
SUBSTANTIAL AND SELLING SHAREHOLDERS

Substantial Shareholders

So far as our Directors are aware, immediately following completion of the Global Offering (but without taking into account the exercise of the Over-allotment Option), the only persons (not being our Directors) who will have an interest or short position in our Shares or underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of our issued and outstanding share capital then in issue carrying rights to vote in all circumstances at general meetings of any other member of our group, together with any other Shareholders who is, directly or indirectly interested in 3% or more of our outstanding or issuable Shares, are as follows:

<u>Name of Holder of Shares</u>	<u>Number of Shares Directly Held as of the Date of the Prospectus</u>	<u>Number of Shares Directly Held Immediately after the Global Offering</u>	<u>Approximate Percentage Beneficially Owned as of the Date of the Prospectus</u>	<u>Approximate Percentage Beneficially Owned Immediately after the Global Offering</u>
CNAHC ⁽¹⁾	5,054,276,915	4,855,945,675	77.76%	53.65%
CNACG	1,445,723,085	1,388,992,507	22.24%	15.35%
The Strategic Investor	—	905,061,818	—	10.00%

(1) Percentages calculated exclude CNAHC's indirect interests in the Company through CNACG.

If the Over-allotment Option is exercised in full, CNAHC and CNACG will own 51.16% and 14.64%, respectively, of our outstanding Shares, whilst the Strategic Investor would continue to own 10.00% of our outstanding Shares.

None of our existing Shareholders has voting rights that will differ from the voting rights of other Shareholders after the completion of the Global Offering.

None of our Directors or Supervisors is a legal or beneficial owner of any of our Shares. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

While CNAHC is the Company's ultimate controlling Shareholder (as defined in the Hong Kong Listing Rules), our Directors are satisfied that we are capable of carrying our business independently of our controlling Shareholder (including any associate thereof) after the completion of the Global Offering, because of the following considerations:

- In connection with the Restructuring, we have assumed all airline and airline-related businesses and substantial assets from Air China International Corporation, a wholly owned subsidiary of CNAHC. All the fleet and related equipment and staff have been transferred to us as part of the Restructuring.
- Pursuant to certain of our aircraft leasing and financing arrangements, the foreign financiers have required guarantees to be given by three PRC state-owned banks (Bank of China ("BOC"), Industrial and Commercial Bank of China ("ICBC") and China Construction Bank ("CCB")). In giving such guarantees, the PRC state-owned banks in

SUBSTANTIAL AND SELLING SHAREHOLDERS

turn have required CNAHC to provide counter-guarantees in their favour (the “Counter-guarantees”). Details of the outstanding Counter-guarantees are set out below:

Counter-guarantees provided by CNAHC in respect of our aircraft finance lease and other aircraft financing arrangements:

<u>Bank</u>	<u>Number of Aircraft Involved</u>	<u>Amount of Our Liabilities Involved as of June 30, 2004</u>	<u>Maturities of Our Liabilities</u>
		RMB (in millions)	
BOC	11	1,504.1	July 2004 to December 2006
ICBC	10	3,223.1	June 2007 to March 2011
CCB	<u>3</u>	<u>977.3</u>	October 2011 to February 2012
Total	<u>24</u>	<u>5,704.5</u>	

Counter-guarantees provided by CNAHC in respect of our aircraft operating lease arrangements:

<u>Bank</u>	<u>Number of Aircraft Involved</u>	<u>Minimum Future Lease Payments Under Non-cancellable Operating Leases as of June 30, 2004</u>	<u>Maturities of Our Operating Lease Commitments</u>
		RMB (in millions)	
BOC	1	9.9	October 2004
ICBC	<u>11</u>	<u>1,619.3</u>	August 2006 to October 2011
Total	<u>12</u>	<u>1,629.2</u>	

We have not provided any security in favour of CNAHC or paid any fees or charges to CNAHC in respect of the Counter-guarantees. The Counter-guarantees have historically never been called upon by the banks since Air China International Corporation (our immediate predecessor) and we have been duly performing our obligations under the relevant leasing and financing arrangements. Finally, we have not been relying on CNAHC to settle our liabilities since we have historically been able to perform our repayment obligations under the relevant arrangements.

We have undertaken to the Hong Kong Stock Exchange to:

- (i) use our best endeavours to orderly release all Counter-guarantees at the earliest practicable time, and in any event, not later than six months after the Listing Date;
- (ii) adopt a policy of maintaining direct relationships with the relevant banks and ensuring that no Counter-guarantees will be required to be given by CNAHC Group in our future aircraft leasing and financing arrangements; and
- (iii) make an announcement if any of the Counter-guarantees cannot be released upon the expiry of such six-month period.

As of June 30, 2004, certain members of CNAHC Group provided guarantees to our two bank loans of RMB250 million and RMB15 million, respectively. The loan of

SUBSTANTIAL AND SELLING SHAREHOLDERS

RMB250 million has been fully repaid and the loan of RMB15 million will be repaid before the Listing Date. Following such repayments the relevant members of CNAHC Group will cease to have obligations.

Based on the above, the Directors are of the view that we are financially independent of the CNAHC Group.

- None of our existing Shareholders, Directors, Supervisors or their respective associates has any interest in our major suppliers or major customers and we are able to secure suppliers, obtain financing, market to different segment of customers and operate our day-to-day business independently.
- Pursuant to the Restructuring Agreement entered into among us, CNAHC and CNACG on November 20, 2004:
 - (a) each party has acknowledged that each of the transactions between the Company and CNAHC (and any of its associates) has complied and will continue to comply with the requirements under the Standardising Opinion (a summary of which is set out under the section headed “The PRC Company Law, Special Regulations and Mandatory Provisions” in “Appendix VII — Summary of Principal Legal and Regulatory Provisions” to this Prospectus) and is, and will be, at arm’s length and on a normal commercial basis so long as CNAHC is a controlling Shareholder (within the meaning of the Hong Kong Listing Rules) of the Company;
 - (b) CNAHC, CNACG and the Company have agreed that any transaction between the companies shall be at arm’s length on a normal commercial basis and, where relevant, in accordance with the related party transaction rules as set out in the London Listing Rules and the connected transactions rules set out in the Hong Kong Listing Rules; and
 - (c) each of CNAHC and CNACG has given the following undertakings to the Company:
 - (i) CNAHC will require any Director of the Company who concurrently holds a position at CNAHC (a “CNAHC Director”) and CNACG will require any Director who concurrently holds position at CNACG (a “CNACG Director”) to give an undertaking to the Company that if he becomes aware of any details regarding any investment opportunity relating to air passenger services, he will not disseminate any information regarding that investment opportunity to CNAHC or CNACG, as the case may be, if he receives such information in his capacity as a Director of the Company, and he will not disseminate such information to the Company if he receives that information other than in his capacity as a Director of the Company;
 - (ii) if there is a conflict between the interests of the Group and the interests of the CNAHC Group, the prior approval of the Board of the Company shall be required before the Company can proceed with any such conflict situation, and the CNAHC Director or the CNACG Director, as the case may be, will be excluded from the part of any Board meeting of the Company and not vote in respect of a conflict situation or count in the quorum in relation to a resolution or a meeting of the Board of the Company; and

SUBSTANTIAL AND SELLING SHAREHOLDERS

- (iii) CNAHC shall not and shall procure that each CNAHC Director shall not, and CNACG shall not and shall procure that the CNACG Director shall not, exercise any voting rights in the Company in relation to any transaction which may give rise to a conflict or potential conflict between the interests of the Company or any member of the Group and the interests of the CNAHC Group.

On this basis, the Company is capable of carrying on its business independently of CNAHC and CNACG and all transactions and relationships between the Company and CNAHC, and between the Company and CNACG, are, and will be, at arm's length and on normal commercial basis.

- Following the Restructuring, CNAHC Group will continue to operate businesses that are not directly related to the core airline businesses operated by us (i.e. passenger and cargo air transportation). The businesses to be operated by CNAHC Group (including CNACG) upon completion of the Restructuring include, among other things, airline-related business, investment holding in certain airline-related business, hotel operation, construction, media, advertising and provision of financial services, which are distinct from our core businesses. Our business operations will then be directed by the Board independent of CNAHC and CNACG, although CNAHC as our controlling shareholder will be able to exercise all the rights of a controlling shareholder, including the election of Directors and voting in respect of amendments to the Articles of Association.

SUBSTANTIAL AND SELLING SHAREHOLDERS

- As of the date of this Prospectus, the following members of our senior management hold executive positions in CNAHC or CNACG:

<u>Name</u>	<u>Position with the Company</u>	<u>Position with CNAHC or CNACG</u>
Li Jiayang	Chairman and Non-executive Director	President (CNAHC)
Kong Dong	Vice Chairman and Non-executive Director	Vice President (CNAHC) Vice Chairman and President (CNACG)
Wang Shixiang	Vice Chairman and Non-executive Director	Vice President (CNAHC)
Yao Weiting	Non-executive Director	Vice President (CNAHC)
Fan Cheng	Executive Director, Joint Company Secretary and Chief Financial Officer	Director (CNACG)
Zhang Xianlin	Chairman of Supervisory Committee	Executive Vice President (CNACG)
Liao Wei	Supervisor	General Manager of Finance Department (CNAHC)
Zhang Huilan	Supervisor	Deputy General Manager of Assets Management Department (CNAHC)
Li Man Kit	Joint Company Secretary	Company Secretary (CNACG)

Other than the above Directors and Supervisors, the remaining Directors (including two Executive Directors, namely, Ma Xulun and Cai Jianjiang) and members of our senior management do not hold any positions with CNAHC or CNACG.

Notwithstanding the fact that certain of our Directors and our Supervisors also hold positions with CNAHC or CNACG, the Directors are of the view that we can operate independently of CNAHC and its associates (including CNACG) on the basis that our management decisions are made by the Executive Directors and the senior management as a collective body and not by any individual person alone. Any view expressed by a Director or an officer who also holds a position with CNAHC or CNACG will be checked and balanced by the views of other Directors and members of our senior management who do not hold positions with CNAHC or CNACG. More importantly, all of the Directors and our officers understand that their fiduciary duties are owed to the Company and its Shareholders as whole but not to any particular Shareholder. Additionally, certain of our transactions or matters involving CNAHC and/or its associates are to be approved and/or reviewed by our Independent Non-executive

SUBSTANTIAL AND SELLING SHAREHOLDERS

Directors in accordance with the Hong Kong Listing Rules and the non-competition agreement as disclosed in the section headed “Business — Connected Transactions — Non-competition Agreement” in this Prospectus.

For more information on our relationship with CNAHC, see the sections headed “Business — Overview” and “Business — Connected Transactions” in this Prospectus.

Selling Shareholders

In accordance with PRC regulations, CNAHC is selling 198,331,240 Shares, if the Over-allotment Option is not exercised, or 228,080,926 Shares if the Over-allotment Option is fully exercised, in each case representing 7.1% of the total number of Offer Shares under the Global Offering. CNACG is selling 56,730,578 Shares, or 2.0% of the total number of Offer Shares under the Global Offering if the Over-allotment option is not exercised, or 65,240,165 Shares or 2.0% of the total number of Offer Shares under the Global Offering if the Over-allotment Option is fully exercised. Both CNAHC and CNACG are required to contribute all the net proceeds it receives from the Global Offering to the national social security fund.

CNAHC has undertaken to us and the Hong Kong Stock Exchange that, except pursuant to the Global Offering or the Over-allotment Option:

- (i) during the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this Prospectus and ending on the date which is six months after the Listing Date, it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities in respect of which it is disclosed in this Prospectus to be the beneficial owner; and
- (ii) during the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, CNAHC would cease to be our controlling shareholder (as defined in the Hong Kong Listing Rules).

Each of CNAHC and CNACG undertakes to each of us, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that:

- (i) except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing from the date of the Prospectus and ending on the date which is six months from the Listing Date (the “First Period”), it will not, and shall procure that the relevant registered holder(s) will not without the prior written consent of the Joint Global Coordinators and unless in compliance with the requirements of the Hong Kong Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or other securities of the Company (or, for CNAHC only, shares in the capital of CNACG (“CNACG Shares”)), held by it that are convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or CNACG Shares (as the

SUBSTANTIAL AND SELLING SHAREHOLDERS

case may be) or such other securities or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or CNACG Shares (as the case may be), whether any of the foregoing transactions is to be settled by delivery of Shares or CNACG Shares (as the case may be) or such other securities, in cash or otherwise;

- (ii) it will not, without the prior written consent of the Hong Kong Stock Exchange in the six-month period commencing on the expiry of the First Period set out in paragraph (i) above, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares (or, for CNAHC only, CNACG Shares) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, CNAHC would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of the Company; and
- (iii) in the event of a disposal of any Shares or securities of the Company or any interest therein within six months immediately following the expiry of the First Period set out in paragraph (i) above, it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of the Company.

CNAHC undertakes to each of us, the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters and the Hong Kong Stock Exchange that, during the period commencing on the date by reference to which disclosure of its direct or indirect shareholding in us is made in this Prospectus and ending on the date which is twelve months from the Listing Date, it will:

- (i) when it pledges or charges any of the Shares or other securities of us beneficially owned by it in favour of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Hong Kong Listing Rules, immediately inform us of such pledge or charge (as the case may be) together with the number of Shares or securities so pledged or charged; and
- (ii) when it receives any indication, either verbal or written, from the pledgee or chargee of any of the Shares or securities it pledged or charged will be disposed of, immediately inform us of such indication.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by CNAHC and disclose such matters by way of an announcement which is published in the newspapers as soon as possible.