRO, ground services and in-flight catering services. We provide these airline-related services in Beijing, Chengdu, Hong Kong and other locations through our own business units and joint ventures with prominent companies, including Lufthansa and Hong Kong Jardine Matheson Ltd.

As of June 30, 2004, we operated a fleet of 136 aircraft, serving 69 domestic and 34 international and regional destinations. In the six months ended June 30, 2004, we carried approximately 11.1 million passengers and approximately 312,605 tonnes of cargo, with passenger traffic of approximately 21,142 million RPKs and cargo traffic of approximately 1,225 million RFTKs.

In 2001, 2002, 2003 and the six months ended June 30, 2004, our combined revenues totaled RMB22,736.4 million, RMB24,983.7 million, RMB24,641.4 million and RMB15,311.0 million, respectively, and our combined profit from operating activities attributable to shareholders totaled RMB948.3 million, RMB499.6 million, RMB159.6 million and RMB788.4 million, respectively.

We recorded a net profit in 2003 despite the SARS outbreak, which adversely affected the Chinese airline industry and resulted in many airlines recording losses in 2003.

Unless otherwise noted, the financial and operating data presented herein excludes those of Air Macau.

Our History

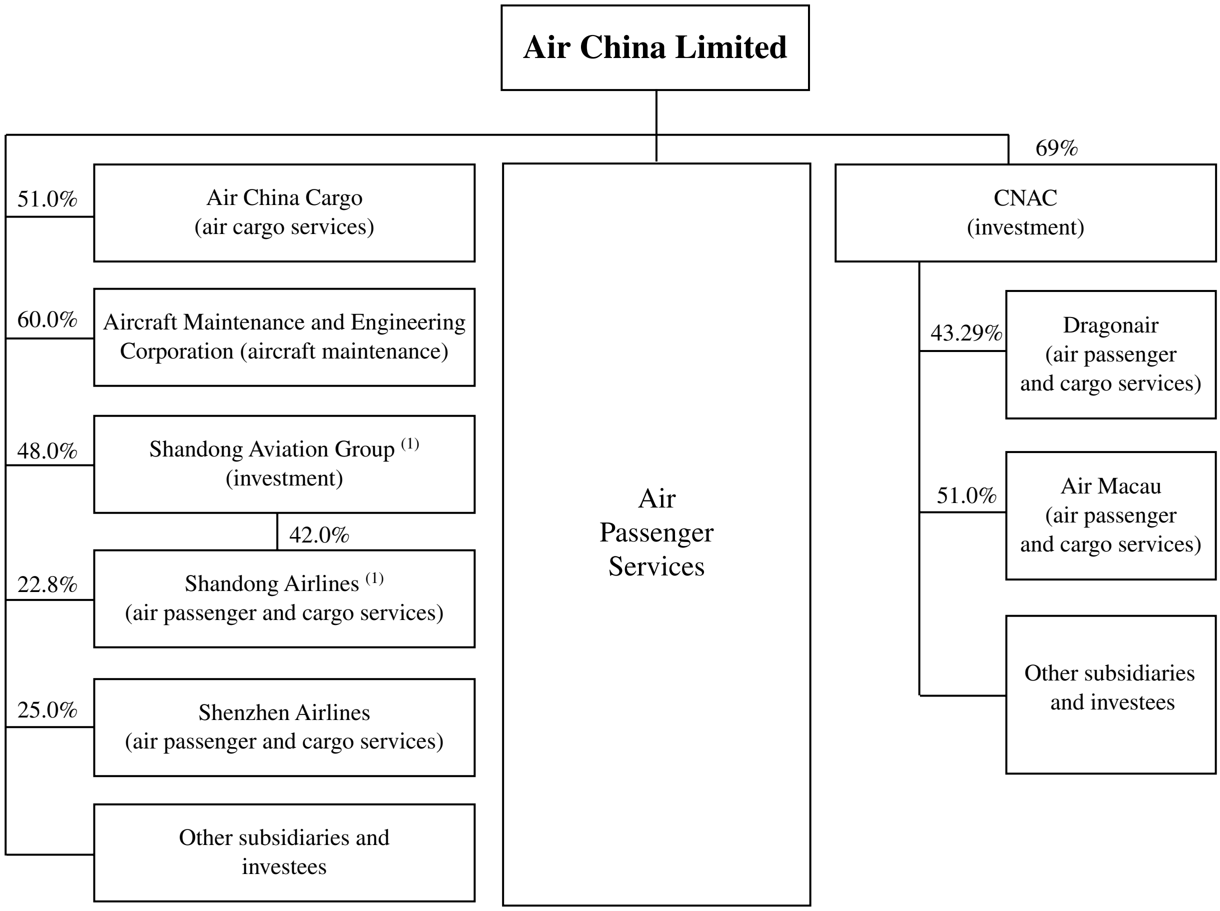
We have an extensive operating history in China through our predecessors and have historically been the principal Chinese airline providing international and domestic airline services. Our original predecessor was the CAAC's Beijing Administrative Bureau, which began providing air services in the 1950s. As part of airline industry reforms in China, our immediate predecessor was established in 1988 as Air China International Corporation to assume the operations of the CAAC's Beijing Administrative Bureau.

As part of the PRC government's 2002 industry consolidation plan, our parent company, CNAHC, was formed in October 2002 to hold certain airline and airline-related assets, including the equity interest of Air China International Corporation. As part of such consolidation plan, Air China International Corporation also merged with CNAC (PRC), which owned Zhejiang Airlines, and China Southwest Airlines in October 2002. China Southwest Airlines provides passenger services principally from Chengdu, Chongqing and Guiyang on more than 160 domestic and international routes and airline-related services such as MRO and catering services. Zhejiang Airlines provides passenger services to over 30 domestic cities on 46 routes principally from Hangzhou and Wenzhou and airline-related services such as ground services, sales services for other airlines' passenger and cargo operations and catering services. In 2003, China Southwest Airlines and Zhejiang Airlines were dissolved as legal entities and their respective airline operations, assets and liabilities, and employees were integrated with Air China International Corporation.

In preparation for the Global Offering, we were formed as a joint stock limited liability company in connection with a restructuring through which we assumed all airline and airline-related businesses operated by Air China International Corporation, together with its related assets and liabilities, including its aircraft and related equipment and the equity interests in various investees. In addition, we assumed from CNACG a controlling interest of approximately 69% in CNAC, a company listed on the Hong Kong Stock Exchange that provides passenger and cargo air transportation and other airline-related services through its subsidiaries and affiliates. CNAC owns approximately 43.29% of Dragonair and 51.0% of Air Macau. We have also 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. See "Business — Affiliates and Investees — Proposed Acquisitions of Shandong Aviation Group and Shandong Airlines."

Our Corporate Structure

The following chart sets forth our corporate structure after the Restructuring and immediately prior to the Global Offering:



(1) 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 "Business — Affiliates and Investees — Proposed Acquisitions of Shandong Aviation Group and Shandong Airlines."

Competitive Strengths

We believe we have the following competitive strengths:

- *Market leader in our Beijing hub*

We are the leading airline serving Beijing Capital International Airport with a 42.2% market share of total passenger throughput in 2003. As China's capital, Beijing is China's political centre and one of its most important economic and cultural centres. Beijing Capital International Airport is China's busiest hub and one of its most important aviation gateways, with 233,776 landings and take-offs and throughput of 24.3 million passengers in 2003. We believe our leading position in Beijing enables us to benefit from the fast-growing demand for aviation services in China.

• *Well-balanced and complementary route network*

We have an extensive route network that is well-balanced and mutually complementary between domestic and international routes. Domestically, we serve 69 cities, including 29 provincial capitals, major commercial centres and tourist destinations. In addition to our extensive domestic coverage, we have concentrated our route network on China's major high-traffic routes. We enjoyed one of the largest market shares (approximately 35%) in 2003 in terms of RPKs for the top 20 domestic routes, which accounted for approximately 32.1% of total domestic RPKs. Internationally, we serve 34 major destinations in 22 countries and regions. Our international RPKs have accounted for approximately half or more of the total international RPKs generated by all Chinese airlines in each of the last ten years. We have a well-balanced revenue base, with domestic and international passenger services generating approximately 58% and 42% of our passenger revenues, respectively, in 2003. Our domestic and international route networks connect primarily through our Beijing hub and complement each other, enabling us to capture the fast-growing domestic, international and transfer markets. Our principal domestic hub, Beijing, accounted for 57.2% of total passengers carried on our domestic routes and 58.5% of passengers carried on our international routes in 2003. Additionally, we have been strengthening our network coverage in southwestern, eastern and southern China. We also expect to benefit from the developing network coverage of Air Macau, Dragonair and Shenzhen Airlines and of Shandong Airlines upon the completion of our proposed acquisition.

• *High-quality customer base*

We believe we have the highest percentage of business travellers of any Chinese airline. Approximately 71% of the passengers on our flights are business travellers, according to a survey conducted by the China Civil Aviation Association in 2003. We have also become the airline of choice for many Chinese government and corporate customers and have entered into many long-term service agreements with such customers. Our government and corporate sales department is dedicated to serving and developing this important market segment. Our *Companion* frequent flyer programme has a large base of active and loyal members. On our major domestic routes, such as the Beijing-Shanghai and Beijing-Shenzhen routes, typically more than 30% of our total passengers, including approximately 40% to 45% of our first-class and business-class passengers, are members of our frequent flyer programme. We also offer ticket-plus-hotel packages for business travellers.

• *Strong brand recognition*

As a result of our long operating history and safety record compared to other Chinese airlines, we enjoy strong brand recognition in China. In 2004, World Brand Lab ranked "Air China" the 32nd most valuable brand name in China — the highest-ranked Chinese airline brand. Furthermore, as the national flag carrier, we provide chartered flight services to national leaders, national sports teams and cultural envoys. In August 2004, we became the only official airline partner of the 2008 Beijing Olympic Games. We believe our strong brand allows us to further strengthen our leading market position and enhances our ability to develop new markets.

• *Valuable business partnerships*

We believe we have more extensive international airline partnerships than any other Chinese airline. We have entered into codeshare agreements or frequent flyer reciprocity arrangements with leading global airlines, including Lufthansa, United Airlines, All Nippon Airways, Scandinavian

Airlines System and Asiana Airlines. As of June 30, 2004, we operated approximately 290 and marketed approximately 1,210 codeshare flights each week. We regard these partnerships and arrangements as an important competitive advantage that offers us access to leading management and operational practices, expands our marketing reach, increases our international customer base, enriches our customised products and services and enhances our international image.

- *Operating efficiencies resulting from business integration*

In 2003, we became the first, and so far the only, major Chinese airline group to complete operational integration under the 2002 industry consolidation plan approved by the PRC government. By merging the operations of the former Air China International Corporation, China Southwest Airlines and Zhejiang Airlines, we rationalised our network and fleet, centralised the procurement and inventory management of aircraft components, integrated maintenance resources and streamlined sales channels. As a result, we were able to improve our operating efficiency and to achieve a better financial performance compared with other publicly listed Chinese airlines in 2003, despite the adverse impact of the SARS outbreak. We believe that further efficiencies resulting from our integration will materialise in future periods, enhancing our competitive position in China's growing airline industry.

- *Leading position in China's air cargo market*

The *World Air Cargo Forecast 2003* issued by Boeing Corporation projects that China will be the fastest-growing air cargo market over the next 20 years. In 2003, we were the leading provider of air cargo services in China as measured by RFTKs, with a 38.1% market share among Chinese airlines. Our majority-owned subsidiary, Air China Cargo, focuses exclusively on the air cargo business and operates a fleet of five Boeing 747 freighters. It also utilises the bellyholds of our passenger fleet to transport cargo, including eight Boeing 747-400 Combi and four Boeing 747-400 passenger aircraft. Supported by our Beijing cargo hub and Shanghai operations, Air China Cargo has established an extensive cargo route network, connecting major Chinese economic regions with major international destinations. In addition, our investments in Dragonair and Air Macau further enhance our position in the air cargo market.

Strategy

We aim to become the airline of choice in China and one of the world's most competitive airlines by enhancing our existing strengths, providing passenger and cargo services, and by implementing the following strategies:

- *Strengthen our Beijing hub and expand our route network*

We intend to strengthen our leading position at Beijing Capital International Airport and to continue to optimise our route network structure. Specifically, we plan to (i) increase our fleet deployment in Beijing to a size and structure necessary to satisfy increasing market demand, (ii) centralise the allocation of our operational resources and (iii) optimise flight connections and improve ground services.

We also intend to develop Chengdu as our domestic hub in western China, and to expand our Shanghai presence to establish another key international departure base for our flights to Europe, the United States and Japan.

In addition, we plan to strengthen our leading position in important regions and destinations by selectively introducing additional routes, both independently and through codeshare arrangements and acquisitions or investments in other airlines.

- *Control cost and improve efficiency*

The airline industry is characterised by high fixed costs. We believe that cost control and efficiency improvements are central to maintaining our competitiveness. As a result, we have adopted a performance improvement plan intended to reduce our operating cost by approximately RMB1 billion over the next three years, primarily by:

— further increasing aircraft utilisation by achieving better alignment: (i) between route structure and market demand; (ii) between fleet allocation and route networks; and (iii) between maintenance capabilities and fleet deployment;

— reducing unit jet fuel consumption by implementing the Aviation Fuel Consumption Planning System; and

— optimising inventory levels for aviation spare parts and centralising our procurement activities.

- *Enhance the effectiveness of our sales and marketing efforts*

We intend to intensify our sales and marketing efforts directed at business travellers by further developing existing government and corporate relationships. We also plan to broaden rewards offered through our frequent flyer programme. We intend to enhance our interactions with travel agencies to promote our routes and travel packages to attract more leisure passengers. To diversify our sales channels, we plan to strengthen our direct sales efforts, better manage our independent sales network and increase the use of various low-cost distribution channels such as electronic ticketing and online sales. We also plan to leverage our status as the official airline partner of the 2008 Beijing Olympic Games to promote our brand name.

- *Improve our service quality*

We are implementing a service improvement plan to maintain our safety standards, improve on-time performance and provide customised services. Specifically, we plan to continue to adhere to recognised industry standards and procedures for aircraft maintenance. We plan to optimise our fleet deployment and streamline check-in and other ground services. For certain long-haul routes, we plan to reconfigure our first-class and business-class cabins by installing larger and more comfortable seats and upgrading the in-flight entertainment system. We continuously strive to improve overall cabin service by emphasising training for and enhancing the communication skills of our flight crews.

- *Strengthen our leadership in China's air cargo market*

We plan to expand our air cargo capacity to capture opportunities in the fast-growing Chinese air cargo market. We plan to add two Boeing 747-400F freighters and three narrow-body freighters in the next two years to maintain our leading position at our Beijing air cargo hub, strengthen our Shanghai operations and further develop our presence in the southern China market. We also plan to increase our cargo revenues by maximising the utilisation of the bellyhold space, adjusting our international cargo route network structure, improving the load factor on the return segment of our international cargo flights and strengthening our international cargo sales channels.

- *Improve our employee evaluation system*

We intend to improve employee performance by providing systematic training, establishing concrete performance goals and implementing a comprehensive evaluation system for our employees. Additionally, we plan to introduce various incentives to reward top-performing employees in an effort to encourage a customer-focused service culture.

PRINCIPAL SERVICES

We provide passenger and air cargo services and airline-related services including ground, MRO and in-flight catering services. Our passenger services have historically generated our largest source of revenues, accounting for approximately 79.4%, 79.3%, 77.2% and 79.4% of our total operating revenues in 2001, 2002, 2003 and the six months ended June 30, 2004, respectively. The tables below set forth, for the periods indicated, our total revenues (including revenues of our consolidated subsidiary, Air Macau) by segment and the percentage of our total revenues for each of our principal services:

	Year Ended December 31,				Six Months Ended June 30,		
	2001	2002	2003	2003	2003	2004	
	RMB	RMB (in millions)	RMB	US$	RMB (unaudited)	RMB (in millions)	US$
Passenger services	18,049.9	19,815.2	19,030.2	2,299.3	6,809.9	12,151.9	1,468.2
Cargo services[1]	3,298.3	4,031.5	4,392.5	530.7	1,882.4	2,546.4	307.7
Other services[2]	1,388.2	1,137.0	1,218.7	147.2	533.6	612.7	74.0
Total	**22,736.4**	**24,983.7**	**24,641.4**	**2,977.2**	**9,225.9**	**15,311.0**	**1,849.9**

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Passenger services	79.4%	79.3%	77.2%	73.8%	79.4%
Cargo services[1]	14.5	16.1	17.8	20.4	16.6
Other services[2]	6.1	4.6	5.0	5.8	4.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Prior to the formation of Air China Cargo, we operated our air cargo business together with our passenger airline operations. For the three-year period ended December 31, 2003, revenues from air cargo services have been fully consolidated in our combined financial statements.

(2) Includes airline-related businesses such as MRO, ground services, in-flight catering services, general aviation services and import and export services.

Passenger Services

We provide international, domestic and Hong Kong passenger services. The table below sets forth, for the periods indicated, information relating to our passenger services:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	**2002**	**2003**	**2003**	**2004**
Passenger revenues[1] (RMB in millions)	16,508.9	18,209.4	17,930.2	6,387.3[2]	11,507.8
RPKs (in millions)	28,686.0	34,092.1	33,477.0	12,359.2	21,141.2
ASKs (in millions)	46,348.3	51,910.3	50,732.6	20,964.0	30,815.8
Passenger load factor	61.9%	65.7%	66.0%	59.0%	68.6%
Number of passengers carried (in thousands)	15,600.1	18,138.9	18,053.7	6,674.7	11,135.8
Kilometres flown (in millions)	223.6	250.8	251.6	104.6	151.9
Average distance flown per passenger (kilometres)	1,839.0	1,880.0	1,854.0	1,852.0	1,898.5
Block hours (in thousands)	336.8	373.7	372.3	153.6	229.5
Daily aircraft utilisation (block hours per day per aircraft)	9.0	9.2	8.6	7.4	10.0
Passenger yield (RMB per RPK)	0.58	0.53	0.54	0.52	0.54
Number of scheduled destinations served	110	112	103	95	103
Scheduled flight frequency (flights per week)[3]	2,462	2,670	2,765	2,254	3,300
Number of flights	128,017	138,862	143,802	58,597	85,800

(1) For purposes of this table, passenger revenues excludes the passenger revenues contribution from Air Macau, our consolidated subsidiary. In 2001, 2002 and 2003, and the six-month periods ended June 30, 2003 and 2004, passenger revenues contribution from Air Macau totaled RMB1,541.0 million, RMB1,605.8 million, RMB1,100.0 million, RMB422.6 million (unaudited) and RMB644.1 million, respectively.

(2) Unaudited.

(3) Calculated with reference to our summer schedule for each year.

International Passenger Services

We currently have the most extensive international route network of any Chinese airline. In each of the last ten years, our international passenger traffic measured in RPKs accounted for approximately half or more of the total international RPKs generated by all Chinese airlines. As of June 30, 2004, we operated approximately 464 international flights every week, serving 33 international destinations. In 2003, our international passenger traffic, as measured by RPKs, represented approximately 51.4% of the total international passenger traffic for all Chinese airlines.

The table below sets forth, for the periods indicated, additional information relating to our international passenger services:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
International passenger revenues (RMB in millions)(1)	5,703.5	7,023.8	6,025.1	2,071.5(2)	4,127.3
Europe	28.9%	33.3%	38.2%	34.0%	31.4%
North America	12.5%	14.3%	15.3%	14.5%	17.4%
Japan and Korea	41.8%	36.6%	29.7%	33.0%	30.3%
Southeast Asia and other regions	16.8%	15.8%	16.8%	18.5%	20.9%
RPKs (in millions)	11,818.5	14,197.1	12,765.1	4,688.6	8,652.6
Europe	37.1%	39.2%	41.4%	39.3%	40.0%
North America	22.6%	22.2%	24.6%	23.1%	24.8%
Japan and Korea	19.2%	18.3%	14.1%	15.7%	14.5%
Southeast Asia and other regions	21.1%	20.4%	19.9%	21.9%	20.8%
ASKs (in millions)	17,861.1	20,034.7	19,708.5	8,121.4	12,955.0
Europe	35.6%	37.0%	40.1%	38.9%	40.2%
North America	22.8%	21.4%	23.4%	22.7%	22.0%
Japan and Korea	18.4%	19.4%	16.2%	16.7%	16.1%
Southeast Asia and other regions	23.2%	22.2%	20.2%	21.6%	21.7%
Passenger load factor	66.2%	70.9%	64.8%	57.7%	66.8%
Europe	69.0%	75.1%	66.9%	58.3%	66.5%
North America	65.7%	73.5%	68.1%	60.5%	75.2%
Japan and Korea	68.8%	66.7%	56.5%	54.3%	60.2%
Southeast Asia and other regions	60.0%	64.9%	63.5%	57.3%	63.8%
Passenger yield(3) (RMB per RPK)	0.48	0.49	0.47	0.44	0.48
Europe	0.38	0.42	0.44	0.38	0.37
North America	0.27	0.32	0.29	0.35	0.33
Japan and Korea	1.04	0.97	0.99	0.93	0.99
Southeast Asia and other regions	0.39	0.39	0.40	0.30	0.46
Number of scheduled destinations	31	31	31	30	33
Scheduled flight frequency (flights per week)(4)	309	375	350	292	464
Number of passenger carried (in thousands)	2,829.0	3,266.6	2,656.2	1,019.1	1,814.2
Number of flights	16,086	19,522	18,198	7,599	12,072

(1) For purposes of this table, international passenger revenues excludes the international passenger revenues contribution from Air Macau, our consolidated subsidiary. In 2001, 2002 and 2003, and the six-month periods ended June 30, 2003 and 2004, international passenger revenues contribution from Air Macau was

RMB966.7 million, RMB942.9 million, RMB638.0 million and RMB242.8 million (unaudited) and RMB371.3 million, respectively.

(2) Unaudited.

(3) Calculated by dividing international passenger revenues by international RPKs.

(4) Calculated with reference to our summer schedule for each year.

Europe

We currently offer our passengers the most extensive route network between China and Europe of any airline, with 77 scheduled flights every week. In 2003, Europe represented our most important international market as measured by passenger traffic in RPKs and passenger revenues. We operate flights between Beijing and Frankfurt, Munich, Paris, London, Moscow, Rome, Milan and Stockholm, and between Shanghai and Paris, Frankfurt, Milan and Rome. We offer daily flights on the Beijing-Frankfurt, Beijing-Paris, Beijing-London and Shanghai-Frankfurt routes. We also offer passenger services to Frankfurt, Munich, Vienna, Copenhagen, Helsinki and Istanbul through our codeshare agreements with Lufthansa, Austrian Airlines, Scandinavian Airlines System, Finnair and Turkish Airlines. We offer passenger services to ten additional destinations within Germany through our codeshare agreement with Lufthansa.

North America

We provide passenger services to more destinations in North America and with greater frequency every week than any other Chinese airline. We operate flights between Beijing and Los Angeles, New York, San Francisco and Vancouver, and between Shanghai and San Francisco. We are currently the only airline offering non-stop passenger services between Beijing and New York, which greatly improves our passengers' travel experience by shortening the overall travel time. We also offer passenger services through our codeshare agreement with United Airlines on all United Airlines non-stop flights between China and the United States, including to Chicago, as well as on United Airlines' domestic flights to ten other destinations in the United States.

In July 2004, China and the United States signed a new air services agreement, significantly expanding air services between the two countries. While we believe the new agreement presents market opportunities, we may face additional competition on our trans-Pacific routes as a result of expanded flights between the two countries. See the section headed "Industry Overview — Deregulation of the Chinese Airline Industry."

Japan and Korea

The Japanese and Korean markets have historically generated the highest passenger yields among the markets we serve. Currently, we operate 93 flights each week to destinations in Japan, including services to Tokyo, Osaka, Fukuoka, Nagoya, Hiroshima and Sendai from Beijing, Shanghai, Dalian, Chengdu and Chongqing. We also offer passenger services between Beijing, Shanghai and Hangzhou and Tokyo and Osaka through our codeshare agreement with All Nippon Airways. We operate 58 flights every week from Beijing, Qingdao, Chengdu, Chongqing and Hangzhou to Seoul as well as to Busan and Daegu in Korea. We also offer passenger services on the Beijing-Busan and Hangzhou-Seoul flights through our codeshare agreement with Asiana Airlines.

Southeast Asia and Other Regions

We operate flights to Singapore, Kuala Lumpur, Bangkok, Phuket and Jakarta in Southeast Asia. Our Beijing-Singapore and Beijing-Bangkok routes constitute our most important Southeast Asian routes as measured by passenger traffic in RPKs and revenues. We operate 23 flights every week between China and Singapore and 12 flights every week between China and Bangkok. We were the first Chinese airline to provide passenger services to Australia and currently offer more flights every week between China and Australia than any other airline. To improve our load factors and passenger yields, our Australian flights typically stop in another major Chinese city en route to Australia. We currently operate flights on the Beijing-Shanghai (Pudong)-Melbourne-Sydney route, the Beijing-Shanghai (Pudong)-Sydney route and the Beijing-Guangzhou-Melbourne-Sydney route.

We operate scheduled passenger flights to several destinations in other regions, including Ulaanbaatar, Mongolia, Karachi, Pakistan and Dubai, United Arab Emirates.

Domestic Passenger Services

Our extensive domestic route network serves 29 provincial capitals, major commercial cities and tourist destinations in China. As of June 30, 2004, we operated approximately 2,718 domestic flights per week, serving 69 destinations in China. Our three principal bases are located in Beijing, the Chengdu/Chongqing region and the Yangtze River Delta region. As of June 30, 2004, we had 813, 397 and 317 domestic flight departures from our Beijing, Chengdu/Chongqing and Yangtze River Delta bases, respectively. In addition, we have entered into codeshare agreements with other Chinese airlines, including Shandong Airlines and Shanghai Airlines.

The table below sets forth, for the periods indicated, additional information relating to our domestic passenger services:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Domestic passenger revenues (RMB in millions)	9,669.5	10,135.4	11,092.6	4,030.8(1)	6,935.2
RPKs (in millions)	15,422.3	18,432.7	19,525.2	7,252.0	11,835.4
ASKs (in millions)	25,802.2	29,144.5	28,982.6	11,989.8	16,761.3
Passenger load factor	59.8%	63.2%	67.4%	60.5%	70.6%
Passenger yield (RMB per RPK)(2)	0.63	0.55	0.57	0.56	0.59
Number of scheduled destinations	77	79	70	63	69
Scheduled flight frequency (flights per week)(3)	2,020	2,162	2,311	1,875	2,718
Number of passenger carried (in thousands)	12,020.2	14,110.2	14,798.9	5,445.1	8,999.0
Number of flights	105,049	112,420	120,176	48,747	70,667

(1) Unaudited.

(2) Calculated by dividing domestic passenger revenues by domestic RPKs.

(3) Calculated with reference to our summer schedule for each year.

Beijing Base

We are the dominant airline providing passenger services in Beijing and have the longest operating history in Beijing of any airline. As China's capital, Beijing is China's political centre and the headquarters of Chinese central government ministries and administrative bureaus. Beijing is also one of China's key economic centres and the base of many state-owned enterprises, large domestic companies and multinational corporations as well as one of China's key cultural centres with famous landmarks such as the Great Wall, the Forbidden City and the Summer Palace. Beijing Capital International Airport is China's busiest airport as measured by passenger throughput and aircraft landings and take-offs and is one of China's most important international gateways and domestic transit hubs. We have the most extensive Beijing-based route network of any airline. As of June 30, 2004, we had approximately 813 domestic flight departures every week from Beijing, serving 51 destinations in China.

We plan to relocate our Beijing-based operations to the new Terminal 3 of Beijing Capital International Airport upon its scheduled completion in 2007. The passenger throughput per year of Terminal 3 has been designed to gradually exceed the combined throughput of the existing Terminals 1 and 2. As the future principal airline operating at Terminal 3, we have worked closely with the airport authority to ensure that the terminal is constructed to meet our needs and specifications. We believe we will benefit from Terminal 3's improved passenger terminal layout, larger facilities, more boarding gates and improved information technology. Moreover, we expect that both our domestic and international flights will be located at Terminal 3, which should greatly facilitate passenger connections and improve our operating efficiency.

Chengdu/Chongqing Base

Our second principal base is located in Chengdu and Chongqing in western China. Chengdu is the capital of Sichuan province, the most economically developed province in, and the gateway to, western China. Chongqing is one of four municipalities under the direct administration of the PRC government and the only such municipality located in western China. Chengdu and Chongqing are regarded as the key industrial and cultural centres of western China. We intend to develop Chengdu into a domestic hub primarily by allocating more aircraft to Chengdu-based routes, improving flight connections, opening new routes and increasing frequencies on existing routes to meet market demand. We believe that our Chengdu/Chongqing base will enable us to benefit from increased passenger growth resulting from the PRC government's ''Develop-the-West'' policy to promote economic development in western China. We have the most extensive route network in southwest China of any airline. As of June 30, 2004, we had approximately 397 domestic flight departures every week from our Chengdu/Chongqing base, serving 35 destinations in China. We are the only airline operating passenger flights between Chengdu/Chongqing and Tibet.

Yangtze River Delta Base

Our third principal base is located in the eastern Chinese cities of Hangzhou and Shanghai, which are part of the economic zone commonly referred to as the ''Yangtze River Delta,'' one of China's fastest-growing (as measured by real GDP growth rate) and most productive (as measured by GDP) regions and a key manufacturing base for semiconductors and microelectronics. As of June 30, 2004, we had approximately 153 domestic flight departures every week from Hangzhou, serving 16 destinations in China.

We have a long operating history in Shanghai and currently provide domestic and international passenger services from Shanghai's Hongqiao and Pudong international airports. As of June 30, 2004, we had approximately 164 domestic flight departures every week from Shanghai to 12 domestic destinations. Under the CAAC's current policies, in general, airlines with a principal base in Shanghai have been granted rights to operate round trip domestic flights originating from Shanghai, or flights stopping over at Shanghai. Notwithstanding such general policies, we have obtained approvals from the CAAC to operate a limited number of domestic flights originating from Shanghai. Beginning from the summer schedule of 2005, all Chinese airlines will be permitted to provide domestic passenger services originating from, or stopping over at, Shanghai regardless of whether they maintain a principal base in Shanghai. We intend to expand our Shanghai-based route network under the new policy. See the section headed ''Industry Overview — Deregulation of the Chinese Airline Industry.''

Other Domestic Routes

We also operate flights from other domestic destinations, including Tianjin, Huhehot, Wenzhou, Baotou, Guilin and Guiyang. Our route network covering these airports enables us to provide convenient connections for passengers on flights originating from or terminating at our three principal bases.

Hong Kong and Macau Routes

We provide passenger services between cities in the mainland of China such as Beijing, Chengdu, Chongqing, Dalian, Guiyang and Tianjin, and Hong Kong.

We have historically provided passenger services between cities in the mainland of China, such as Chongqing and Guilin, and Macau. To re-deploy our aircraft fleet and crew to more profitable routes, we temporarily suspended flights to Macau beginning with the summer schedule of 2004. The suspension of flights to Macau has not had a material impact on our results of operations, financial position or business prospects. We provide passenger services between Beijing and Macau through our codeshare arrangement with Air Macau. We believe that our codeshare arrangement and the revenue contribution from Air Macau will allow us to maintain our presence in the Macau market. Although we currently have no plans to resume our Macau flights, we closely monitor the market demand and competition on the Macau routes and may operate our own flights on Macau routes in the future.

The table below sets forth, for the periods indicated, additional information relating to our Hong Kong and Macau passenger services:

	Year Ended December 31,			**Six Months Ended June 30,**	
	2001	**2002**	**2003**	**2003**	**2004**
Hong Kong and Macau passenger revenues[(1)] (RMB in millions)	1,135.9	1,050.2	812.5	285.0[(2)]	445.3
RPKs (in millions)	1,445.2	1,462.3	1,186.7	418.6	653.2
ASKs (in millions)	2,685.0	2,731.1	2,041.5	852.8	1,099.5
Passenger load factor	53.8%	53.5%	58.1%	49.1%	59.4%
Passenger yield[(3)] (RMB per RPK)	0.79	0.72	0.68	0.68	0.68

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Number of scheduled destinations	2	2	2	2	1
Scheduled flight frequency (flights per week)[(4)]	132	133	104	87	118
Number of passenger carried (in thousands)	750.9	762.1	598.6	210.5	322.6
Number of flights	6,882	6,920	5,428	2,251	3,061

(1) For purposes of this table, Hong Kong and Macau passenger revenues excludes the passenger revenues contribution from Air Macau, our consolidated subsidiary. In 2001, 2002 and 2003, and the six-month periods ended June 30, 2003 and 2004, passenger revenues contribution from Air Macau totaled RMB574.3 million, RMB662.9 million and RMB462.0 million, and RMB179.8 million (unaudited) and RMB272.8 million, respectively.

(2) Unaudited.

(3) Calculated by dividing Hong Kong and Macau passenger revenues by Hong Kong and Macau RPKs.

(4) Calculated with reference to our summer schedule for each year.

Demand for our Hong Kong passenger services has historically been, and is likely to be, affected by Hong Kong's economy. We believe that the Closer Economic Partnership Agreement between the PRC central government and the Hong Kong Special Administrative Region government should deepen trade and business ties and contribute to increased business travel. Additionally, the relaxation of travel restrictions to Hong Kong for residents of certain cities in the mainland of China, coupled with China's rising prosperity, should attract more mainland visitors to Hong Kong.

The PRC government and the governments of the Hong Kong and Macau Special Administrative Regions have recently entered into new air services arrangements that significantly expand air services between the mainland of China and each of Hong Kong and Macau. Although we believe these new arrangements present market opportunities, we and Air Macau may face additional competition as a result. For more information regarding the recently amended air services arrangements between the PRC government and the Hong Kong and Macau Special Administrative Regions, see the section headed "Industry Overview — Deregulation of the Chinese Airline Industry — Traffic Rights."

Dragonair, our affiliate, also operates flights on the Beijing-Hong Kong route. As of June 30, 2004, Dragonair operated on average 56 flights per week on the Beijing-Hong Kong route. As of September 30, 2004, we held an equity interest of approximately 69% in CNAC, which is the largest shareholder of Dragonair. See the sections headed "Business — Competition — Hong Kong and Macau Routes" and "Business — Affiliates and Investees — Dragonair."

Air Macau, our consolidated subsidiary, provides passenger services on the Beijing-Macau route and operated on average nine flights per week as of June 30, 2004. We offer passenger services to Macau through our codeshare agreement with Air Macau. Air Macau also provides passenger services from Macau to various destinations in the mainland of China as well as stopover services to passengers between the mainland of China and Taiwan via Macau. Air Macau is the only airline permitted to operate special flights between Beijing and Taipei, using a brief stopover in Macau without requiring passengers to leave the aircraft. Such special flights reduce the travel time between Beijing and Taipei. See the section headed ‘‘Business— Affiliates and Investees — Air Macau.’’

Charter Services

In 2003, we operated 1,764 charter flights to 80 destinations for business, government, educational or tourist groups traveling to international, regional and domestic destinations. We determine our charter flight arrangements primarily in accordance with market demand. We operate most of our domestic charter flights during the Chinese lunar new year, May Day (May 1) and the Chinese National Day (October 1) holidays, the three busiest travel periods in China.

We typically determine our charter schedule several months prior to implementing such schedule, but we also arrange charter flights on short notice. The operation of charter flights may at times involve the redeployment of aircraft away from regularly scheduled passenger flights. We have increased the number of charter domestic night flights to meet growing demand. We believe such increase will enhance our aircraft utilisation rate, reduce operating costs and improve profitability.

As the national flag carrier of China, we have historically provided charter flights for government-related travel services to national leaders, government delegations, national sports teams and cultural envoys. Historically, certain government charter flights were provided at the request of the PRC government at rates set by the PRC government, in accordance with the government’s common practice.

In connection with the Restructuring, CNAHC, our parent company, has agreed to undertake obligations to provide government charter flights. CNAHC intends to subcontract these services to us. We expect to be compensated for such services at hourly rates, which may be adjusted periodically, based on total costs plus reasonable margins. Such total cost is defined to include both direct cost incurred in connection with providing such service, as well as indirect cost such as higher service requirements and the loss of revenues or cost increases due to the re-deployment of flights. See the section headed ‘‘Business— Connected Transactions — Continuing Connected Transactions between the Company and CNAHC Group — Subcontracting of Charter Flight Services.’’

Cargo Services

We are the largest provider of air cargo services in China as measured by total cargo volume, accounting for approximately 38.1% of the total RFTKs in China in 2003. In 2003, we transported approximately 564,000 tonnes of cargo and generated RMB4,131.7 million in revenues from our cargo services. We believe that our dominant position in Beijing will enable us to expand our market share in China’s growing cargo market by maintaining our leading position in Beijing while expanding our Shanghai-based cargo operations.

To encourage the operational independence of the air cargo business, we formed Air China Cargo in 2003 and currently hold a 51.0% equity interest. Prior to the formation of Air China Cargo in 2003, we operated our air cargo business as a part of our airline operations. We have agreed to conduct our cargo business exclusively through, and have undertaken not to compete with, Air China Cargo. As of June 30, 2004, Air China Cargo employed 1,697 employees.

The table below sets forth, for the periods indicated, additional information relating to our cargo services:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Cargo services:					
Cargo revenues[(1)] (RMB in millions)	3,164.9	3,835.5	4,131.7	1,760.6[(2)]	2,355.0
International	74.8%	78.0%	79.7%	79.4%	81.7%
Domestic	19.5%	16.5%	16.0%	15.5%	14.0%
Hong Kong and Macau	5.7%	5.5%	4.3%	5.1%	4.3%
Cargo traffic (RFTK in millions)	1,801.5	2,117.7	2,206.2	1,008.7	1,225.2
International	75.0%	74.1%	76.5%	77.5%	77.0%
Domestic	22.0%	22.8%	20.9%	19.9%	20.7%
Hong Kong and Macau	3.0%	3.1%	2.6%	2.6%	2.3%
Cargo yield[(3)] (RMB per RFTK)	1.76	1.81	1.87	1.75	1.92
International	1.75	1.91	1.95	1.79	2.04
Domestic	1.56	1.31	1.43	1.36	1.30
Hong Kong and Macau	3.34	3.21	3.10	3.44	3.61
Number of freighters[(4)]	4	4	5	4	5
Number of passenger aircraft with bellyhold space[(4)]	107	111	125	119	130
Freighter:					
RFTKs (in millions)	708.6	853.3	1,020.6	483.1	553.3
International	93.6%	93.5%	94.5%	94.4%	94.2%
Domestic	5.1%	5.3%	4.5%	4.4%	4.7%
Hong Kong and Macau	1.3%	1.2%	1.0%	1.2%	1.1%
AFTKs (in millions)	1,112.7	1,216.2	1,464.3	671.6	774.7
International	91.6%	91.5%	92.3%	92.8%	91.4%
Domestic	6.3%	6.7%	6.2%	5.6%	7.1%
Hong Kong and Macau	2.1%	1.8%	1.5%	1.6%	1.5%
Cargo load factor	63.7%	70.2%	69.7%	71.9%	71.4%
International	65.1%	71.7%	71.4%	73.2%	73.7%
Domestic	52.0%	55.1%	50.0%	56.7%	46.9%
Hong Kong and Macau	37.1%	47.2%	48.6%	52.0%	51.9%
Bellyhold space on passenger aircraft:					
RFTKs (in millions)	1,092.9	1,264.4	1,185.6	525.6	671.9
International	62.9%	61.0%	60.9%	61.9%	62.8%
Domestic	32.9%	34.7%	35.1%	34.2%	33.9%
Hong Kong and Macau	4.2%	4.3%	4.0%	3.9%	3.3%
AFTKs (in millions)	2,500.9	2,751.2	2,563.8	1,072.2	1,541.1
International	58.8%	55.5%	58.6%	59.8%	60.8%
Domestic	36.7%	40.5%	38.0%	37.0%	36.7%
Hong Kong and Macau	4.5%	4.0%	3.4%	3.2%	2.5%
Cargo load factor	43.7%	46.0%	46.2%	49.0%	43.6%
International	46.7%	50.5%	48.0%	50.8%	45.1%
Domestic	39.1%	39.3%	42.7%	45.3%	40.2%
Hong Kong and Macau	41.3%	50.3%	55.0%	60.0%	56.7%

(1) For the purposes of this table, cargo revenues excludes the cargo revenues contribution from Air Macau, our consolidated subsidiary. In 2001, 2002 and 2003, and the six-month periods ended June 30, 2003 and 2004, cargo revenues contribution from Air Macau totaled RMB133.4 million, RMB196.0 million and RMB260.8 million and RMB121.8 million (unaudited) and RMB191.4 million, respectively.

(2) Unaudited.

(3) Calculated by dividing the cargo revenues generated from the use of freighter and bellyhold space of passenger aircraft by the sum of freighter RFTKs and bellyhold space RFTKs.

(4) At period end.

Our cargo services include general air cargo services and special cargo services for goods and materials that require special handling, including perishables, live animals, valuables and hazardous goods. We also offer mail and express services, including a 24-hour express mail service and an express cargo transfer service. We intend to focus on delivering special cargo services, which usually generate higher margins.

We operate one of the largest dedicated freighter fleets in China. This fleet consists of five freighters, including one Boeing 747-400 freighter and four Boeing 747-200 freighters. In addition to unscheduled cargo flights operated in response to customer demand, as of June 30, 2004, we operated the following international and Hong Kong cargo flights each week:

- six flights to the east coast of the United States (New York City and Chicago);
- four flights to the west coast of the United States (Portland and Los Angeles);
- four flights to Frankfurt, Germany;
- four flights to Osaka, Japan; and
- two flights to Hong Kong.

Air China Cargo also transports air cargo using passenger aircraft bellyhold space on scheduled passenger flights and pays a fee to us. In 2003, the use of the bellyhold space of our passenger aircraft represented 53.4% of our cargo traffic.

Our primary cargo terminals are located in Beijing and Tianjin. Our Beijing terminal is located at Beijing Capital International Airport and can handle approximately 180,000 tonnes of cargo each year. We believe that with the improvement of cargo management and increased cargo traffic, the annual handling capacity of our cargo terminals should increase in the near future. We also maintain a 24-hour cargo tracking system at our Beijing terminal to trace the shipment of goods handled by the Beijing terminal. Our Tianjin terminal was designed to handle up to 80,000 tonnes of cargo each year.

We also provide cargo services in Shanghai through the Pudong International Airport and, to a lesser extent, the Hongqiao International Airport. Cargo processing services at these airports are provided by third-party providers.

Other Services

We also provide airline-related services such as ground services, MRO services and in-flight catering services. For more information on ground services, MRO services and in-flight catering services, see the section headed "Business — Operations."

FLEET

Aircraft Procurement and Disposal Policy

We seek to maintain a rationalised and modern fleet to serve our route network and multiple markets. When evaluating our aircraft procurement and disposition plan, we consider many factors, including demand forecasts of aviation markets, current fleet capacity, current and future aircraft requirements, capital structure, cash flow, purchase and leasing costs, prevailing interest rates and other market conditions that may impact financing costs. We evaluate on a case-by-case basis the retirement or disposal of a particular aircraft based on a number of factors, including operating and safety efficiency and market demand for a particular aircraft type. Moreover, we carefully balance the jet fuel consumption and maintenance costs of ageing aircraft against the finance costs and depreciation expense of acquiring newer aircraft. We typically purchase or lease new aircraft.

Fleet Composition

As of June 30, 2004, we operated a fleet of 136 aircraft, including 130 passenger aircraft, five freighters and one corporate jet aircraft.

The table below sets forth additional information regarding our fleet as of June 30, 2004:

	Number of Aircraft[1]				Number of Seats (Range)	Freighter Capacity (Tonnes)	Average Age (in Years)
	Owned	Finance Lease	Operating Lease	Fleet			
Passenger aircraft:							
Narrow-body:							
Airbus 319	6		3	9	128/134	—	1.1
Airbus 320	1	2	2	5	164	—	5.7
Boeing 737-300	26	7	4	37	128/132	—	11.9
Boeing 737-600			6	6	110	—	2.1
Boeing 737-700	3			3	128	—	1.0
Boeing 737-800	5	9	3	17	162/167	—	3.6
Boeing 757-200	4	8	1	13	200/201	—	9.7
Sub-total	**45**	**26**	**19**	**90**		**—**	**7.6**
Wide-body:							
Airbus 340-300		6		6	291/366	—	6.1
Boeing 747-400C	3	5		8	291/307	—	9.1
Boeing 747-400P		4		4	392/406	—	8.8
Boeing 767-200	5			5	214	—	16.9
Boeing 767-300	2	2		4	225	—	10.7
Boeing 767-300ER	1		2	3	225	—	5.1
Boeing 777-200	3	7	—	10	314/345	—	4.5
Sub-total	**14**	**24**	**2**	**40**			**8.3**

	Number of Aircraft(1)				Number of Seats (Range)	Freighter Capacity (Tonnes)	Average Age (in Years)
	Owned	Finance Lease	Operating Lease	Fleet			
Freighter(2):							
Boeing 747-200F	4			4		95	17.5
Boeing 747-400F	—	—	1	1		115	7.8
Sub-total	**4**		**1**	**5**			**15.6**
Commercial charter jet:							
Gulfstream IV(3)	—	—	1	1	8	—	13.9
Total Fleet	**63**	**50**	**23**	**136**			**8.1**

(1) For the purposes of this table, the fleet of Air Macau, our consolidated subsidiary, and of Dragonair, our investee are excluded.

(2) Freighters listed in this table are owned and operated by Air China Cargo, our consolidated subsidiary.

(3) Aircraft used for our revenue-generating special charter services.

As of June 30, 2004, the average age of our fleet was 8.1 years. According to industry standards, the actual operating life of an aircraft ranges from 20 to 40 years, depending on its aircraft type, maintenance record, utilisation rate and operating environment. Ageing aircraft typically require higher maintenance, repair and overhaul services to maintain safe and efficient operations. As of June 30, 2004, 14 aircraft of our fleet were over 15 years in age and the oldest aircraft in our fleet was 20.5 years in age.

Aircraft Delivery and Disposal Schedule

As of September 30, 2004, we (or Air China Cargo, as the case may be) entered into contracts with respect to 41 passenger aircraft and five freighters. The table below sets forth, as of September 30, 2004, additional information relating to the expected delivery schedule, the aircraft model, the number of aircraft and the capacity measured in number of seats or tonnes:

Air China Limited

Expected Delivery Schedule	Aircraft Model	Number	Number of Seats (Range)
Second half of 2004[(1)]	Airbus 319	5	128/134
	Boeing 737-300	2	128/132
	Boeing 737-700	5	128
	Boeing 767-300ER	2	225
Sub-total of 2004		14	
First half of 2005	Airbus 319	3	128/134
	Boeing 737-300	3	128/132
Second half of 2005	Airbus 319	7	128/134
	Boeing 737-700[(2)]	3	128
	Boeing 737-700[(3)]	5	128
Sub-total of 2005		21	
First half of 2006	Airbus 319	1	128/134
	Boeing 737-700[(2)]	3	128
Second half of 2006	Airbus 319	1	128/134
	Boeing 737-700[(2)(3)]	1	128
Sub-total of 2006		6	
Total		**41**	

Air China Cargo

Expected Delivery Schedule	Aircraft Model	Number	Freighter Capacity (Tonnes)
Second half of 2005	Boeing 747-400F	1	115
	Turpolev TU 204[(4)]	2	22
First half of 2006	Boeing 747-400F	1	115
	Turpolev TU 204[(4)]	1	22
Total		**5**	

(1) Between July 1, 2004 and the date of this Prospectus, five Airbus 319s, one Boeing 737-300, three Boeing 737-700s and two Boeing 767-300ERs have been delivered to the Company.

(2) A total of seven Boeing 737-700 aircraft were newly contracted after June 30, 2004.

(3) Although we have contracted to purchase such aircraft, we plan to convert the purchase commitment into operating lease arrangements.

(4) Contracts with respect to these Turpolev TU 204s were entered into by China Southwest Airlines prior to its merger with us in 2002. We plan to transfer these contracts to Air China Cargo.

The table below sets forth, as of September 30, 2004, the expected aircraft disposal schedule:

Expected Disposal Schedule	Aircraft Model	Number
First half of 2006	Boeing 737-300	1
	Boeing 767-200	1
Second half of 2006	Boeing 737-300	1
	Boeing 767-200	1
	Boeing 747-400F(1)	1
Total		**5**

(1) Operating lease will expire in 2006.

As a result of our aircraft acquisition and disposal plan, our passenger and cargo capacity is projected to total approximately 29,970 seats and 676 tonnes, respectively, in 2006.

See the section headed ''Business — Aircraft Purchase and Leasing Arrangements'' and ''Financial Information — Capital Expenditure Plan'' for more information on our planned capital expenditures.

Improvement of Aircraft Cabins

To improve our premium-class service and to expand our market share in the higher-yield long-haul business travel segment, we plan to improve the first and business class cabins of four Boeing 747-400s, five Boeing 747-400Cs and six Airbus 340s reconfigured for use on certain long-haul flights, including flights to Frankfurt and New York. We began reconfiguration in November 2004 and expect to complete the reconfiguration in the fourth quarter of 2005. For our first-class cabins, we plan to install newly designed 180-degree reclinable sleeper seats and to extend the seat pitch from 59-60 inches to 79-80 inches. For our business-class cabins, we intend to extend the seat pitch from 48 inches to 58-60 inches. We also plan to upgrade individual entertainment systems with on-demand video capabilities in our first-class and business-class cabins. We believe that cabin improvements will enhance the overall travel experience of our first-class and business-class passengers.

AIRCRAFT PURCHASE AND LEASING ARRANGEMENTS

Our fleet consists of aircraft purchased as well as leased pursuant to finance and operating leases. As of June 30, 2004, we owned 63 aircraft and operated 50 aircraft under finance leases and 23 aircraft under operating leases. All of these aircraft are registered in the PRC.

We prepare a long-term fleet expansion plan every five years and submit it to the CAAC for approval. Within the framework of the five-year plan approved by the CAAC, we typically initiate negotiations to purchase or lease aircraft one to two years prior to the aircraft's delivery. Once the key terms have been finalised, we submit an application to the NDRC and the CAAC for approval. The NDRC and the CAAC consider a number of factors in granting approval for aircraft acquisition, including the requirements of the Chinese aviation market as well as each airline's safety record and resources. Upon receipt of such approvals, we enter into agreements for the acquisition of aircraft. We purchase or lease aircraft through our subsidiary, AIE. We are not connected with any of the major lessors under our finance lease and operating lease arrangements.

Finance Leases

Under finance leases, we make lease payments that finance most of the purchase price of an aircraft over the lease term and bear substantially all of the economic risks and rewards of owning the aircraft. Under the finance lease, we have the option to purchase the aircraft upon the expiration of the lease and the right to obtain title to the aircraft upon payment of all amounts owed under such lease.

The terms of our finance leases vary depending on the financing structures and the commercial agreements reached by the parties concerned. Generally, we are given an option between floating rate financing and fixed rate financing. The level of interest rates for fixed rate loans depends on the loan market at the time the loans are drawn. Lease payments are generally paid on a quarterly or semi-annual basis. The terms of our finance leases are typically 12 years. Depending on the financing structures, an early termination of a finance lease may result in a penalty payable by us. However, under certain leases, we are given an option to terminate the lease early on a voluntary basis if certain conditions are satisfied and in those cases, no penalty is payable. Circumstances under which a lessor may have the right to terminate a lease early and we are required to surrender the aircraft include the occurrence of an event of default such as non-payment of rent, failure to maintain insurance coverage for the aircraft and insolvency. To date, our lessors have not terminated applicable leases or required us to return an aircraft as a result of a breach or default by us.

Operating Leases

Our operating leases generally have original terms ranging from one to ten years from the aircraft's delivery. Under operating leases, we are entitled to use the aircraft and are obligated to make rental payments according to the relevant lease agreements. Our operating leases typically have no purchase options, although we may enter into different arrangements according to our fleet requirements. The lessor bears the economic benefits and risks of ownership, including the risk of the residual value of the aircraft at the end of the lease term. We are required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, we are responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, taxes and repair of the aircraft. The operating leases allocate responsibilities for the overhaul of the aircraft and the related contributions from the lessor or us.

Purchase

We typically finance our aircraft purchases through bank loans and cash from operations.

OPERATIONS

Route Planning

To maximise our fleet utilisation and to enhance our competitive edge, we carefully evaluate and plan our route network and flight schedule. Our route planning department prepares and periodically updates a rolling five-year route plan based on a number of factors, including our business strategies, market projections and analyses and competition. We also evaluate each route's profitability and adjust our flight schedule and frequency to maximise profitability. We plan to introduce several management information systems, including a network and schedule management system and a pricing management system, to improve our market analysis, network planning and hub operations. See the section headed ''Business — Management Information Systems.'' Based on our rolling five-year route plan, we may seek CAAC approval for additional routes or modify flight frequency on certain routes to continuously improve our route network. We cooperate closely with the CAAC in seeking additional route rights under new or existing bilateral air services agreements and may assist the PRC government in its negotiations with foreign governments on such agreements.

Flight Scheduling

Our marketing and sales department formulates flight schedules to meet market demands for various routes. Consistent with market practice and with IATA guidelines, we publish summer and winter schedules each year. The winter schedule runs from the last Sunday of October to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October of each year. From time to time, we also vary the flight frequency and type of aircraft utilised on scheduled routes based on anticipated seasonal demand.

Flight Operations

Our operations and control centre supervises and controls our flight activities in accordance with our flight operation schedules. The centre collects and analyses information relating to the projected payload, the weather condition and status of aircraft equipment; approves flight dispatches; and coordinates necessary ground services. The centre monitors flights by radio communications and air-to-ground datalink communications. In the event of irregular flights, the centre may adjust flight schedules, combine flights and, if necessary, cancel flights.

On-time departure and arrival is important to customer satisfaction, our brand reputation and cost control. According to data published by the CAAC, our average on-time departure rate was 78.0% compared with the Chinese industry average of 78.7% in the six months ended June 30, 2004. In the same period, 43.7% of our irregular flights was attributable to factors within our control (such as flight scheduling, mechanical incidents and passenger services) compared with the Chinese industry average of 48.2%. Also in the same period, 56.3% of our irregular flights was due to factors beyond our control (such as poor weather, airport congestion, limitations of airport facilities, air traffic control and no-flight orders) compared with the Chinese industry average of 51.8%.

Ground Services

At airports in cities such as Beijing and Chengdu, we provide ground services for our own flights and on a contract basis for other airlines. At airports in other Chinese cities and foreign countries, third-party ground service providers or the principal airlines based at such airports provide ground services to our flights, typically based on fees set out in contracts. Ground services include check-in service, boarding service, premium class lounge service, ramp service, luggage handling, loading and unloading services, cabin cleaning and transit services.

Jet Fuel

In 2001, 2002, 2003 and the six months ended June 30, 2004, jet fuel costs represented 24.6%, 22.9%, 24.3% and 28.1% of our operating expenses, respectively. We procure approximately 70% and 30%, respectively, of our jet fuel from domestic and international suppliers. We typically enter into two-year supply agreements with our domestic jet fuel supplier (under which the Company's payment obligations are in Renminbi) and one-year supply agreements with our international jet fuel suppliers (under which the Company's payment obligations are in U.S. dollars). Such agreements typically set forth the methods of determining price and quantity. We currently purchase a significant portion of our domestic fuel supply from CAOHC, the dominant jet fuel supply company in China. Domestic jet fuel prices, which are regulated by the PRC government, are set by reference to average Singapore jet fuel prices published by Platts. The PRC government adjusts the domestic jet fuel prices from time to time, most recently in August 2004. In general, jet fuel supplied by CAOHC is 10% to 30% more expensive than the prevailing international market prices. From time to time we may enter into derivative contracts, swaps and options contracts to limit our exposure to jet fuel price fluctuations.

For our international and Hong Kong return flights, we purchase jet fuel from international suppliers at prevailing international market prices. Our principal international fuel suppliers include Shell, Chevron Texaco, ExxonMobil and BP.

In-Flight Catering

Beijing Air Catering Co., Ltd. and Southwest Air Catering Company Limited provide in-flight catering for our Beijing- and Chengdu-originated flights, respectively. For flights originating from other airports, we generally contract with local airlines or local catering companies for in-flight catering, generally on an annual basis and otherwise on terms that are customary in the industry.

Immediately prior to the Global Offering, CNAC owned a 60% equity interest in each of Beijing Air Catering Co., Ltd. and Southwest Air Catering Company Limited. Hongkong Beijing Air Catering Limited owns the remaining 40% equity interest in Beijing Air Catering Co., Ltd. and Hongkong Southwest Air Catering Limited owns the remaining 40% equity interest in Southwest Air Catering Company Limited. Other than their respective shareholdings in Beijing Air Catering Co., Ltd. and Southwest Air Catering Company Limited, neither Hongkong Beijing Air Catering Limited nor Hongkong Southwest Air Catering Limited has any connection with us.

Major Suppliers

The purchases attributable to our largest supplier in 2001, 2002 and 2003 accounted for approximately 16.5%, 26.9% and 38.1%, respectively, of our total purchases. The purchases attributable to our five largest suppliers in 2001, 2002 and 2003 accounted for approximately 30.9%, 34.2% and 46.1%, respectively, of our total purchases. None of our Directors, Supervisors, their associates, or any shareholder (which to the knowledge of our Directors owns more than 5% of our share capital) has any interest in our five largest suppliers.

AIRCRAFT EQUIPMENT AND SPARE PARTS

The purchase of aircraft and aircraft equipment is subject to rules and regulations in China, and Chinese airlines without import and export rights are required to purchase their aircraft equipment and spare parts through the CASGC. We have been in compliance with relevant rules and regulations by purchasing or leasing aircraft engines, spare parts and other aircraft equipment mainly through our wholly owned subsidiary, AIE, which has the import and export rights. We believe that our ability to purchase aircraft parts and equipment directly through AIE gives us greater flexibility in procurement and allows us to maintain a lower inventory of aircraft parts and equipment. We plan to further improve our inventory control by implementing a comprehensive aviation supplies management system. See the section headed "Regulation — Regulation of the Chinese Airline Industry — Aircraft and Aircraft Equipment Procurement."

AIRCRAFT MAINTENANCE, REPAIR AND OVERHAUL

Aircraft maintenance, repair and overhaul, also known as MRO, is critical to the safety and comfort of our passengers, the efficient use and maintenance of our aircraft and the optimisation of our fleet utilisation. The schedule and cycle of MRO services for our fleet vary depending on certain factors, including the age and type of aircraft and the manufacturers' specifications.

In February 2004, we integrated the maintenance engineering departments of Air China International Corporation and our branch companies in a newly established MRO division, Air China Technics. We believe that Air China Technics has enabled us to improve our MRO services by standardising our MRO procedures and technical standards.

We also provide MRO services through Ameco. Ameco is our joint venture with Lufthansa established in 1989 in which we hold a 60% equity interest and Lufthansa holds the remaining 40% equity interest. Ameco is certified by the CAAC, the U.S. Federal Aviation Administration and the Europe Aviation Safety Agency and provides MRO services to us as well as other airlines in Beijing. The original Ameco joint-venture agreement expired in July 2004. We have extended our agreement with Lufthansa to continue the operations of Ameco, which has been approved by relevant PRC government authorities. See the section headed "Business — Affiliates and Investees — Ameco."

YIELD MANAGEMENT

We have implemented a yield management system to maximise revenues by flight, by market and across our entire operations. Yield management is an integrated set of business processes used to calculate the optimal pricing and inventory seats policy for maximising profits generated by the sale of tickets based on forecasting of demand behaviour for each market. The goal of our yield management policy is to sell each ticket at the best price possible to maximise revenues.

Similar to other airlines, we have a multiple pricing structure to meet the varying demands of each market segment. Our aircraft cabins are divided into premium cabins (consisting of first class and business class) and economy cabins. We determine the number of seats offered at each fare through a continual process of competitive analysis, forecasting and optimisation, with competitive analysis as one of the most critical processes in yield management. Generally, past booking history and seasonal trends are used to forecast anticipated demand. We use the historical forecasts, combined with current bookings, upcoming events, competitive pressures and other factors, to establish a fare structure to maximise revenues.

We use PROS Revenue Management ("PROS"), a yield management software system used by many leading airlines. The PROS system uses sophisticated forecasting and optimisation models to rapidly analyse the economic tradeoffs required to determine the number of seats offered at each fare, which enables us to maximise revenues from existing capacity. We implemented PROS for our European and North American routes in July 2001 and for our Hong Kong and Southeast Asian routes in June 2002. Since the end of 2002, we have expanded the use of PROS to all of our international routes and plan to use PROS for all domestic routes by the end of 2004.

MARKETING, SALES AND RESERVATIONS

Passenger Services

Marketing

Our marketing strategy is to leverage our strong brand name to expand our market share in China's growing passenger market. We believe that the "Air China" brand is widely recognised in China and abroad as the national flag carrier. Moreover, we believe that providing chartered flight services to national leaders, national sports delegations and cultural envoys enhances our prestige and reputation.

We advertise mainly through outdoor billboards, newspapers and magazines and television and radio commercials. We also engage in numerous promotional activities, including sponsorship of important cultural and sporting events and serving as the designated airline of special Chinese cultural and sporting delegations. In August 2004, we became the official airline partner of the 2008 Beijing Olympic Games, which we believe will boost our brand image as China's leading airline.

Our frequent flyer programme, established in 1994, was the first such programme established by a Chinese airline. As of June 30, 2004, we had 1.6 million members enrolled in our *Companion* programme. We believe our *Companion* programme promotes loyalty, particularly among business passengers, by offering award redemption for their continued patronage. *Companion* members can earn mileage credits on our flights and on certain codeshare flights, or by using services of other programme participants, including credit card issuers, hotels, insurance companies and long-distance telecommunications service providers. Mileage credits can be redeemed for free, discounted or upgraded travel on our flights or on certain flights of our frequent flyer programme partner airlines. Moreover, we have frequent flyer programme co-operation agreements with United Airlines, Lufthansa, All Nippon Airways and Shanghai Airlines. These agreements enable our *Companion* members to accumulate miles by flying with partner airlines. Members of the frequent flyer programmes of our partner airlines have similar reciprocal rights with us. We may enter into similar agreements with other airlines in the future.

Sales and Reservations

We maintain a network of 31 domestic and 56 international and regional sales offices staffed by our own personnel. We operate regional sales offices in most major cities in China, including Beijing, Chengdu, Chongqing, Guangzhou, Nanjing, Shanghai and Shenzhen. We also maintain international sales offices in, among other cities, Seoul, Tokyo, Los Angeles, New York, London, Paris and Frankfurt. In 2003, approximately 14.1% of our passenger revenues was derived from our own sales offices.

We have a network of approximately 3,000 and 10,000 independent sales agents in China and overseas, respectively. In 2003, ticket sales from independent sales agents generated approximately 80.1% of our passenger revenues. The commission structure of agent sales varies depending on a number of factors, including whether the sale is for domestic or international flights and the fare structure of a particular route. Commissions for ticket sales is subject to applicable CAAC regulations.

We have direct sales to government and corporate customers, with a dedicated department responsible for these accounts. We have captured a large share of this market, leveraging our geographic proximity to many Beijing-based government and corporate customers, and have entered into long-term preferred service agreements with many such customers. To further strengthen our base of business travellers, we are in the process of implementing a special service programme to provide customised and comprehensive services to business travellers through certain parts of the service chain, including ticketing, check-in, language help, guided transfer and cabin services.

Similar to other Chinese airlines, all of our sales offices in China are connected to the CAAC's computerised ticketing and reservations system. We have also entered into agreements with several international reservation system operators, including ABACUS in Southeast Asia, SABRE and GALILEO in the United States and AMADEUS in Europe. These reservation systems provide real-time information to facilitate the booking and management of reservations of airline tickets and are cost-effective ways to expand our sales channels.

Air Cargo Services

Air China Cargo conducts the sales and marketing activities of our air cargo services. Although Air China Cargo has direct sales with customers, its primary sales and marketing channel is through independent cargo agents. Such agents track available air cargo space among all airlines and act as an intermediary between the cargo service provider and the customer. Air China Cargo typically pays such agents a commission based on a percentage of the cargo freight rate.

Air China Cargo engages three types of agents:

- global transport and logistics companies such as DHL and Exel-Sinotrans Freight Forwarding Co., Ltd. with extensive overseas sales networks to serve the needs of multinational companies;
- domestic conglomerates such as Sinotrans Limited and EAS International Transportation Ltd. with extensive domestic sales networks; and
- local agents (both China and abroad) that typically have large market shares in their local markets and are knowledgeable of local regulatory requirements and customs procedures.

In March 1996, we became the first Chinese airline to introduce the SITA Cargo System, an advanced freight information management system that covers our European, North American, and Asia Pacific sales networks.

CODESHARE AGREEMENTS

Codeshare is a marketing arrangement whereby the non-operating airline sells seats and/or space on flights operated by its codeshare partner as its own product using its own two-letter airline designator code. Codeshare typically allows free-sale, seat swap or space blocks.

We have successfully established codeshare partnerships with well-known international and domestic airlines and have one of the most extensive codeshare arrangements among Chinese airlines. We believe that codeshare arrangements are a cost-effective means to expand the scope of our passenger services, increase our revenues and enhance our image in the international market.

We have codeshare agreements with airlines such as Lufthansa, Austrian Airlines, Scandinavia Airlines System, Finnair, Turkish Airlines, United Airlines, All Nippon Airways, Asiana Airlines, Dragonair and Air Macau as well as with other Chinese airlines such as Shandong Airlines and Shanghai Airlines. As of June 30, 2004, we had approximately 1,210 scheduled codeshare flights every week operated by our codeshare partners and we operated approximately 290 scheduled codeshare flights every week.

MANAGEMENT INFORMATION SYSTEMS

We believe that management information systems are critical to our business. We intend to increase our spending on management information systems in the next few years to further improve the efficiency of our operations.

In 2002, we appointed a leading provider of airline industry information products and services to assist us in formulating a five-year plan for our management information systems. We intend to improve our management information systems by installing the following:

- *network and schedule management system,* designed to help us develop and manage our route networks and flight scheduling to reduce operating expenses and maximise revenues;
- *pricing management system,* designed to examine relative market data, including changes in the airfares of our partners and competitors, thus enabling us to react to changes in airfares in a competitive and timely manner;
- *data warehouse system,* designed to effectively extract and integrate valuable information from market and operating data, thus enabling us to achieve origin and destination optimisation;
- *customer relations management system,* designed to help us predict customer behaviour, fine tune our frequent flyer programme and design products and services to meet our passengers' needs;
- *finance system,* designed to help us prepare consolidated accounts and financial statements and reports, including airline standard forms and government report forms, manage cash flows, make online payments and prepare various financial statements; and
- *aviation supplies management system,* designed to help us minimise our inventory level while maintaining a sufficient inventory of spare parts by determining the requirements of our different base of operations and allocating our inventory levels at each base of operations according to expected requirements.

COMPETITION

The airline industry is highly competitive. We compete on the basis of numerous factors including route network, safety, service quality and price.

Passenger Services

International Routes

We compete with many other well-established international airlines on our international routes. The intensity of competition varies from route to route, depending on the number and nature of the competitors. Compared with us, many of our international airline competitors may have longer operating histories, substantially greater financial and technological resources, larger sales networks, greater name recognition and more widely accessible reservation systems. Moreover, we may face additional competition as a result of international alliances. Members of international alliances enjoy certain benefits such as codesharing, shared airport lounge facilities, shared benefits of frequent flyer programmes and increased brand enhancement. Although we are considering joining an international alliance, we are not currently a member of any such alliance.

Domestic Routes

We are one of the three largest Chinese airlines serving the domestic passenger market. We compete mainly with China Southern Airlines and China Eastern Airlines in the domestic market. We also compete against other domestic competitors, some of which are operated by or under the control of various Chinese provincial or municipal governments. The intensity of competition on our domestic routes varies from route to route, depending on the number and nature of the competitors. On certain routes, we face competition from other domestic airlines with their principal base at regional airports, which allows them to obtain more favourable time slots and maintain lower cost structures. We have and will continue to face competition from other forms of transport for domestic travel, including rail and coach services.

Hong Kong and Macau Routes

The Beijing-Hong Kong route is highly competitive. We currently operate 35 flights a week between Beijing and Hong Kong. In comparison, each of Dragonair, China Southern Airlines and Cathay Pacific operates 56, seven and three flights, respectively, every week between Beijing and Hong Kong. Beijing is a transit hub to Hong Kong for northern China. We believe our strong presence in provinces and autonomous regions such as Inner Mongolia, Hebei and Shanxi enables us to leverage our strong Beijing-based route network to provide passenger services from these northern China regions to Beijing and connecting flights to Hong Kong.

In addition to Beijing, we currently provide passenger services from five other domestic cities (namely, Chengdu, Chongqing, Dalian, Tianjin and Guiyang) to Hong Kong, among which, on the routes between Chengdu, Chongqing and Dalian, our operations overlap with Dragonair. We have reciprocal codeshare agreements with Dragonair on these three routes.

The PRC government and the governments of the Hong Kong and Macau Special Administrative Regions have recently entered into new air services arrangements that significantly expand air services between the mainland of China and each of Hong Kong and Macau. Although we believe these new arrangements present market opportunities, we and Air Macau may face additional competition as a result. For more information regarding the recently amended air services arrangements between the PRC government and the Hong Kong and Macau Special Administrative Regions, see the section headed "Industry Overview — Deregulation of the Chinese Airline Industry — Traffic Rights."

To re-deploy our aircraft fleet and crew to more profitable routes, we temporarily suspended the operations of our Chengdu-Guilin-Macau route beginning with the summer schedule of 2004. The suspension of flights to Macau has not had a material impact on our results of operations, financial position or business prospects. We provide passenger services between Beijing and Macau through our codeshare arrangement with Air Macau. We believe that our codeshare arrangement and the revenue contribution from Air Macau will allow us to maintain our presence in the Macau market. Although we currently have no plans to resume our Macau flights, we closely monitor the market demand and competition on the Macau routes and may operate our own flights on Macau routes in the future.

Air Macau, our subsidiary, competes with other airlines on routes to Macau. Air Macau's routes to various destinations, including to Taiwan and certain cities in the mainland of China, are also highly competitive. Air Macau competes with Taiwan-based airlines on the Macau-Taiwan routes, with Shanghai Airlines on the Macau-Shanghai route and with Xiamen Airlines on the Macau-Xiamen route.

Air Cargo Services

We compete in the international and Hong Kong air cargo sectors with other passenger airlines, including Dragonair, that offer air cargo services in connection with scheduled passenger services as well as with dedicated air cargo airlines. We operate a more extensive route network than some of our competitors. We also compete with dedicated air cargo carriers and integrated air cargo carriers such as DHL and UPS that have their own ground transport and offer door-to-door air cargo services.

The Chinese air cargo sector is highly competitive. We compete mainly with other major Chinese airlines, the Chinese Postal Service and freight transport companies employing other modes of transportation. We also compete with air cargo carriers with substantial operations in other major cities such as Shanghai and Guangzhou. We believe that deregulation of the air cargo sector may result in more competition for us. See "Industry Overview — Deregulation of the Chinese Airline Industry."

PILOTS AND FLIGHT ATTENDANTS

We hire most of our pilots directly from the CAAC's Civil Aviation Flight University of China, the premier pilot training institute in China. We also hire pilots from other sources, including Chinese universities, the Civil Aviation University of China and the Chinese Air Force. We also plan to recruit foreign pilots. We typically send recruits to the Civil Aviation Flight University of China and foreign pilot schools for additional training before they join us. CAAC regulates the recruitment of pilots.

We provide additional training for our pilots at our own training centres in Beijing and Chengdu. We combine classroom instruction with flight simulation training. We intend to send some of our pilots to training programmes of our airline affiliates, including Dragonair. When a new aircraft type is introduced into our fleet, Airbus or Boeing typically offers training for our pilots. All pilots of Chinese airlines, including ours, are licenced by the CAAC, which requires Chinese pilots to undergo an annual recertification examination.

We recruit our flight attendants from Chinese universities, flight attendant vocational schools and the public. We also recruit foreign flight attendants and participate in joint cabin crew training and exchange programmes with international airlines, including Asiana Airlines and All Nippon Airways. Our flight attendants participate in periodic training programmes.

SAFETY

We are subject to the CAAC's extensive safety standards. CAAC is a member of ICAO, which establishes global safety standards for the airline industry. The civil aviation administration authority of the country in which the airline is incorporated implements related regulations and is responsible for ensuring that the aircraft and flight crew meet such standards. Members of ICAO typically recognise the certification of compliance issued by the country of registry.

The CAAC has jurisdiction over operational safety, maintenance and training standards for all Chinese airlines. The CAAC also issues rules and regulations relating to, among other things, aircraft maintenance and operations, equipment, dispatch, communications, flight personnel and other matters affecting air safety. The CAAC requires each Chinese airline to provide flight safety records to the CAAC periodically, including the reports of flight incidents or accidents involving its aircraft during the relevant reporting period and other safety-related problems. To ensure compliance with its regulations, the CAAC conducts periodic safety inspections on each Chinese airline. Failure to meet the safety standards may result in fines or other administrative penalties. We are in compliance with directives and measures of the CAAC and have not incurred any material fines or penalty for failure to comply with the safety standards.

We are dedicated to ensuring the safety of our passengers and maintaining strict compliance with all laws and regulations applicable to flight safety. We have established a safety committee consisting of members of our senior management to formulate safety policies and monitor the implementation of safety-related requirements. We prepare and distribute to our employees CAAC approved safety manuals and training guidelines. We periodically evaluate the skills, experiences and safety records of our pilots.

We have adopted measures to eliminate factors that may impair flight safety. We had 0.56 flight incidents per 10,000 flight hours in 2003 and 0.33 flight incident per 10,000 flight hours in the first six months of 2004. A "flight incident" is defined by the CAAC as an occurrence, other than an accident, associated with the operation of an aircraft that affects or could affect the safety of operation. The CAAC's standard for an acceptable flight incident ratio was 1.3 flight incidents per 10,000 flight hours in 2003 and 0.9 flight incident per 10,000 flight hours in 2004.

Our various codeshare agreements, including our agreements with United Airlines, All Nippon Airways and Lufthansa, typically require codeshare partners to audit each other's safety management system. These safety audits are typically conducted prior to the implementation of the codeshare arrangements. The reciprocal recognition of the other party's safety standards is important to the successful implementation of codeshare agreements.

On April 15, 2002, Air China Flight CA 129 crashed on approach to Gimhae International Airport near Busan, Korea, resulting in the deaths of 129 of the aircraft's 166 passengers and crew. 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 publicly released. As of September 30, 2004, lawsuits brought by 15 injured Korean passengers and relatives of 82 deceased Korean passengers were pending in the Seoul Central District Court and the Busan District Court of Korea. The aggregate amount of the claims brought under these suits totaled KRW271,383,409,171 (which is the equivalent US$235 million at the exchange rate of US$1 = KRW1,156 as of June 30, 2004). We cannot predict the timing of the courts' judgements or the possible outcome of the lawsuits. Nor can we can predict whether the parties involved in those lawsuits, including us, will appeal the lower courts' judgements.

As of December 31, 2003, we have paid a total of RMB31.0 million in compensation to the families of the deceased passengers and to the injured passengers. Compensation paid or to be paid to the passengers and their dependants (including the claims of US$235 million brought by the injured passengers and relatives of the deceased passengers set out in the above paragraph), the loss of the aircraft and legal costs are covered by the master policy underwritten by PICC maintained by the CAAC on behalf of our Company and substantially all other Chinese airlines. We have set aside a reserve for the compensation to the injured crew and the families of the deceased crew, which we believe to be sufficient to cover the compensation. As part of the Restructuring, CNAHC has agreed to indemnify us for any liabilities relating to the crash of Air China Flight CA 129, excluding the compensation already paid and any amount covered by the reserve described in the preceding sentence.

PROPERTIES AND FACILITIES

Owned Properties

We currently occupy 79 parcels of land with an aggregate gross floor area of approximately 4,197,550 square metres. Apart from 4 parcels of land which are held by our subsidiaries, the remaining land is occupied by our Company, which were transferred to us by CNAHC as part of its capital contribution in the Restructuring.

Among the parcels of land use rights contributed to us by CNAHC in connection with the Restructuring, 68 parcels were specifically authorised by PRC governmental authorities to CNAHC for its operation and management. Such land was accordingly contributed by CNAHC to us pursuant to the approval from relevant PRC land authorities.

We currently occupy 811 buildings with an aggregate gross floor area of approximately 1,190,011 square metres throughout our service regions in China and 4 buildings under construction which will contain a total gross floor area of approximately 57,695 square metres upon completion. Most of the land and buildings are currently registered under the name of our immediate predecessor, Air China International Corporation.

We currently hold and occupy five properties, including two properties in Germany and one property in each of the United States, Japan and Canada (the ''Overseas Properties''). Except for the property in Tokyo, Japan that is used as an office building by us, the remaining Overseas Properties are used as lodgings for our pilots, crew and other staff when staying in these countries.

CNAHC has agreed to contribute all the above properties to us as part of its contribution pursuant to the Restructuring Agreement. As we were only recently incorporated prior to the proposed listing date, definitive land use rights certificates and building ownership certificates for most of the properties occupied by us have not been registered under our name and would continue to be registered under the name of Air China International Corporation, our predecessor. For these properties, we and CNAHC have applied to the relevant land and property authorities to change the property certificates to our name immediately after the incorporation of our Company. Due to the large number of properties in different areas acquired by us and the fact that we were only incorporated in September 2004, we are still in the process of applying to register, or changing the registration of, such properties into our name as the registered land user or building owner, as the case may be. Our Directors expect this process to be completed within six months of our incorporation. We will notify our Shareholders in the interim or annual report immediately following the completion of such process. We will need to pay for transfer fees which are normally in very small amounts. Haiwen & Partners, our PRC legal counsel, has advised us that there are no material legal obstacles affecting our ability to change relevant registrations to our name. In addition, CNAHC has undertaken to us in the Restructuring Agreement that it will use its best endeavour to assist us in the registration or change of registration so as to name us as land user building owner within six months of our incorporation. Once the new land use rights certificate and property certificates are issued under our name, we will have the legal title and right to occupy, mortgage, sub-let and dispose of these properties.

Sallmanns (Far East) Limited ("Sallmanns"), an independent valuer appointed by us for the purpose of the listing, has valued the property interests we owned as of September 30, 2004 at approximately RMB3,763 million. The text of the letter and the valuation summary and certificates issued by Sallmanns are set out in "Appendix V — Property Valuation" to this Prospectus.

As of September 30, 2004, definitive land use rights certificates and building ownership certificates have not been obtained by CNAHC and its subsidiaries for 3 pieces of land with an aggregate area of 23,649 square metres, representing approximately 1% in square area of our total land, and for 79 buildings with a total gross floor area of 71,175 square metres, representing approximately 6% in square area of our total buildings. Sallmanns is of the view that these properties represent no commercial value.

Our Directors consider that the properties to which we do not have the land use rights certificates and/or building ownership certificates in the mainland of China are not crucial to our operations for the following reasons:

- Altogether, the land and buildings which we do not have proper ownership certificates represent only approximately 1% and 6% of the total area and gross floor area of land and buildings that we occupy, respectively.
- Of these 79 buildings which CNAHC does not have proper title certificates, 21 buildings with a total gross floor area of approximately 44,298 square metres are currently occupied by us for warehousing, workshop and office use, which can be, if necessary, replaced by other comparable alternative premises for the relevant use without any material adverse effect to our business operations; 21 residential premises with a total gross floor area of approximately 4,978 square metres are currently occupied by our employees, which are of no significance to our business operations; and 37 buildings or premises with a total gross floor area of 21,899 square metres are currently occupied by us for recreational facilities and other ancillary non-production purposes, which can be easily replaced by other comparable alternative premises for the relevant use without any material adverse effect to our business operations.
- As of June 30, 2004, the book value of the land and buildings to which we do not have proper ownership certificates was RMB166 million, which only represents approximately 1.6% of the total net asset value of our Group.

In addition, CNAHC has provided an undertaking to us in the Restructuring Agreement according to which CNAHC has undertaken to indemnify us against any loss or damage incurred by us arising from the lack of valid title certificates of those properties or any breach of relevant laws governing these properties.

We are currently in the process of applying for the relevant title certificates for the properties to which CNAHC does not hold valid title certificates. CNAHC has undertaken to us that it will assist us in the application of such properties so that the title certificates of these properties will be obtained by the Company within one year of its incorporation. As advised by our PRC legal counsel, Haiwen & Partners, we can occupy and use these properties in the status quo because the contribution of these properties has been approved by the Chinese government. However, we do not have the right to transfer or mortgage such properties before we obtain relevant title certificates.

As of September 30, 2004, in connection with our properties without long-term land use rights certificates or building ownership certificates, we have not received from third parties any written notice that challenges our right to occupy and use each of these properties.

Leased Properties

We have leased approximately 157 properties with an aggregate gross floor area of approximately 93,617 square metres from independent third parties and connected persons throughout our service regions in China.

Among the 157 properties, there are 128 leased properties for which the lessors have not obtained or are unable to provide the requisite title certificates (with an aggregate gross floor area of approximately 55,671 square metres). Sallmanns is of the view that these properties have no commercial value. Haiwen & Partners has advised us that the occupying and use of these properties by us are not protected by law.

We consider such leased properties not crucial to our business operations for the reasons described below:

(i) all of these leased properties are used by the Group as offices, ticket sales outlets and residential premises, all of which are ancillary, and not central to the Company's core business operation of air passenger and cargo transportation;

(ii) altogether, the leased properties to which the lessors do not hold or are unable to provide requisite title certificates represent only a small percentage (approximately 3%) of the total gross floor area of the buildings that the Group currently occupies in the PRC.

(iii) such leased properties to which the lessors have not obtained requisite title certificates, if necessary, can be replaced by other comparable premises for the relevant intended use without any material adverse effect on the Group's operations.

Therefore, we do not believe that there will be any material impact on our business operation if we were requested to re-locate out of such properties.

We have leased approximately 245 properties in overseas countries and Hong Kong with an aggregate gross floor area of approximately 44,119 square metres from independent third parties and a connected person to use as sales offices and offices.

The Group's property interests will be disclosed under the following categories in "Appendix V — Property Valuation" to this Prospectus:

(i) Property interests held and occupied by the Company in the PRC;

(ii) Property interests held by the Company for investment in the PRC;

(iii) Overseas properties held and occupied by the Company;

(iv) Property interests held and occupied by the Company's subsidiaries in the PRC;

(v) Property interests leased and occupied by the Group in the PRC; and

(vi) Property interests leased and occupied by the Group in overseas counties.

The full valuation report in respect of the leased properties complying with the relevant requirements of Hong Kong Listing Rules and the Hong Kong Companies Ordinance will be made available for inspection.

Facilities

We lease substantially all of our facilities at each of the foreign airports that we serve. Leases for our passenger service facilities in the terminals, which include ticket counter and gate space, operations support area and baggage service offices, generally have a lease term ranging from less than one year to ten years, and contain provisions for periodic adjustments of lease rates. From time to time, we are also responsible for maintenance, insurance and other facility-related expenses and services. We also lease aircraft maintenance facilities at certain airports. In general, we pay for the cost of providing, operating and maintaining these facilities. In most airports that we fly to, we enter into service agreements and pay for the usage of airport facilities.

INSURANCE

The CAAC maintains property and liability insurance on behalf of us and other Chinese airlines with PICC under the PICC master policy. Under the PICC master policy, we maintain hull all risks insurance (which includes spare parts), hull war risk and legal liability insurance and aircraft hull all risks deductible insurance of the types and in the amounts customary in the Chinese airlines industry. We are insured under the PICC master policy for liabilities arising from (i) deaths or bodily injuries of passengers (other than crew members) and third parties, (ii) damage to baggage, cargo and mail, (iii) damage to aircraft hull and third-party property, up to a maximum amount of US$1.25 billion. The PICC master policy provides insurance coverage to all countries and regions in which we provide passenger services. Beginning on December 1, 2004, the master policy described above will be jointly underwritten by PICC (88%) and China Pacific Property Insurance Company Ltd. (12%).

The CAAC allocates insurance premiums payable in respect of the PICC master policy to each participating airline based on the value of the airline's insured aircraft or, in the case of leased aircraft, based on the amount required by the terms of the lease. Insurance claims made by any participating airline may cause the premiums paid by us under the PICC master policy to increase. PICC's practice has been to re-insure a substantial portion of its aircraft insurance business through reinsurance brokers in the London reinsurance market.

The global reinsurance market for aircraft industry-related liability is significantly influenced by the commercial practices of the reinsurance industry in London. As a result of the September 11, 2001 terrorist attacks, the maximum third-party war risk liabilities coverage under PICC's master policy, following commercial practice in London, was reduced for Chinese airlines, including us, to US$50 million from the prior commercially determined maximum of US$1.25 billion. Consequently, the PRC government began providing insurance guarantees to all Chinese airlines, including us, to guarantee coverage of third party war risk liabilities exceeding the revised maximum coverage of US$50 million and up to US$1.25 billion. However, on July 25, 2004, the PRC government reduced such insurance guarantee, narrowing the scope of third-party war risk liabilities coverage to any amount exceeding US$150 million and up to US$1.25 billion. As a result of this recent change, we purchased additional insurance policies to cover the gap between the prior maximum coverage of US$50 million and the PRC government-guaranteed coverage for liabilities exceeding US$150 million. We expect our insurance costs to increase as a result of the recent change.

Under Chinese law, civil liability of Chinese airlines for injuries suffered by passengers on domestic flights is limited to RMB70,000 per passenger, consistent with market practice of the Chinese airline industry. China is a party to the Warsaw Convention, which establishes the principle of limited liability of air transport companies based on a presumption of fault. In 1998, we became a party to both the IATA Intercarrier Agreement on Passenger Liability and the Agreement on Measures to Implement the IATA Intercarrier Agreement pursuant to which the signatory airlines have agreed that injured passengers or survivors of deceased passengers can receive compensation of up to 100,000 Special Drawing Rights (“SDR”). SDR is an artificial currency unit created by the International Monetary Fund and 100,000 SDR represents an equivalent of approximately US$146,600 as of June 30, 2004.

We believe that we maintain adequate insurance coverage for the maximum civil liability that can be imposed due to injuries to passengers under Chinese law, the Warsaw Convention or any other applicable bilateral agreements.

ENVIRONMENTAL

We are subject to Chinese environmental and noise regulations, including regulations relating to discharges to surface and subsurface waters, the management of hazardous substances, oils and waste materials, and noise levels. We are also subject to the environmental and noise regulations in each country where we fly.

INTELLECTUAL PROPERTY

We have various domestic patents relating to our business. Such patents are granted in the ordinary course of our business and generally are ancillary to our procurement of equipment from independent third parties on non-executive and non-transferrable bases. We own various trademarks, including the name “Air China” used in our logo. Such trademarks are in the process of being transferred to us as part of the Restructuring and are being registered under our name at the PRC State Trademark Bureau.

EMPLOYEES

In 2001, 2002 and 2003 and the six months ended June 30, 2004, employee compensation costs (which include wages, salaries and benefits) totaled RMB1,643.9 million, RMB2,030.5 million, RMB2,379.1 million and RMB1,310.6 million, respectively, representing 8.5%, 9.4%, 10.6% and 9.7% of our operating expenses, respectively. Our employee compensation costs have gradually increased over the last three years due in part to changes to our compensation system which increased overall salary costs.

The following table sets forth, as of the dates indicated, the number of employees of the Group:

	As of December 31,			As of June 30,
	2001	2002	2003	2004
Flight crew:				
Pilots	2,197	2,324	2,559	2,553
Flight attendants	3,083	3,201	3,299	3,264
Ground personnel:				
Ground services	2,013	2,138	2,214	2,257
Maintenance	3,737	3,824	3,584	3,564
Other	3,238	2,660	2,930	2,696
Marketing and sales	2,299	2,325	2,175	2,264
Management	3,177	3,404	3,182	3,017
Total	**19,744**	**19,876**	**19,943**	**19,615**
Part-time non-recurring employees	1,447	1,436	2,031	829
Employees of our subsidiaries and joint ventures	4,385	4,837	4,907	6,491
Total	**25,576**	**26,149**	**26,881**	**26,935**

A labour union represents the interests of the employees and works closely with our management on labour-related issues. We believe our relationship with our employees and the labour union is good.

Our employees receive cash remuneration consisting of salary and other cash subsidies. In general, employee salaries are determined based on the employee's qualification, position, seniority and performance. Cash subsidies may include living subsidies, and may vary depending on circumstances. We also provide non-cash benefits, including medical insurance, unemployment insurance, early retirement and other social welfare benefits. In addition, all of our full-time employees in the PRC are covered by a defined contribution retirement scheme administered by the PRC government, to which we are required to make annual contributions at rates ranging from 15% to 20% of our employees' base salaries. See Note 4(h) in "Appendix I — Accountants' Report" to this Prospectus.

LEGAL PROCEEDINGS

Other than as set out under the section headed "Business — Safety" and Note 5(r) to the Accountants' Report, no member of the Group is or has been engaged in or, so far as we are aware, has pending or is threatened by or against it any legal or arbitration proceedings which may have or have had, during the twelve months preceding the date of this Prospectus, a significant effect on the Group's financial position.

AFFILIATES AND INVESTEES

Our principal affiliates and investees include those set out below. The financial information for these principal affiliates and investees has been extracted without material adjustment from "Appendix I — Accountants' Report" to this Prospectus.

CNAC

As of the Latest Practicable Date, we held an equity interest of approximately 69% in CNAC, a Hong Kong public company that provides air transportation, airport ground services and logistics services through its subsidiaries and affiliates, which include Dragonair and Air Macau. CNAC's shares are listed on the main board of the Hong Kong Stock Exchange. CNAC holds a 43.29% equity interest in, and is the largest shareholder of, Dragonair, one of the leading Hong Kong-based airlines. In addition, CNAC holds a 51% equity interest in Air Macau, the only licenced airline based in Macau. Through its investments in Dragonair and Air Macau, CNAC is well positioned to benefit from the growth in air traffic between greater China and adjacent regions. CNAC also provides catering services through its 60%-owned Beijing Air Catering Co., Ltd. and 60%-owned Southwest Air Catering Company Limited. In addition, CNAC has equity investment in ground service providers, Jardine Airport Service Limited in Hong Kong and Menzies Macau Airport Services Limited in Macau. CNAC has an equity stake in Tradeport Hong Kong Limited, an airport logistics centre in Hong Kong. We consolidate CNAC in our combined financial statements under IFRS.

Our Vice Chairman and Non-executive Director, Mr. Kong Dong, serves as the Chairman of CNAC. The Chairman of our Supervisory Committee, Mr. Zhang Xianlin, serves as a director of CNAC. Our Independent Non-executive Director, Dr. Hu Hung Lick, Henry, serves as an independent non-executive director of CNAC.

Although each of Dragonair and Air Macau is our investee and consolidated subsidiary, respectively, they operate as separate legal entities with their own respective management and implement their own respective business strategies and route planning. We may cooperate with Dragonair and Air Macau, including through codeshare arrangements, on certain routes if co-operation is mutually beneficial. For example, we have entered into a codeshare agreement with Dragonair on our three overlapping routes with Dragonair that enables us to sell Dragonair tickets and vice versa. Our business decisions, including route planning, fleet deployment and the allocation of resources, are made to maximise our shareholders' value.

Dragonair

Dragonair provides air passenger and cargo services mainly in the Asia-Pacific region from its base in Hong Kong. In addition, Dragonair provides, through its subsidiaries and affiliates, airport ground services, in-flight catering, holiday packages and charter, ramp handling and ground equipment maintenance services.

As of June 30, 2004, Dragonair served 29 passenger and cargo destinations, including 20 destinations in the mainland of China, including Beijing, Shanghai and Chengdu, and the two major cities of Taiwan, Taipei and Kaohsiung. Dragonair has been a major air passenger service provider from Hong Kong to destinations in the mainland of China. Dragonair has codeshare arrangements with us on its routes between Hong Kong and the four mainland cities of Chengdu, Chongqing, Dalian and Tianjin. We may expand the codeshare arrangement with Dragonair in the future.

In 2003, Dragonair operated 24,681 flights for the year and carried 3.2 million passengers, a decrease of 11.2% from 2002 due primarily to the impact of SARS, which depressed demand for passenger services. In the six months ended June 30, 2004, Dragonair operated 16,522 flights and carried 2.2 million passengers, an increase of 92.1% from the six months ended June 30, 2003, due primarily to the strong rebound in demand for passenger services after SARS. Dragonair's RPKs for 2002, 2003 and the six months ended June 30, 2004, totaled 4,348.2 million, 3,847.9 million and 2,649.9 million, respectively.

The table below sets forth, for the periods indicated, additional passenger operations data for Dragonair:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Passenger services:					
ASKs (in millions)	5,576.4	6,657.4	6,483.0	2,661.7	4,326.6
Number of passengers carried (in thousands)[1]	3,036.7	3,620.4	3,213.6	1,119.4	2,150.4
RPKs (in millions)	3,720.3	4,348.2	3,847.9	1,340.7	2,649.9
Passenger yield (HK cents per RPK)	101.4	96.5	88.2	94.4	86.8
Passenger load factor	66.7%	65.3%	59.4%	50.4%	61.2%

(1) Includes the number of both revenue passengers and non-revenue passengers.

Dragonair also provides air cargo services to destinations in Europe, the Middle East, Japan, Southeast Asia and the mainland of China, connecting exporters and importers directly to Dragonair's extensive route network from Hong Kong to the mainland of China. In 2002, 2003 and the six months ended June 30, 2004, Dragonair carried 193,465 tonnes, 269,980 tonnes and 147,680 tonnes, respectively, of cargo, and its cargo tonne kilometres for those periods totaled 646.5 million, 859.6 million and 437.3 million, respectively.

The table below sets forth, for the periods indicated, Dragonair's additional cargo operations data:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Cargo services:					
RFTK (in millions)					
Passenger aircraft	99.8	136.9	157.7	70.7	96.7
Freighter	292.9	509.7	701.9	334.2	340.6
Total cargo carried (in million tonnes)					
Passenger aircraft	82.7	113.4	125.6	56.0	75.5
Freighter	38.6	80.1	144.3	64.7	72.1
Cargo yield per RFTK					
Passenger aircraft (HK cents)	581	561	570	563	579
Freighter (HK cents)	153	174	212	204	221

The table below sets forth, for the periods indicated, Dragonair's fleet:

	As of December 31,			As of June 30,	
	2001	2002	2003	2003	2004
Aircraft type:					
Airbus 320	7	8	8	8	8
Airbus 321	3	4	6	4	6
Airbus 330	7	9	9	9	10
Airbus A300B4 freighter	—	—	—	—	1
Boeing 747 freighter	2	3	3	3	3
Total Fleet	**19**	**24**	**26**	**24**	**28**

In 2001, 2002, 2003 and the six months ended June 30, 2004, our share of net profits, calculated in accordance with IFRS, from Dragonair amounted to RMB146.9 million, RMB243.5 million, RMB43.3 million and RMB109.5 million, respectively. We use the equity method under IFRS to include our investment in Dragonair in our financial statement. Dragonair's results of operations were adversely affected by the outbreak of SARS, which caused a steep decline in passenger traffic from the end of March to early June of 2003. Passenger traffic improved in the second half of 2003, but failed to meet the passenger traffic level prior to the outbreak of SARS.

Our Vice Chairman and Non-executive Director, Mr. Kong Dong, serves as the Chairman of Dragonair. One of our Executive Directors, Mr. Cai Jianjiang, serves as a director of Dragonair. The Chairman of our Supervisory Committee, Mr. Zhang Xianlin, serves as a director of Dragonair.

Air Macau

Air Macau provides passenger and air cargo services in the Asia-Pacific region from its base in Macau. Established in 1994 as Macau's home-based carrier, Air Macau began operations in November 1995 pursuant to a concession agreement with the predecessor of the Macau Special Administrative Region government that grants the exclusive right to the airline to operate as Macau's home-based airline until 2020. As of June 30, 2004, Air Macau operated flights from

Macau to 13 destinations in the mainland of China and the Asia-Pacific region. Air Macau is the only airline permitted to operate special flights between Beijing and Taipei, using a brief stopover in Macau without requiring passengers to leave the aircraft. Such special flights reduce the travel time between Beijing and Taipei.

Air Macau is currently in discussions with potential joint-venture partners to establish a Macau-based low-cost carrier to provide passenger services to certain destinations in the mainland of China and Southeast Asia. The establishment of such airline and the routes operated are subject to regulatory approvals. As of the Latest Practicable Date, no binding agreement has been entered into.

Air Macau's RPKs for 2002, 2003 and the six months ended June 30, 2004 totaled 2,078.1 million, 1,538.2 million and 943.7 million, respectively. In 2003, Air Macau carried 55,593 tonnes of cargo, representing an increase of 90.0% from 29,256 tonnes in 2002 and in the six months ended June 30, 2004, it carried 37,424 tonnes of cargo, representing an increase of 43.8% from 26,020 tonnes in the six months ended June 30, 2003. Air Macau's cargo tonne kilometres for 2002, 2003 and the six months ended June 30, 2004, were 30.5 million, 46.0 million and 36.2 million, respectively.

The table below sets forth, for the periods indicated, additional operating data for Air Macau:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	**2002**	**2003**	**2003**	**2004**
Overall operating:					
Available tonne kilometre (ATK in millions)					
Passenger aircraft	310.6	334.9	267.6	113.9	162.2
Freighter	—	7.5	30.6	14.6	36.2
Passenger services:					
ASKs (in millions)	2,692.5	2,925.4	2,371.4	1,006.2	1,428.2
Number of passengers carried (in thousands)	1,707.7	1,736.4	1,220.4	466.7	790.4
RPKs (in millions)	1,911.3	2,078.1	1,538.2	589.1	943.7
Passenger yield (avos[1] per RPK)	77	70	65	68	66
Passenger load factor	71%	71%	65%	59%	66%
Cargo services:					
Passenger aircraft RFTK (in millions)	22.6	26.7	22.4	10.1	11.2
Freighter	—	3.8	23.6	11.3	25.0
Total cargo tonnes carried:					
Passenger aircraft (in thousand tonnes)	20.8	23.0	18.4	8.2	9.5
Freighter (in thousand tonnes)	—	6.3	37.2	17.9	27.9
Cargo yield (MOP per RFTK):					
Passenger aircraft	5.26	4.78	4.77	4.67	5.06
Freighter	—	7.79	5.57	5.48	5.07
Cargo load factor:					
Passenger aircraft	55%	63%	74%	75%	58%
Freighter	—	51%	77%	78%	69%

(1) Macau currency.

The table below sets forth, for the periods indicated, Air Macau's fleet:

	As of December 31,			As of June 30,	
	2001	2002	2003	2003	2004
Aircraft type:					
Airbus 319	—	2	5	4	5
Airbus 320	3	3	1	1	1
Airbus 321	5	5	5	5	5
Boeing 757	1	1	—	—	—
Airbus 300B4 freighter	—	—	—	—	2
Boeing 727 freighter	—	1	1	1	1
Total Fleet	**9**	**12**	**12**	**11**	**14**

In 2001, 2002, 2003 and the six months ended June 30, 2004, Air Macau carried a total of approximately 1.7 million, 1.7 million, 1.2 million and 0.8 million passengers, respectively. As of June 30, 2004, Air Macau operated a fleet of 14 aircraft, consisting of 11 narrow-body and three freighters. In 2001, 2002, 2003 and the six months ended June 30, 2004, Air Macau had operating revenues of RMB1,767.6 million, RMB1,872.0 million, RMB1,432.1 million and RMB871.5 million, respectively, and an operating profit of RMB75.5 million and RMB66.4 million for 2001 and 2002, respectively, an operating loss of RMB211.9 million in 2003 and an operating profit of RMB2.6 million in the six months ended June 30, 2004, as accounted for under IFRS.

One of our Supervisors, Ms. Zhang Huilan, serves as the chairman of the supervisory committee of Air Macau.

Shenzhen Airlines

We hold a 25% equity interest in Shenzhen Airlines. Based in Shenzhen, Shenzhen Airlines provides domestic passenger and air cargo services on 65 domestic routes to 48 destinations. According to data published by the CAAC, in 2001, 2002 and 2003, Shenzhen Airlines carried 1.6 million, 2.6 million and 3.5 million passengers, respectively, and generated passenger traffic in RPKs of 2,259.2 million, 3,385.0 million, and 4,557.9 million, respectively. In 2001, 2002 and 2003, Shenzhen Airlines carried 24,904.3 tonnes, 41,404.7 tonnes and 52,207.2 tonnes of cargo, respectively, and generated cargo traffic in RFTKs of 41.9 million, 68.2 million and 83.2 million, respectively. As of June 30, 2004, Shenzhen Airlines operated a fleet of 24 narrow-body aircraft. In 2001, 2002, 2003 and the six months ended June 30, 2004, our share of net profits from Shenzhen Airlines amounted to RMB48.8 million, RMB40.3 million, RMB109.2 million and RMB32.6 million, respectively. We use the equity method under IFRS to include our investment in Shenzhen Airlines in our combined financial statements.

Our President and one of our Executive Directors, Mr. Ma Xulun, serves as the vice chairman of Shenzhen Airlines. Our Non-executive Director, Mr. Yao Weiting, serves as the chairman of the supervisory committee of Shenzhen Airlines.

Ameco

Ameco is one of the leading providers of MRO services in China and is a commercial aviation maintenance company in China certified by the CAAC, the U.S. Federal Aviation

Administration and the Europe Aviation Safety Agency. We established Ameco as a 60%-owned joint venture with Lufthansa in 1989. The Ameco joint-venture agreement expired in July 2004. We have extended our agreement with Lufthansa to continue the operations of Ameco, which has been approved by the relevant PRC government authorities.

Ameco operates a maintenance facility complex located at Beijing Capital International Airport. Such complex includes a four-bay hangar with a repair shop; a one-bay hangar that can accommodate one Boeing 747-400; a fully-enclosed, temperature-controlled painting workshop; an engine repair and overhaul workshop and a modern engine test cell. Ameco intends to expand its facilities adjacent to the new Terminal 3 at the Beijing International Capital Airport.

In 2001, 2002, 2003 and the six months ended June 30, 2004, our proportionate share of Ameco's operating revenues was RMB604.9 million, RMB687.0 million, RMB752.4 million and RMB441.1 million, respectively, and our proportionate share of Ameco's net income was RMB58.7 million, RMB56.5 million, RMB56.2 million and RMB28.5 million, respectively. In 2003, approximately 65% of Ameco's operating revenues was generated by services provided to us, approximately 19% was generated by services provided to other Chinese airlines and approximately 16% was generated by services provided to foreign airlines. In our combined financial statements, we consolidate Ameco using the proportionate consolidation method under IFRS.

Our Chairman and one of our Non-executive Directors, Mr. Li Jiaxiang, serves as the chairman of Ameco. Our Non-executive Director, Mr. Yao Weiting, serves as a director of Ameco. Our Vice President, Mr. Ma Kuiliang, serves as a director of Ameco.

Proposed Acquisitions of Shandong Aviation Group and Shandong Airlines

We plan to acquire a 48.0% equity interest in Shandong Aviation Group and a 22.8% equity interest in Shandong Airlines. We have entered into an assignment agreement with CNAHC as discussed below with respect to the proposed acquisitions and expect to complete such acquisitions upon receipt of certain procedural approvals from the PRC government. Shandong Aviation Group principally provides passenger and air cargo services through Shandong Airlines in which it holds a 42.0% equity interest (after the aforesaid shareholding change). Shandong Airlines' domestic listed foreign-capital shares ("B shares") are listed on the Shenzhen Stock Exchange. As of June 30, 2004, Shandong Airlines provided domestic passenger and cargo services from its three bases located in Shandong province, serving 46 destinations in China as well as Singapore. As of December 31, 2003, Shandong Airlines operated a fleet of 20 narrow-body aircraft. Shandong Aviation Group also provides through its subsidiaries airline-related services such as MRO, aviation training, air logistics and in-flight catering.

We intend to acquire the equity interests in Shandong Aviation Group and Shandong Airlines to leverage the route network of Shandong Airlines in northern China to direct passengers to our Beijing-based domestic and international route networks. We believe that we will be able to achieve synergies in integrating our route networks with Shandong Airlines. Moreover, we believe that our investment in Shandong Airlines will enable us to capture a greater share of travellers in northern China who transit through Beijing en route to regional and international destinations such as Hong Kong.

Our acquisitions of the equity interests in Shandong Aviation Group and Shandong Airlines will be consummated in two steps. First, on February 28, 2004, CNAHC entered into a share purchase agreement with Shandong Economic Development Investment Company and a second share purchase agreement with Shandong Aviation Group. Pursuant to these share purchase agreements, CNAHC agreed to acquire a 48.0% equity interest in Shandong Aviation Group and a 22.8% equity interest in Shandong Airlines for a total consideration of RMB560.8 million. Second, on October 8, 2004, we entered into an assignment agreement with CNAHC to acquire a 48.0% and 22.8% equity interest in Shandong Aviation Group and Shandong Airlines, respectively. Pursuant to the assignment agreement, we will assume CNAHC's rights and obligations under the two share purchase agreements and CNAHC agreed to indemnify us against all liabilities and claims arising from the acquisitions. As part of the Restructuring, CNAHC transferred to us RMB560.8 million as a capital injection, substantially all of which will be used to fund the acquisitions.

As is common in the Chinese airline industry, as of December 31, 2003 and June 30, 2004, Shandong Aviation Group and Shandong Airlines were highly leveraged principally as a result of their respective short-term and long-term indebtedness. In addition, as of December 31, 2003 and June 30, 2004, Shandong Aviation Group had outstanding guarantees, primarily relating to bank loans, a substantial portion of which was granted for the benefit of Shandong Airlines and other airline-related subsidiaries of Shandong Aviation Group and certain state-owned enterprises in Shandong province, some of which are shareholders of Shandong Aviation Group. A call on some or all of such guarantees could adversely affect the financial position of Shandong Aviation Group.

We intend to account for Shandong Aviation Group and Shandong Airlines as investments in associates under the equity method in our combined financial statements. In accounting for our investments in such investees, we plan to make adjustments in the future as necessary to reflect the differences in accounting policies between our company and Shandong Aviation Group and Shandong Airlines. As a result, the publicly released financial data of Shandong Aviation Group and Shandong Airlines may not be indicative of the investment income or loss from such investees in our combined financial statements.

On November 21, 2004, a Bombardier CRJ commuter aircraft operated by China Eastern Airlines crashed in Inner Mongolia killing 55 people. Following the accident, the CAAC grounded all aircraft manufactured by Bombardier Aerospace licensed and operating in China pending further notice. Shandong Airlines currently operates ten Bombardier aircraft, which accounts for approximately 28% of its fleet's seating capacity. On November 26, 2004, the CAAC lifted the flight ban on two of these Bombardier CRJs. It is expected that the flight ban with respect to the others will be lifted shortly thereafter, although no assurances can be given regarding when, or if, such aircraft will be allowed to resume normal operations.

CONNECTED TRANSACTIONS

As part of the Restructuring, we have entered into a number of agreements with CNAHC Group to document the basis on which the Restructuring is to be effected and also to regulate the continuing business relationship between us and CNAHC Group. Details of these agreements are set out below. We have also entered into various transactions on a continuing basis with other connected persons, details of which are set out below. Upon the listing of our H Shares on the Hong Kong Stock Exchange and for so long as CNAHC is our substantial shareholder, transactions between us and CNAHC and its associates pursuant to these agreements will constitute connected transactions for us under the Hong Kong Listing Rules. Transactions between us and the connected persons other than CNAHC and its associates, as described below, will also constitute connected transactions for us under the Hong Kong Listing Rules.

Connected Persons as Defined under the Hong Kong Listing Rules

CNAHC

Following the Global Offering (assuming the Over-allotment Option is not exercised), CNAHC will hold approximately 53.65% of our issued share capital. As a result, CNAHC and its associates are connected persons of our Company under the Hong Kong Listing Rules. The associates of CNAHC that will enter into connected transactions with our Company include:

- China National Aviation Finance Co., Ltd. ("CNAF") which is 52% owned by CNAHC;
- China National Aviation Construction and Development Company Limited ("CNACD") which is wholly owned by CNAHC;
- China National Aviation Media and Advertisement Co., Ltd. ("CNAMC") which is wholly owned by CNAHC;
- China National Aviation Tourism Company ("CNATC") which is wholly owned by CNAHC; and
- China Aircraft Services Limited ("CASL"), a 53.3% owned subsidiary of CNACG, which is wholly owned by CNAHC.

Lufthansa

Lufthansa currently holds a 40% equity interest in Ameco, and as such is a substantial shareholder of Ameco, one of our subsidiaries, and therefore a connected person of our Company under the Hong Kong Listing Rules.

Capital Airports Holding Company

Capital Airports Holding Company currently holds a 24% equity interest in Air China Cargo, and as such is a substantial shareholder of Air China Cargo, one of our subsidiaries, and therefore a connected person of our Company under the Hong Kong Listing Rules.

Cathay Pacific

Pursuant to a strategic placing agreement entered into between us and Cathay Pacific, Cathay Pacific will hold 10% of our issued share capital immediately following the Global Offering and will therefore be a connected person of our Company under the Hong Kong Listing Rules upon the listing of our H Shares.

Connected Transactions between the Company and CNAHC in connection with the Restructuring

The Restructuring Agreement

To effect the Restructuring, we entered into a restructuring agreement with CNAHC and CNACG on November 20, 2004 (the ''Restructuring Agreement'') pursuant to which CNAHC and CNACG agreed to undergo a restructuring and establish the Company. In accordance with the Restructuring Agreement, 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;
- 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.

In accordance with the Restructuring Agreement, CNACG transferred its approximately 69% equity interest in CNAC to us by way of a capital contribution. 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 remains wholly owned by CNAHC after the Restructuring.

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.

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

CNAHC and CNACG have provided certain representations and warranties in favour of the Company, including:

- receipt of all the internal approvals relating to the Restructuring;
- receipt of all the material third-party consents relating to the Restructuring;
- no breach of any laws or regulations, the result of which may have a material economic impact on the Company;
- all the information provided by CNAHC and CNACG to the intermediaries being true, accurate and not misleading;

- no material change in the assets and liabilities transferred to the Company pursuant to the Restructuring Agreement as reflected on the financial accounts of CNAHC and CNACG; and
- no litigation, arbitration or other proceedings that may have a material adverse effect on the assets and business to be transferred to the Company pursuant to the Restructuring Agreement, except as disclosed in the Prospectus.

Pursuant to the Restructuring Agreement, CNAHC and CNACG have agreed to indemnify us (jointly or separately as the case may be) against, among other things:

- tax liabilities on the assets transferred to us which arose prior to the Restructuring and not provided for in our combined balance sheet as of December 31, 2003;
- tax liabilities on all the assets and interests retained by the CNAHC and CNACG;
- enterprise income tax liabilities due to the increase in asset value arising from the asset valuation of the assets transferred to us;
- claims incurred in connection with the assets and liabilities transferred to us which arose before the Restructuring and not provided for in the combined balance sheet as of December 31, 2003;
- any amounts, losses or claims incurred in connection with the Company's use of land use rights which were authorised by relevant PRC governmental authorities for CNAHC to transfer to the Company as part of its capital contribution during the Restructuring;
- any claims incurred in connection with the assets and liabilities retained by CNAHC and CNACG after the Restructuring; and
- any claims arising from the breach of any clause of the Restructuring Agreement by CNAHC or CNACG.

There is no monetary limit on the above indemnities provided by CNAHC and CNACG to us.

Non-competition Agreement

In connection with the Restructuring, we entered into a non-competition agreement with CNAHC on November 20, 2004. Pursuant to this agreement, CNAHC has agreed that, without the written consent from our Independent Non-executive Directors and approval by our Board, CNAHC and its subsidiaries (including CNACG) will not, directly or indirectly, engage in, acquire, develop, operate, assist in the operation of, or participate in businesses that compete, could compete, or are likely to compete with our passenger and cargo air transportation services. However, the foregoing restrictions do not apply in certain circumstances, including:

(i) Any investment by CNAHC or its subsidiaries of 5% or less equity interest in a competing business.

(ii) If CNAHC and its subsidiaries obtain an opportunity to invest in, or to acquire any business that may compete with us, CNAHC and its subsidiaries will use their best endeavours to make such opportunity available to, and suitable for acquisition by, us. Our Independent Non-executive Directors will decide whether to exercise such right of first refusal. In the event we decide not to accept such business opportunity, CNAHC and its subsidiaries may make such investment.

(iii) If CNAHC expressly indicates that such investment or acquisition which may compete with us is of strategic importance to its development, and CNAHC has made appropriate arrangements to transfer such business to us, then CNAHC may invest in or acquire such business at its sole discretion. In such case, if such a competing relationship is not satisfactorily resolved in a manner specified by us within three years of the acquisition, CNAHC must transfer such business to independent third parties unless our Independent Non-executive Directors provide their written consent for CNAHC to retain such business. CNAHC has granted us the right of first refusal to purchase such business if such transfer is to take place.

The Company believes that such exception to allow CNAHC to acquire other airlines first before the Company acquires such airlines from CNAHC is advantageous to the Company for the following reasons:

- If the acquisition of the airline businesses requires our Shareholders' approval, which would require at least two months to obtain (given that our shareholders meeting requires 45 days notice), CNAHC would be in a better position to proceed quickly and acquire such businesses before subsequently transferring such businesses to us. Otherwise, we would be severely, if not irretrievably, disadvantaged in making such acquisitions especially if the opportunity is also attractive to other players in the market.
- It is possible that Chinese airlines that are the target of an acquisition have, in addition to their core airline operations, non-core activities such as providing comprehensive services. If CNAHC acquire such airlines first, it would provide an opportunity for such businesses to be restructured and streamlined into focusing on its core airline operations before such businesses are acquired by us, so that we will not need to bear the cost of such restructuring.

In addition to the foregoing, CNAHC has undertaken that, in the ordinary course of its business, it will deal with us on terms no less favourable than terms offered by CNAHC to its other subsidiaries.

Disclosures will be made for any decisions made by our Independent Non-executive Directors in the circumstances set out in paragraph (ii) or (iii) above in accordance with the requirements of Rule 13.09 of the Hong Kong Listing Rules if legally permissible for us to do so.

Assignment Agreement regarding Shandong Aviation Group and Shandong Airlines

On February 28, 2004, CNAHC entered into a share purchase agreement with Shandong Economic Development Investment Company and a second share purchase agreement with Shandong Aviation Group. Pursuant to these share purchase agreements, CNAHC agreed to acquire a 48.0% equity interest in Shandong Aviation Group and a 22.8% equity interest in Shandong Airlines for a total consideration of RMB560.8 million.

On October 8, 2004, we entered into an assignment agreement with CNAHC pursuant to which we assumed CNAHC's rights and obligations under the two share purchase agreements and CNAHC agreed to indemnify us against all liabilities and claims arising from the acquisitions. As part of the Restructuring, CNAHC transferred to us RMB560.8 million as a capital injection, substantially all of which will be used to fund the acquisitions. The proposed acquisitions will be completed upon receipt of certain procedural approvals from the PRC government.

Continuing Connected Transactions between the Company and CNAHC Group

Summary of the Group's Continuing Connected Transactions

Type of Transaction	Terms and Expiry Date	Waiver Sought and Applicable Rules under Hong Kong Listing Rules	Historical Figures and Cap (if applicable)
1. Licensing of trademarks by the Company to CNAHC and its associates	10 years expiring on December 31, 2014	Announcement requirement under Rule 14A.33(3)	—
2. Provision of construction project management services by CNACD, a subsidiary of CNAHC, to the Company	Three years expiring on December 31, 2006	Announcement requirement under Rule 14A.34	No comparable historical figures are available. For each of the three years ending December 31, 2006, the cap is set at RMB40.0 million.(1)
3. Leasing of properties by CNAHC (including its subsidiaries) to the Company and by the Company to CNAHC (including its subsidiaries)	Three years expiring on December 31, 2006	Announcement requirement under Rule 14A.34	For each of the three years ended December 31, 2003, the aggregate amount of rents paid by us to CNAHC was estimated to be RMB42.7 million, RMB44.0 million and RMB45.3 million, respectively. For each of the three years ending December 31, 2006, the aggregate amount of rents to be paid by us to CNAHC shall not exceed RM47.6 million, RMB50.0 million and RMB52.5 million, respectively.(2)
4. Provision of media and advertising services by CNAMC, a subsidiary of CNAHC, to the Company	Three years expiring on December 31, 2006	Announcement requirement under Rule 14A.34	No comparable historical figures are available. For each of the three years ending December 31, 2006, the aggregate amount to be paid by CNAMC to us shall not exceed RMB23.0 million, RMB24.7 million and RMB26.6 million, respectively.(3)
5. Provision of tourism services between the Company and CNATC, a subsidiary of CNAHC	Three years expiring on December 31, 2006	Announcement requirement under Rule 14A.34	For each of the three years ended December 31, 2003, the aggregate amount paid by CNATC to us was RMB7.5 million, RMB24.6 million and RMB10.0 million, respectively. For each of the three years ending December 31, 2006, the aggregate amount to be paid by CNATC to us shall not exceed RMB30.8 million, RMB35.6 million and RMB40.4 million, respectively.(4)
6. Provision of comprehensive services between CNAHC and its associates and the Company	Three years expiring on December 31, 2006	Announcement requirement under Rule 14A.34	For each of the three years ended December 31, 2003, the aggregate amount paid by us to CNAHC was RMB73.0 million, RMB73.3 million and RMB79.9 million, respectively. For each of the three years ending December 31, 2006, the aggregate amount to be paid by us to CNAHC shall not exceed RMB100.0 million, RMB115.0 million and RMB132.0 million, respectively.(5)

Type of Transaction	Terms and Expiry Date	Waiver Sought and Applicable Rules under Hong Kong Listing Rules	Historical Figures and Cap (if applicable)
7. Provision of line maintenance and other ground services by CASL, a subsidiary of CNACG, to the Company	One year expiring on April 16, 2005 and subject to renewal	Announcement requirement under Rule 14A.34	For each of the three years ended December 31, 2003, the fees paid by us to CASL were RMB31.7 million, RMB31.5 million and RMB21.6 million, respectively. For each of the three years ending December 31, 2006, the cap is set at RMB40.0 million, RMB45.0 million and RMB50.0 million, respectively.(6)
8. Provision of financial services by CNAF, a subsidiary of CNAHC, to the Company	Three years expiring on December 31, 2006	Announcement and independent shareholders' approval requirements under Rule 14A.35	For each of the three years ended December 31, 2003, the maximum daily outstanding balance of deposits was RMB902 million, RMB1,018 million and RMB2,357 million, respectively; the maximum daily outstanding balance for loans was RMB53 million, RMB158 million and RMB1,180 million, respectively; and historical figures for fees and charges paid by us to CNAF are not available. For each of the three years ending December 31, 2006, the cap for daily outstanding balance of deposits is set at RMB5 billion, the cap for daily outstanding balance of loans is set at RMB3 billion, and the cap for fees and charges to be paid by the Company to CNAF is set at RMB40 million.(7)
9. Subcontracting charter flight services by CNAHC to the Company	Three years expiring on December 31, 2006	Announcement and independent shareholders' approval requirements under Rule 14A.35	For each of the three years ended December 31, 2003, amounts received from the government in connection with the use of charter flight were RMB374.6 million, RMB422.0 million and RMB379.7 million, respectively. For each of the three years ending December 31, 2006, the cap is set at RMB600.0 million, RMB650.0 million and RMB700.0 million, respectively.(8)

Type of Transaction	Terms and Expiry Date	Waiver Sought and Applicable Rules under Hong Kong Listing Rules	Historical Figures and Cap (if applicable)
10. Provision of sales agency services for airline tickets and cargo by CNAHC and its associates	Three years expiring on December 31, 2006	Announcement and independent shareholders' approval requirements under Rule 14A.35	For each of the three years ended December 31, 2003 the commission and incentives paid by the Company to CNAHC were RMB38.1 million, RMB34.2 million and RMB20.2 million, respectively; the aggregate sales of airline tickets and cargo space to CNAHC Group for on-sale to end users were RMB349.9 million, RMB270.9 million and RM289.7 million, respectively. For each of the three years ending December 31, 2006, the cap for agency commissions and incentives to be paid by the Company to CNAHC is set at RMB29.0 million, RMB35.0 million and RMB42.0 million, respectively; the cap for aggregate sales of airline tickets and cargo space to CNAHC Group for on-sale to end-users is set at RMB420.0 million, RMB470.0 million and RMB533.0 million, respectively.(9)

(1) The cap is set based on our expected annual aggregated budget of RMB1 billion for construction projects and assuming the maximum bonus is paid.

(2) The cap is set after considering, among others, our estimated rent payable with annual increments of 3%-5%.

(3) The cap is set after considering, among others, our estimated revenue to be generated from specified and potential advertisement formats, the cost of services to be provided by CNAMC and the market value of items to be provided by CNAMC for free.

(4) The cap is set after considering, among others, historical figures, new charter flight routes and the expected higher frequency of charter flight services.

(5) The cap is set after considering, among others, historical figures and the increasing need of comprehensive services due to our expected growth of business.

(6) The cap is set after considering, among others, historical figures and our increasing need of relevant services due to expected growth in our air passenger business.

(7) The cap is set after considering, among others, the possible increase of our working capital requirement and cash inflow, and the increasing air tickets sale proceeds deposited with CNAF for settlement.

(8) The cap is set after considering, among others, the new hourly rate and the estimated annual increase of 8% in flight hours.

(9) The cap is set after considering, among others, the increasing number of travellers, our further use of CNAHC's expanded distribution network and our estimate of the expected growth in Chinese cargo business market.

Trademark Licensing

Pursuant to a trademark licensing agreement (the "Trademark Licence Agreement") entered into between the Company and CNAHC on November 1, 2004, we granted to CNAHC and its associates a non-exclusive licence for the use of our trademarks in connection with their business operations on a royalty-free basis. These trademarks include the trademark bearing the Company's logo set out below. The above non-exclusive licence is for a term of ten years and is subject to renewal through mutual consent.

Prior to the Restructuring, Air China International Corporation owned the trademarks that are the subject of the Trademark Licensing Agreement. Pursuant to the Restructuring, these trademarks are in the process of being transferred to the Company. As some of the trademarks are related to the daily business of CNAHC and its associates, the parties have entered into the Trademark Licence Agreement. The agreement is entered into on normal commercial terms and falls below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules exempting it from both the disclosure and independent shareholders' approval requirements. Further information regarding the trademarks under the Trademark Licence Agreement is set out in ''Appendix IX — Statutory and General Information'' to this Prospectus.

Construction Project Management Services

We entered into a construction project management agreement (the ''Construction Project Management Agreement'') with CNACD, a wholly owned subsidiary of CNAHC on November 1, 2004. Pursuant to this agreement:

- CNACD will provide us with project management services on projects involving the construction of any property or industrial plant/facility with budgeted costs equal to or exceeding RMB20 million;
- In return for its project management services, we will pay CNACD a fee of up to 2% of the construction budget if the budget is equal to or exceeds RMB1 billion, and up to 2.5% if our budget is below RMB1 billion;
- If CNACD is able to manage the construction projects such that the final cost falls below the amount we have budgeted, we will pay CNACD a bonus fee, which will be decided by both parties through arm's length negotiation but shall not exceed 40% of the management fee calculated based on the budgeted amount of the project;
- If the final cost of the project managed by CNACD is higher than the budgeted amount, CNACD will pay us the difference between the final cost and the budgeted amount unless the difference is caused by (i) a change of government policies; (ii) factors attributed to us; or (iii) force majeure; and
- If CNACD acquires land relating to a project on our behalf, we will pay CNACD an agency fee of up to 2% of all the fees and expenses in relation to the land acquisition (including, among other things, land acquisition fee, formality fee, labour expenses, travel expenses, but excluding the land premium).

In addition, we have the right to choose independent third parties to provide these services if such party can provide comparable services on terms more favourable than those offered by CNACD pursuant to the Construction Project Management Agreement.

We believe it is in our best interest to enter into the above agreement with CNACD having considered the following factors:

- construction project management services are customary for complex construction projects and the outsourcing of project management services allows the Company to concentrate its administrative resources on its core business operations; and
- CNACD possesses aviation industry related experience and knowledge, which fit the nature of most of our construction projects and is not generally available from independent third-party services providers.

The Construction Project Management Agreement will expire on December 31, 2006 and is subject to renewal.

Cap

The maximum aggregate annual amount of the above transactions for the next three years shall not exceed the cap as set out below:

Transaction	Proposed Annual Limit for the Three Years Ending December 31, 2006
Construction project management fee	RMB40.0 million

Prior to the Restructuring, we did not enter into any construction project management arrangement with CNACD and no comparable historical figures are available. We determined the above cap on the basis of the estimated budget for construction projects of approximately RMB1 billion for each of the three years ending December 31, 2006. The estimated annual budget of RMB1 billion is set based on the proposed total capital expenditure of RMB1 billion for the three years ending December 31, 2006. As the Company may not have full control over the development process of certain large construction projects due to various reasons, and that the development phases of construction projects are not evenly spread out from one year to the next, the Directors have considered the possibility that a large amount of capital expenditure may incur within one single year. In addition, the Company has assumed that the maximum bonus fee will be paid in calculating the above cap.

Properties Leasing

In the ordinary course of our business, we enter into properties leasing arrangements with various parties in various areas. These parties include CNAHC and its subsidiaries.

We entered into a properties leasing framework agreement (the "Properties Leasing Framework Agreement") with CNAHC on November 1, 2004, pursuant to which we will lease from the CNAHC Group a total of 14 properties covering an aggregate gross floor area of approximately 53,087 square metres for various uses including as business premises, offices and storage facilities. We will also lease to CNAHC Group a total of 7 properties covering an aggregate gross floor area of approximately 8,262 square metres. The rents payable under the Properties Leasing Framework Agreement are and will continue to be determined in accordance with market rates. The Properties Leasing Framework Agreement will expire on December 31, 2006 and is subject to renewal. Sallmanns, an independent property valuer, has confirmed that the rents payable for the year of 2004 by us and by CNAHC under the Properties Leasing Framework Agreement are fair and reasonable.

Historical Figures

Prior to the Restructuring, we did not enter into leasing arrangements relating to the above-mentioned properties. However, the Directors have estimated that for each of the three years ended December 31, 2003, the annual total rental charges that would have been paid by us to CNAHC for the leased properties had the Properties Leasing Framework Agreement been in place would have been RMB42.7 million, RMB44.0 million and RMB45.3 million, respectively, and the annual rental charges that would have been paid by CNAHC to us would have been RMB2.5 million.

The following table sets forth the estimated historical figures of the rent for each of the three years ended December 31, 2003:

Transactions	Estimated Historical Figures Year Ended December 31,		
	2001	2002	2003
	RMB	RMB (in millions)	RMB
Estimated amount of rents paid by us to CNAHC	42.7	44.0	45.3
Estimated amount of rents paid by CNAHC to us	2.5	2.5	2.5

Cap

The maximum aggregate annual amount of the leasing arrangement between CNAHC and us for each of the three years ending December 31, 2006 shall not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31,		
	2004	2005	2006
	RMB	RMB (in millions)	RMB
Aggregate amount of rents to be paid by us to CNAHC under the Properties Leasing Framework Agreement	47.6	50.0	52.5

In arriving at the above annual caps, the Directors have considered the historical figures for the property leasing and taken into account the possibility that the market price for rents of relevant properties will be increasing at an annual price of 5%. We believe that an annual increasing rate of 3% to 5% from 2004 to 2006 is reasonable in the areas where the properties under the Properties Leasing Framework Agreement are located.

The maximum annual aggregate amount of the rents payable by CNAHC to us for each of the three years ending December 31, 2006 shall not exceed the annual limit of RMB2.6 million, RMB2.8 million and RMB2.9 million, respectively. Since these amounts fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, such transactions will be exempt from both the announcement and independent shareholders' approval requirements for connected transactions.

Media and Advertising Services

We entered into a media and advertising services framework agreement (the ''Advertising Services Framework Agreement'') on November 1, 2004 with CNAMC, a subsidiary of CNAHC. The agreement will expire on December 31, 2006 subject to renewal. Pursuant to this agreement, CNAMC will have the right to procure advertisements and will be entitled to retain all the advertising revenues generated from these advertisements that appear:

- in the in-flight magazines, in-flight entertainment programmes, boarding passes and certain other items specified in the Advertising Services Framework Agreement (the ''Specified Items''); and
- on the potential items that may be developed from time to time.

As the consideration, CNAMC will pay us an annual concession fee for the Specified Items and 20% of the total revenues generated from advertisements which appear on the potential items that may be developed from time to time.

In addition, pursuant to the Advertising Services Framework Agreement, CNAMC has agreed to:

- provide us at no charge the in-flight items (except for the in-flight entertainment programmes) and the potential items that may be developed (for those not owned by us) on which the advertisements appear or will appear;
- provide us some in-flight entertainment programmes it produces, the production cost and disbursement of which will be reimbursed by us; and
- procure the content for our in-flight entertainment programmes from independent third parties on a commission-free basis.

In addition, CNAMC has the right to bid for the provision of advertisement agency and design services to us pursuant to the Advertising Services Framework Agreement.

We believe that it is in our best interest to enter into the above transactions with CNAMC due to the following factors:

- media and advertising businesses are not the core competencies of the Company while CNAMC has extensive experience in in-flight advertising operations and has a proven network of advertising sponsors to draw upon; and
- we believe CNAMC has a better understanding of our culture compared with independent third-party service providers, and thus the in-flight magazines provided by CNAMC, the in-flight advertisement sponsors procured by CNAMC and advertisements designed by CNAMC should fit better with our public relations and marketing strategies.

Since the Advertising Services Framework Agreement was only entered into in 2004 and the potential advertisement format has not been utilised, there are no comparable historical figures available for this particular transaction.

Cap

The annual concession fee payable by CNAMC to us for the three years ending December 31, 2006 is RMB17.0 million, RMB18.7 million and RMB20.6 million, respectively. In calculating such annual concession fee, we have taken into account the possible advertising revenues generated from relevant advertising format, the costs incurred by CNAMC for its services of procuring such items, as well as the asset value of such in-flight items provided by CNAMC to us for free.

The annual concession fee was calculated on the following formula:

Annual concession fee = CNAMC's annual revenues generated from the Specified Items – market value of Specified Items provided by CNAMC for free – reasonable cost incurred from CNAMC's procurement of advertisements on the Specified Items.

In arriving at the concession fee for 2004, we have estimated that the revenues to be generated from the Specified Items for 2004 would be approximately RMB53.3 million based on the revenues for the nine months ended September 30, 2004, which was approximately RMB40 million. We have also estimated that the sum of (i) the fair value of the Specified Items provided by CNAMC for free, and (ii) CNAMC's reasonable cost occurred from its procurement of advertisements on such Specified Items for 2004 would be approximately RMB35.6 million based on the figures for the nine month ended September 30, 2004, which was approximately RMB26.7 million. We believe that a growth rate of 10% for the annual concession fee for the three years ending December 31, 2006 is reasonable.

CNAMC will pay the Company 20% of the total revenues generated from advertisements appearing on the potential items that may be developed from time to time. The Company and CNAMC considered 20% as a reasonable revenue allocation percentage for the following reasons:

- development of advertisement on potential items would require substantial investment for market research, the initial development and production of the advertisement, etc., which will be made by CNAMC; and

- production cost of the advertisement on the potential items will be borne by CNAMC.

It is expected that the total annual amount to be paid by CNAMC to us for the advertisements on the potential advertisement format for the three years ending December 31, 2006 will not exceed RMB6 million. This cap is based on the estimation that the annual revenues of CNAMC from the advertisements on the potential items for each of the three years ending December 31, 2006 will not exceed RMB30.0 million.

In arriving at the annual revenues of RMB30.0 million, the Company has taken into account the following factors:

- the expected increase in the need for advertisements in general, and in particular, in preparation for the 2008 Beijing Olympic Games; and

- the likelihood of development of the potential advertisement format such as aircraft bodies, roofs of the buildings owned by the Company, airport transit buses, items in passengers' waiting lounges, etc.

Therefore, the maximum aggregate annual amount to be paid by CNAMC to us under the Advertising Services Framework Agreement for each of the three years ending December 31, 2006 may not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Aggregate amount to be paid by CNAMC to us under the Advertising Services Framework Agreement	23.0	24.7	26.6

Tourism Co-operation Services

In the ordinary course of our business, we and various tourism companies enter into tourism services co-operation arrangements that set forth various areas of co-operation. These tourism companies include China National Aviation Tourism Company ("CNATC"), a subsidiary of CNAHC. To leverage the resources of each party and achieve synergies, we entered into a tourism services co-operation agreement (the "Tourism Co-operation Agreement") on November 1, 2004 with CNATC which will expire on December 31, 2006, subject to renewal. Pursuant to this agreement, we have agreed to provide the following services to CNATC:

- *Commercial charter flight services:* we will provide charter services to customers procured by CNATC at market rates.
- *Package tours co-operation services:* the Company and CNATC will sell package tours combining (i) our airline tickets with (ii) accommodation at hotels owned and operated by CNATC. For our airline tickets in such packages sold by CNATC, CNATC will pay us in accordance with the pricing principle in the "Sales Agency Framework Agreement" while we will pay CNATC for the hotel fee portion of the packages.
- *Reciprocal frequent-flyer programme ("FFP") co-operation services:* CNATC will join our FFP programme under which our *Companion* card members are encouraged to stay at CNATC's hotels by receiving mileage credits for each stay at CNATC's hotels. As consideration, CNATC will pay us the equivalent value represented by those mileage credits.

Pursuant to the Tourism Co-operation Agreement, CNATC has agreed to provide the following services to us:

- *FFP co-operation services:* Under our FFP programme, if our *Companion* card members redeem their mileage credits for free, discounted or upgraded stay at CNATC's hotels, we will reimburse CNATC for the redemption at a price similar to our arrangements with other FFP partners.
- *Hotel accommodation services:* CNATC will provide hotel accommodation services to our employees on duty and the passengers affected by our flight delays and cancellations and we will pay CNATC at group rates.

Pursuant to the Tourism Co-operation Agreement, the price of the services to be provided by the parties will be decided on market rates.

Historical Figures

The following table sets forth historical figures for the amount paid by CNATC to us and the amount paid by us to CNATC under the tourism co-operation arrangements for the three years ended December 31, 2003:

Transactions	Historical Figures Year Ended December 31, 2001	 2002	 2003
	RMB	RMB (in millions)	RMB
Total amount paid by CNATC to us as consideration for the commercial charter flight services, package tour services and FFP co-operation services provided by us	7.5	24.6	10.0
Total amount paid by us to CNATC as consideration for the FFP co-operation services and the hotel accommodation services provided by CNATC	1.1	4.1	5.1

Cap

The maximum aggregate annual amount of the above transactions to be paid by CNATC to us for the three years ending December 31, 2006 may not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31, 2004	 2005	 2006
	RMB	RMB (in millions)	RMB
Aggregate amount to be paid by CNATC to us under the Tourism Services Co-operation Agreement	30.8	35.6	40.4

In arriving at the above caps, the Company has considered the historical figures for the same transactions (except for the figures for 2003 which was adversely affected by the SARS) as well as taken into account other factors, including (i) an increase in tourism and business-related travel to and from China generally and, in particular, in the lead-up to the 2008 Beijing Olympic Games; (ii) the increasing affluence of Chinese consumers which makes air travel increasingly affordable for them; (iii) Air Macau's commencement of provision of commercial charter flight services to CNATC in 2004; and (iv) the expected increase in the frequency of commercial charter flights provided to CNATC beginning in 2005.

The total amount to be paid by us to CNATC for tourism co-operation for each of the three years ending December 31, 2006 may not exceed the annual limit of RMB5.2 million, RMB5.4 million, and RMB5.6 million, respectively. Since these amounts fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, such transactions will be exempt from both the announcement and independent shareholders' approval requirements for connected transactions.

Comprehensive Services

We entered into a comprehensive services agreement (the "Comprehensive Services Agreement") with CNAHC on November 1, 2004 pursuant to which:

- CNAHC will provide us with various ancillary services, including but not limited to:
  - (i) supply of various items for in-flight services;
  - (ii) manufacturing and repair of airline-related ground equipment and vehicles;
  - (iii) cabin decoration and equipments;
  - (iv) passenger cabin and cargo cabin ancillary parts (including seats);
  - (v) warehousing services;
  - (vi) cabin cleaning services; and
  - (vii) printing of air tickets and other documents.
- We will provide certain welfare-logistics services to the retired employees of CNAHC Group.

The charges payable by us to CNAHC for the comprehensive services above as well as the charges payable by CNAHC to us for the welfare-logistics services provided to retired employees shall be based on prevailing market rates or, if no prevailing market price is available, fair and reasonable prices based on arm's length negotiations. The Comprehensive Services Agreement will expire on December 31, 2006 subject to renewal.

We believe that it is in the best interest of the Company to procure comprehensive services from CNAHC considering CNAHC has special strengths that independent third-party service providers generally do not possess, such as (1) aviation industry knowledge and qualification to meet the demand of certain types of work; (2) track record of quality and timely service; and (3) convenient location (generally near to the site of the Company) to offer quick services.

Historical Figures

The following table sets forth the historical figures of the fees paid by us to CNAHC for the comprehensive services provided by CNAHC in each of the three years ended December 31, 2003.

	Historical Figures Year Ended December 31,		
Transactions	**2001**	**2002**	**2003**
	RMB	**RMB** (in millions)	**RMB**
Total amount paid by us to CNAHC for comprehensive services	73.0	73.3	79.9

Cap

The maximum aggregate annual amount for the services provided by and to CASL for the next three years shall not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Aggregate amount to be paid by us to CNAHC under the Comprehensive Services Agreement	100.0	115.0	132.0

In arriving at the above caps, the Company has considered the historical figures for the same transactions in the past three years as well as taken into account the expected growth of our air passenger services in the next few years which will in turn require increasing volume of in-flight catering, supply and repairs of aircraft seats and other ancillary parts and other comprehensive services to be provided by CNAHC to us.

There was no welfare-logistics service for retired employees prior to the Restructuring. For each of the three years ending December 31, 2006, the total amount payable by CNAHC to us for the provision of logistics services to the retired employees is expected to be less than RMB500,000. Since these amounts fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, such transactions will be exempt from both the announcement and independent shareholders' approval requirements for connected transactions.

Line Maintenance and Other Ground Services

We entered into a standard ground handling agreement (the ''Standard Ground Handling Agreement'') with CASL, a 53.3%-owned subsidiary of CNACG, on April 17, 2004, pursuant to which CASL agreed to provide line maintenance and other ground services at Hong Kong International Airport to us. The services are charged at market rates. Prior to the Restructuring, CASL provided such services to us and we believe it is in the best interest of the Company to continue procuring such services from CASL to support our core business operation in that region. The Standard Ground Handling Agreement has a term of one year and is subject to renewal.

Historical Figures

The table below sets forth the historical figures of the line maintenance and other ground services provided by CASL for the three years ended December 31, 2003:

Transactions	Historical Figures Year Ended December 31, 2001	2002	2003
	RMB	RMB (in millions)	RMB
Total amount paid for the line maintenance and other ground services	31.7	31.5	21.6

Cap

The maximum aggregate annual amount for the above services provided by CNACG to us for the three years ending December 31, 2006 may not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Aggregate amount to be paid by us for the line maintenance and other ground services provided by CASL	40.0	45.0	50.0

In arriving at the above caps, the Directors have considered the historical figures for the same transactions as well as taken into account the possible increase in the Company's demand for the line maintenance and other ground services due to the expected growth of the Company's air passenger services in the next few years.

Financial Services

CNAF is a non-bank finance company approved and regulated by the PBOC and the CBRC, which is 52% owned by CNAHC and 42.5% owned by us. Pursuant to a financial services agreement entered into between CNAF and us (the "Financial Services Agreement") dated November 1, 2004, CNAF has agreed to provide us with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;
- trust loan and trust investment services;
- underwriting services for debt issuances;
- intermediary and consulting services;
- guarantee services;
- settlement services;
- internet banking services; and
- any other services provided by CNAF approved by the CBRC.

The fees and charges payable by us to CNAF under the Financial Services Agreement are determined by reference to the applicable fees and charges specified by the PBOC and the CBRC for the relevant services from time to time, and if neither the PBOC nor the CBRC has specified a fee or charge for a particular service, then the services will be provided by CNAF on terms no less favourable than terms available from commercial banks in China. The Financial Services Agreement will expire on December 31, 2006 and is subject to renewal.

All other customers of CNAF apart from us are CNAHC's subsidiaries and investees because the business objective of CNAF's operation is to provide financial services to CNAHC's subsidiaries and investees. We have historically been the largest client of CNAF. As of December 31, 2003, our deposits with CNAF were approximately RMB1,457 million, representing (a) approximately 55.6% of our balance of cash and cash equivalents and (b) approximately 90.4% of CNAF's total deposits from all its customers, on that date. Our outstanding balance of loans (including bills payable) owed to CNAF as of December 31, 2003 amounted to approximately RMB990 million, which was (a) approximately 9.4% of our bank and other loans (current liabilities and bills payable) and (b) approximately 43.7% of CNAF's total loans receivable, on that date. CNAF is one of the several Chinese financial agencies that we use.

The PRC laws do not permit companies, including affiliates, to extend intra-group loans directly without going through a financial agency. CNAF has been the medium of a financial agency through which we manage our current accounts settlement between the members of the CNAHC Group and ourselves.

We believe that it is in the best interest of the Company to enter into the Financial Services Agreement with CNAF having taken into account the following factors:

- in respect of transactions between the Company and members of CNAHC Group, CNAF can provide more efficient settlement service compared with independent third-party banks; and
- since CNAF is 42.5% owned by the Company, the Company can ultimately benefit from the business development of CNAF.

Since we may choose any bank or financial institution for our financial service needs, our criteria in making the choice is based on costs and quality of services. We may (but are not obliged to) continue to use CNAF's services if the service quality is competitive.

Pursuant to the Financial Services Agreement, CNAF has undertaken that the aggregate of (i) its outstanding loans (excluding outstanding loans to us), and (ii) its investments in any equity securities (whether listed on a stock exchange or otherwise) and enterprise debentures, will not at any time exceed the aggregate amount of (a) deposits received from entities other than us and (b) CNAF's shareholders' equity.

CNAF has undertaken to provide our auditors with access to its books and accounts when required in order to ensure CNAF is in compliance with the above undertakings.

The table below sets forth the historical figures of the financial services provided by CNAF to us for each of the three years ended December 31, 2003:

	Historical Figures		
	Year Ended December 31,		
Transactions	**2001**	**2002**	**2003**
	RMB	**RMB (in millions)**	**RMB**
Maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNAF	902	1,018	2,357
Maximum daily outstanding balance of loans (including accrued interest) granted by CNAF to the Group	53	158	1,180
Fees and charges paid by the Group to CNAF for other financial services	—	—	—

Cap

The maximum aggregate annual amount of the above transactions for the three years ending December 31, 2006 shall not exceed the cap set out below:

Transactions	Proposed Annual Limit for the Three Years Ending December 31, 2006
Maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNAF	RMB5 billion
Maximum daily outstanding balance of loans (including accrued interest) granted by CNAF to the Group	RMB3 billion
Fees and charges paid by the Group to CNAF for other financial services	RMB40 million

Prior to the Restructuring, CNAF had not offered financial service other than deposit and loan services. In arriving at the cap for financial services to be provided by CNAF, the Company has reviewed the historical figures as well as taken into account (i) the fact that CNAF is expanding its business scope and has started to provide more financial services other than deposit and loan services; (ii) the possible increase in our working capital requirement due to the expected growth or development of our business; (iii) the possible increase in our cash inflows; and (iv) CNAF's provision of collection service to us beginning in 2004, which will technically increase our daily outstanding balance with CNAF under the proposed annual limit. We believe that the above annual limits will provide us with sufficient flexibility for our future financial arrangements with CNAHC and CNAF.

Subcontracting of Charter Flight Services

As the national flag carrier of China, we have historically provided charter flights for government-related travel services to national leaders, government delegations, national sports teams and cultural envoys. Historically, certain government charter flights were provided at the request of the PRC government at rates set by the PRC government in accordance with the government's common practice.

In connection with the Restructuring, CNAHC has agreed to undertake the obligations to provide government charter flights. CNAHC intends to subcontract to us their obligation of government charter flight they undertake from PRC government. Accordingly, we expect to continue to provide government charter services through subcontracts with CNAHC for which we expect to be compensated at hourly rates, which may be adjusted periodically.

We entered into a charter flight service framework agreement (the "Charter Flight Service Framework Agreement") on November 1, 2004 with CNAHC which will expire on December 31, 2006 subject to renewal. Pursuant to this agreement, we and CNAHC agreed that the hourly rate of the charter flight service fee will, subject to periodical adjustment, be calculated on the basis of the following formula which includes total cost and reasonable margins:

Hourly rate $=$ Total cost per flight hour $\times$ $(1 + 6.5\%)$

The total cost includes all direct cost incurred in connection with providing such service, including, among other things, the actual expenses and fees incurred for each flight, the attributable depreciation, insurance and administrative cost, as well as all indirect cost mainly consisting of the indirect cost incurred arising from higher service requirements and the loss of revenue or increase in cost due to the re-deployment of flights. The profit margin of 6.5% was calculated on the basis of the average margin of the Company's passenger air transportation business in 2001, 2002 and the six months ended June 30, 2004, which was approximately 6.5%. The profit margin in 2003 was not taken into account because the outbreak of SARS adversely affected the Company's business and therefore was not an accurate indicator of the Company's profit margin for a given period.

Prior to the Restructuring, we did not have such charter flight subcontracting arrangement and thus there are no comparable historical transaction figures available. However, for the three years ended December 31, 2003, the amounts received by Air China International Corporation in connection with services from the government were RMB374.6 million, RMB422.0 million, and RMB379.7 million, respectively.

Transactions	Historical Figures Year Ended December 31, 2001	2002	2003
	RMB	RMB (in millions)	RMB
Amounts received in connection with government charter flight services	374.6	422.0	379.7

Cap

The maximum aggregate annual amount of the above transaction for each of the three years ending December 31, 2006 shall not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Amounts to be derived from the Charter Flight Service Framework Agreement	600.0	650.0	700.0

In arriving at the above caps, the Directors have taken into account the fact that (i) the new hourly rate charged for the charter flight services to be provided by the Company is higher than the rate previously stipulated by the PRC government, and (ii) it is estimated that charter flight hours will increase by approximately 8% per year in the next few years.

Sales Agency Services for Airline Tickets and Cargo

In the ordinary course of our business, we enter into sales arrangements with agents pursuant to which agents will either:

- purchase our air tickets and cargo space at wholesale prices and on-sell such air tickets and cargo space to end-purchasers; or
- procure purchasers for our air tickets and cargo space on a commission basis.

These sales agents with whom we enter into these ongoing arrangements include associates of CNAHC. We have entered into a sales agency framework agreement with CNAHC (the "Sales Agency Services Framework Agreement") on November 1, 2004 to govern these sales agency arrangements. The agreement will expire on December 31, 2006 and is subject to renewal. Pursuant to this agreement, we will pay the relevant agents commissions based on relevant PRC regulations or, where regulations do not provide for a specific commission, based on market rates. Currently, the commissions prescribed for sales of air tickets are:

- for domestic routes, 3% of the ticket price;
- for Hong Kong and Macau routes, 7% of the ticket price; and
- for international routes, 9% of the ticket price.

In accordance with industry practice, and subject to applicable regulations, we may also offer incentives to sales agents for reaching certain ticket sale targets.

The table below sets forth the historical figures of the aggregate ticket and cargo agency commissions we paid to sales agents who are associates of CNAHC as well as the aggregate sales of airline tickets and cargo space to the CNAHC Group for on-sale to end-purchasers for each of the three years ended December 31, 2003:

	Historical Figures		
	Year Ended December 31,		
Transactions	**2001**	**2002**	**2003**
	RMB	**RMB (in millions)**	**RMB**
Aggregate ticket and cargo agency commissions and amount of incentives we paid to CNAHC Group	38.1	34.2	20.2
Aggregate sales of airline tickets and cargo space to the CNAHC Group for on-sale to end-purchasers	349.9	270.9	289.7

Cap

The maximum aggregate annual amount of the such transactions for each of the three years ending December 31, 2004 shall not exceed the cap as set out below:

	Proposed Annual Cap for the Year Ending December 31,		
Transactions	**2004**	**2005**	**2006**
	RMB	**RMB (in millions)**	**RMB**
Aggregate ticket and cargo agency commission and amount of incentives to be paid by us to the CNAHC Group	29.0	35.0	42.0
Aggregate sales of airline tickets and cargo space to the CNAHC Group for on-sale to end-purchasers	420.0	470.0	533.0

In setting the above caps, we have taken into account the historical figures and have assumed a growth in overall passenger and cargo business due to (i) the increasing affluence of Chinese consumers which makes air travel increasingly affordable for them; (ii) our plan to further utilise the distribution network of CNAHC which has been recently expanded; (iii) an increase in tourism and business-related travel to and from China generally and, in particular, in the lead-up to the 2008 Beijing Olympic Games; and (iv) the expected fast growth in the cargo business market in China.

Continuing Connected Transactions with the Lufthansa Group and the Beijing Capital Airports Group

Connected Transactions between the Company and the Lufthansa Group

Lufthansa holds a 40% equity interest in and is a substantial shareholder of Ameco, one of our subsidiaries, and is therefore a connected person of our Company under the Hong Kong Listing Rules. We have entered into various transactions with Lufthansa and its associates (collectively, the ''Lufthansa Group'') in the ordinary course of our business. Such transactions include, among others:

- MRO services provided by us to the Lufthansa Group;
- mutual provision of catering services;
- mutual provision of ground handling services in China and Germany;
- mutual provision of ticket sales agency services;
- airline codeshare arrangement under which the actual carrier's flights can be marketed under the airline designator code of the partner carrier and revenues earned from these arrangements are allocated between the parties based on negotiated terms according to airline industry standards;
- special prorate arrangement under which a carrier agrees to accept passengers from another carrier and receive payment directly from that carrier; and
- other airline co-operation arrangements between the Lufthansa Group and us.

The above transactions have been, and will continue to be, entered into on normal commercial terms based on arm's length negotiations.

The table below sets forth the historical figures for the amount paid by us to the Lufthansa Group and the amount paid by the Lufthansa Group to us under the above transactions for each of the three years ended December 31, 2003:

Transactions	Historical Figures Year Ended December 31,		
	2001	2002	2003
	RMB	RMB (in millions)	RMB
Amount paid by us to the Lufthansa Group			
Ground handling and catering services	78.1	91.7	106.0
Sales agency arrangement	149.4	152.6	122.6
Codeshare, special prorate and other airline co-operation arrangements	238.2	355.4	392.2
Total	465.7	599.7	620.8
Amount paid by the Lufthansa Group to us			
Ground handling, catering and MRO services	56.1	78.2	65.8
Sales agency arrangement	15.6	82.3	102.9
Codeshare, special prorate and other airline co-operation arrangements	200.9	270.1	336.1
Total	272.6	430.6	504.8

Cap

The maximum aggregate annual amount for the above transactions between the Lufthansa Group and us for each of the three years ending December 31, 2006 shall not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31,		
	2004	2005	2006
	RMB	RMB (in millions)	RMB
Total amount to be paid by us to the Lufthansa Group	630.0	660.0	750.0
Total amount to be paid by the Lufthansa Group to us	500.0	530.0	600.0

In arriving at the above caps, we have taken into account (i) the historical figures for the three years ended December 31, 2003; and (ii) the increase in the flights between Beijing and major cities in Germany.

Connected Transactions between the Company and the Beijing Capital Airports Group

Capital Airports Holding Company holds a 24% equity interest in and is a substantial shareholder of Air China Cargo, one of our subsidiaries, and therefore is a connected person of our company under the Hong Kong Listing Rules. We have entered into various transactions with Capital Airports Holding Company and its associates (collectively, the "Beijing Capital Airports

Group'') in the ordinary course of our business. Such transactions are indispensable to our daily operation of our airline business, including, among others:

- provision of taking-off/landing/parking services of our aircrafts at airports owned by the Beijing Capital Airports Group;
- provision of passengers' waiting lounge, check-in counters and office buildings to us by airports owned by the Beijing Capital Airports Group;
- provision of utilities (including water, gas and electricity) to us at Beijing Capital International Airport by the Beijing Capital Airports Group; and
- provision of ground handling services to us by the Beijing Capital Airports Group.

The table below sets forth the historical figures of the amount paid by us to the Beijing Capital Airports Group for its provision of the above services in each of the three years ended December 31, 2003:

Transactions	Historical Figures Year Ended December 31, 2001	2002	2003
	RMB	RMB (in millions)	RMB
Amount paid by us to the Beijing Capital Airports Group			
Taking-off/landing/parking of aircraft and other airport fees	393.1	456.2	458.2
Lease of passengers' waiting lounges/check-in counters/offices	47.4	47.9	52.3
Utilities	50.7	30.5	42.6
Ground handling services	8.9	10.6	10.8
Total	500.1	545.2	563.9

Most of the services provided by the Beijing Capital Airports Group to us are charged on the pricing terms which are prescribed, approved or suggested by PRC governmental authorities. Taking-off/landing/parking fees and related airport fees, which represented at least over 79% of the total annual amount paid by us to the Beijing Capital Airports Group for the three years ended December 31, 2003, are set at CAAC's prescribed pricing terms. Utility fees charged by Beijing International Capital Airport, a member of the Beijing Capital Airports Group, which represented at least over 6% of the total annual amount paid by us to the Beijing Capital Airports Group for the three years ended December 31, 2003, are set at pricing terms approved by the Beijing Municipal Government. Ground handling fees, which represented approximately 2% of the total annual amount paid by us to the Beijing Capital Airports Group for each of the three years ended December 31, 2003, are set pursuant to the CAAC's pricing guidelines. For other transactions, such as leasing of passengers' waiting lounges, check-in counters and office buildings, the pricing terms are set based on arm's length negotiations between the Beijing Capital Airports Group and us.

Cap

The maximum aggregate annual amount for above transactions between Beijing Capital Airports Group and us for each of the three years ending December 31, 2006 shall not exceed the cap set out below:

Transactions	Proposed Annual Cap for the Year Ending December 31,		
	2004	2005	2006
	RMB	RMB (in millions)	RMB
Total amount to be paid by us to the Beijing Capital Airports Group	730.0	900.0	1,200.0

In arriving at the above caps, we have taken into account the historical figures for the three years ended December 31, 2003 as well as:

- our expected increase in transaction volume with Beijing Capital International Airport, a major member of the Beijing Capital Airports Group, since we will further strengthen our Beijing hub as disclosed in the section headed ‘‘Business — Overview — Strategy’’ in this Prospectus;
- the expected increase in amount of airport fees due to increasing number of taking-offs, landings and parkings in Beijing Capital International Airport by our aircraft, especially with respect to wide-body aircraft which is charged at a higher rate; and
- our planned improvement of frequent traveller services which will require improved facilities to be provided by the Beijing Capital Airports Group.

Continuing Connected Transactions with the Cathay Pacific Group

Pursuant to a strategic placing agreement entered into between us and Cathay Pacific, Cathay Pacific will hold 10% of our issued share capital immediately following the completion of the Global Offering and therefore will become a connected person of our Company under the Hong Kong Listing Rules. We have entered into various transactions with Cathay Pacific and its associates (collectively, the ‘‘Cathay Pacific Group’’) in the ordinary course of our business. Such transactions, the nature of which are part of the necessary daily operation of an airline business, include, among others:

- provision of ground handling services by the Cathay Pacific Group to us;
- provision of MRO services by us to the Cathay Pacific Group;
- provision of catering services by us to the Cathay Pacific Group; and
- mutual provision of ticket sales agency services.

The above transactions have been, and will continue to be, entered into on normal commercial terms based on arm’s length negotiations.

Historical Figures

The table below sets forth historical figures of the amount paid by us to the Cathay Pacific Group and the amount paid by the Cathay Pacific Group to us for each of the three years ended December 31, 2003:

Transaction	Historical Figures Year Ended December 31, 2001	2002	2003
	RMB	RMB (in millions)	RMB
Amount paid by us to the Cathay Pacific Group			
Ground handling services	24.9	24.9	18.6
Sales agency arrangement	14.0	13.1	11.9
Total	38.9	38.0	30.5
Amount paid by the Cathay Pacific Group to us			
MRO and catering services	6.1	2.5	1.2
Sales agency arrangement	13.4	10.5	8.0
Total	19.5	13.0	9.2

Cap

The maximum aggregated annual amount to be paid by us to the Cathay Pacific Group for the above transactions for each of the three years ending December 31, 2006 may not exceed the cap set out below:

Transaction	Proposed Annual Cap for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Total amount to be paid by us to the Cathay Pacific Group	35.0	40.0	45.0

In arriving at the above caps we have taken into account the historical figures for the three years ended December 31, 2003 as well as the potential of further co-operation between the Cathay Pacific Group and us.

For each of the three years ending December 31, 2006, the total annual amount to be paid by the Cathay Pacific Group to us under the above transactions is expected to be less than RMB15 million. Since these amounts are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, such transactions will be exempt from the announcement and independent shareholders' approval requirements for connected transactions.

Continuing Connected Transactions Between CNAC Group and CNAHC Group and Other Connected Persons of CNAC

Upon completion of the Restructuring, CNAC will become a non-wholly owned subsidiary of the Company. Therefore, the continuing transactions entered into between CNAC and its subsidiaries as one party, and CNAHC, CNACG or their subsidiaries as the other, will also constitute continuing connected transactions for us under the Hong Kong Listing Rules. In addition, the continuing transactions between CNAC and the Cathay Pacific Group will also constitute continuing connected transactions for us after the Listing Date under the Hong Kong Listing Rules. Each of the percentage ratios (other than profit ratio) (''Applicable Percentage Ratio'') under the Hong Kong Listing Rules of these transactions, from the Company's perspective, is either less than 0.1% and therefore exempt from announcement and independent shareholders' approval requirements, or less than 2.5% and therefore exempt from independent shareholders' approval requirement. The Company will fulfil the announcement requirement under the Hong Kong Listing Rules for those transactions the Applicable Percentage Ratio of which is more than 0.1% but less than 2.5%. The following transactions (except for the trademark licensing and the transactions with Cathay Pacific) either have previously approved by the independent shareholders of CNAC, or have been granted a waiver from the Hong Kong Stock Exchange to CNAC from strict compliance with the requirements of Chapter 14 of the Hong Kong Listing Rules (prior to its amendment in March 31, 2004), or fall below the de minimis threshold stipulated under Rule 14A.33(3) the Hong Kong Listing Rules. Therefore CNAC is exempt from the announcement and independent shareholders' approval requirements in these transactions. In the future, to the extent that the Applicable Percentage Ratio of these transactions is equal to or exceeds 2.5% or upon the expiry of the waiver granted by the Hong Kong Stock Exchange to CNAC, these transactions will be subject to the approval of both the Company's independent shareholders as well as the independent shareholders of CNAC.

Management Services

CNAC has entered into a management services agreement with CNACG pursuant to which CNACG provides general management services to CNAC. Air Macau has also entered into a management services agreement with a subsidiary of CNACG pursuant to which such subsidiary of CNACG provides the same general management services to Air Macau. As disclosed in the 2003 annual report of CNAC, the total amount paid by CNAC and Air Macau to CNACG and its subsidiary for management services was HK$9.6 million in 2003, which was below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transactions are exempt, from the Company's perspective, from the announcement and independent shareholders' approval requirements for connected transactions.

Trademark Licensing

CNAC has entered into a trademark licence agreement with CNACG pursuant to which CNACG agreed to authorise CNAC to use various trademarks in connection with CNAC's business operations on a royalty-free basis provided that CNAC remains a direct or indirect subsidiary of CNAHC. As this agreement is on a royalty-free basis, the relevant transactions fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules and therefore are exempt from the announcement and independent shareholders' approval requirements for connected transactions.

Provision of In-flight Catering Services by Macau Catering Services Company Limited

Macau Catering Services Company Limited (''MCS'') is an associate of a substantial shareholder of Air Macau. MCS provides in-flight meals in Macau to Air Macau based on normal commercial terms determined on an arm's length basis, and at prices no less favourable than those

Air Macau would be able to obtain from independent third-party providers of comparable services. As disclosed in CNAC's 2003 annual report, the in-flight catering services expenses paid by Air Macau to MCS in 2003 was HK$40.6 million, which fell within the 2.5% Percentage Ratio, therefore such transactions are exempt, from the Company's perspective, from the independent shareholders' approval requirement but will be subject to the announcement requirement for connected transactions.

Payment of Airport Space Licence Fees to Macau International Airport Company

In its ordinary course of business, Air Macau has entered into a licence agreement for the occupation of airport space with Macau International Airport Company ("MIAC"), an associated company of a substantial shareholder of Air Macau, for the licence of floor space (including ticketing and check-in counters, operation/traffic service offices, and lounges) at the Macau International Airport. Both the airport charges and airport fees are invoiced and collected by ADA-Administration of Airports Limited ("ADA"), a 51% indirectly-owned subsidiary of CNACG. As disclosed in CNAC's 2003 annual report, the total landing, loading, parking and other airport charges paid by Air Macau to ADA in 2003 was HK$51.9 million, which fell within the 2.5% Percentage Ratio, therefore such transactions are exempt, from the Company's perspective, from the independent shareholders' approval requirement but will be subject to the announcement requirement for connected transactions.

Ticket Sales Agency Arrangement with Air Macau

Air Macau has entered into sales arrangements with certain ticket sales agents, the number of which may be varied from time to time according to the business needs of Air Macau, for the sale of air tickets (including cargo transport). Air Macau either (i) sells the air tickets to the ultimate consumers through the ticket sales agents and pays to the ticket sales agents commission fees at rates of 7% to 9% of the value of the tickets sold or (ii) sells the air tickets to the ticket sales agents at fixed price, so that the ticket sales agents might on-sale the same to end-purchasers at prices determined by the ticket sales agent. Such ticket sales agents include those who are also associates of CNACG or CNAHC.

As disclosed in CNAC's 2003 annual report, the aggregate of the commission paid or payable to, and the value of tickets sold to those agents for the year 2003 was HK$19.7 million, which fell below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. As a result, such transactions are exempt, from the Company's perspective, from both the announcement and independent shareholders' approval requirements for connected transactions.

Continuing Transactions between Air Macau and Cathay Pacific Group

Air Macau has entered into various transactions with Cathay Pacific in its ordinary course of business. Such transactions include (i) the mutual provision of spare parts on a needed-basis for their respective fleet, and (ii) an interline transit arrangement pursuant to which a carrier agrees to accept passengers and cargo from another passenger and receive payment directly from that carrier. These transactions have been, and will continue to be, entered into on normal commercial terms based on arm's length negotiations. For the year ended December 31, 2003, the total amount paid by Air Macau to Cathay Pacific and the total amount paid by Cathay Pacific to Air Macau was approximately HK$1.5 million and HK$3.8 million, respectively, which were below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules. Therefore such transactions are exempt, from the Company's perspective, from both the announcement and independent shareholders' approval requirements for connected transactions.

Application for Waivers

Continuing Connected Transactions with the CNAHC Group

We will continue to enter into or carry out the transactions set out in this section following the Global Offering and these transactions will constitute continuing connected transactions for us under the Hong Kong Listing Rules once our H Shares are listed on the Hong Kong Stock Exchange. According to the Hong Kong Listing Rules, such transactions may, depending on the nature and value of the transactions, require full disclosure and prior approval by our independent shareholders.

We have entered into written agreements with the relevant connected persons in respect of these continuing connected transactions for periods not exceeding three years (apart from those under the Trademark Licence Agreement). Our Directors (including the Independent Non-executive Directors) are of the opinion that these continuing connected transactions have been conducted, and will be carried out, in our ordinary and usual course of business on normal commercial terms, are fair and reasonable, and are in the interests of our Shareholders as a whole.

Continuing Connected Transactions with Lufthansa Group, Beijing Capital Airports Group and Cathay Pacific Group

We will continue to enter into or carry out the transactions with Lufthansa Group, Beijing Capital Airports Group and Cathay Pacific Group following the Global Offering and these transactions will constitute continuing connected transactions for us under the Hong Kong Listing Rules once our H Shares are listed on the Hong Kong Stock Exchange. According to the Hong Kong Listing Rules, such transactions may, depending on the nature and value of the transactions, require full disclosure and prior approval by our independent shareholders. Our Directors (including the Independent Non-executive Directors) are of the opinion that these continuing connected transactions have been conducted, and will be carried out, in our ordinary and usual course of business on normal commercial terms, are fair and reasonable, and are in the interests of our Shareholders as a whole.

No Waivers Applied for Certain Category of Connected Transactions

We have notified the Hong Kong Stock Exchange of the continuing connected transactions under the Trademark Licence Agreement. We have not applied for waiver with respect to these transactions because the Applicable Percentage Ratio of this type of transaction is on an annual basis less than 0.1% and accordingly will qualify as de minimis transactions under Rule 14A.33(3) of the Hong Kong Listing Rules. These transactions are exempt from the reporting, announcement and independent shareholders' approval requirements.

Scope of Waiver

Under the Hong Kong Listing Rules, the continuing connected transactions under the Financial Services Agreement, the Charter Flight Service Framework Agreement and the Sales Agency Services Framework Agreement, as well as the continuing connected transactions between the Company and the Lufthansa Group and the Beijing Capital Airports Group, are considered to be non-exempt continuing connected transactions under Rule 14A.35 and would require compliance with the reporting and announcement requirements set out in Rule 14A.45 to 14A.47 of the Hong Kong Listing Rules and the prior independent shareholders' approval requirement set out in Rule 14A.48 of the Hong Kong Listing Rules on each occasion when they arise.

For the continuing connected transactions under the Construction Project Management Agreement, the Properties Leasing Framework Agreement, the Advertising Services Framework Agreement, the Tourism Co-operation Agreement, the the Comprehensive Services Agreement, the Standard Ground Handling Agreement and the transactions between the Company and Cathay Pacific Group, the Applicable Percentage Ratio of each of these categories of transaction is, on an annual basis, expected to be less than 2.5% under Rule 14A.34 of the Hong Kong Listing Rules. Such transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules.

As these continuing connected transactions are expected to continue on a recurring basis, our Directors consider that compliance with the announcement and/or the independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to our Company. Accordingly, our Directors have applied to the Hong Kong Stock Exchange to grant a waiver from compliance with the requirements under Rule 14A.42(3) of the Hong Kong Listing Rules. We have requested the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has agreed, to grant a waiver to our Company expiring on December 31, 2006 from compliance with the announcement and/or independent shareholders' approval requirements relating to the continuing connected transactions under the Hong Kong Listing Rules. In addition, we confirm that we would comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Hong Kong Listing Rules.

In respect of Rules 14A.35(2) and 14A.36(1) of the Hong Kong Listing Rules, the maximum aggregate annual value (cap) for each category of the continuing connected transactions set out above may not exceed the applicable limit set out below:

Transactions	Annual Cap on Aggregate Amount of Transactions for the Year Ending December 31, 2004	2005	2006
	RMB	RMB (in millions)	RMB
Transactions with the CNAHC Group			
Construction project management services	40.0	40.0	40.0
Properties leasing	47.6	50.0	52.5
Media and advertising services	23.0	24.7	26.6
Tourism services co-operation	30.8	35.6	40.4
Comprehensive services	100.0	115.0	132.0
Line maintenance and other ground services	40.0	45.0	50.0
Financial services:			
Payment of fees and charges	40.0	40.0	40.0
Maximum daily outstanding deposits with CNAF	5,000.0	5,000.0	5,000.0
Maximum daily outstanding loans from CNAF	3,000.0	3,000.0	3,000.0
Subcontracting of charter flights	600.0	650.0	700.0
Sales agency service:			
Aggregate sales of airline tickets and cargo space to the CNAHC Group for on-sale to end-purchasers	420.0	470.0	533.0
Aggregate ticket and cargo agency commission and amount of incentives to be paid by us to CNAHC Group	29.0	35.0	42.0
Transactions with the Lufthansa Group			
Total amount to be paid by us to Lufthansa Group	630.0	660.0	750.0
Total amount to be paid by Lufthansa Group to us	500.0	530.0	600.0
Transactions with the Beijing Capital Airports Group			
Total amount to be paid by us to Beijing Capital Airports Group	730.0	900.0	1,200.0
Transactions with the Cathay Pacific Group			
Aggregate amount to be paid by us to the Cathay Pacific Group	35.0	40.0	45.0

In the event of any future amendments to the Hong Kong Listing Rules imposing more stringent requirements than as of the date of this Prospectus on transactions of the kind to which the connected transactions referred to in this section belong including, but not limited to, a requirement that these transactions be made conditional on approval by our independent shareholders, we will take immediate steps to ensure compliance with such requirements within a reasonable time.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that (1) the transactions described above in the sections headed "Continuing Connected Transactions between the Company and CNAHC Group" and "Continuing Connected Transactions with Lufthansa Group, Beijing Capital Airports Group and Cathay Pacific Group" are in the ordinary and usual course of our business, on normal commercial terms, fair and reasonable and in the interests of our Shareholders as a whole, and (2) the annual limits for such continuing connected transactions are fair and reasonable as far as our Shareholders as a whole are concerned.