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中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 753)

- (1) CONTINUING CONNECTED TRANSACTIONS**
- (2) PROPOSED FORMATION OF AVIATION SAFETY COMMITTEE**
- (3) PROPOSED ENGAGEMENT OF EXPERTS FOR BOARD COMMITTEE**
- (4) PROPOSED APPOINTMENT OF DIRECTOR**
- (5) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
- (6) PROPOSED DIRECTORS AND SENIOR MANAGEMENT**
- STOCK APPRECIATION RIGHTS HANDBOOK**

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



A letter from the Board is set out on pages 3 to 36 of this circular.

A letter from the Independent Board Committee, containing its advice to the Independent Shareholders of the Company, is set out on pages 37 to 38 of this circular.

A letter from BNP Paribas, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 39 to 50 of this circular.

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DEFINITIONS

In this circular, the following terms have the meanings set out below, unless the context requires otherwise:

“Air China Cargo”	Air China Cargo Co., Ltd, a company with limited liability incorporated under the laws of People’s Republic of China and with 51% of its registered capital owned by the Company as at the date of this circular
“Articles of Association”	articles of association of the Company as amended from time to time
“BNP Paribas”	BNP Paribas Peregrine Capital Limited (to be renamed BNP Paribas Capital (Asia Pacific) Limited), the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company and a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571). A resolution to change the name from BNP Paribas Peregrine Capital Limited to BNP Paribas Capital (Asia Pacific) Limited has been passed on 20 November 2006 and the change shall become effective from the date the Certificate of Change of Name is issued by the Companies Registry of Hong Kong
“Board”	the board of Directors of the Company
“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
“Directors”	the directors of the Company
“EGM”	the Company’s extraordinary general meeting to be held on 28 December 2006
“Group”	the Company, its subsidiaries and joint ventures
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Wu Zhipan, Mr. Zhang Ke and Mr. Jia Kang, all being the independent non-executive directors of the Company
“Independent Shareholders”	the independent shareholders of the Company
“Latest Practicable Date”	24 November 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“MRO Services”	Aircraft maintenance, repair and overhaul services
“Non-exempt Continuing Connected Transactions”	the transactions (excluding the de minimis continuing connected transactions) under the Financial Services Agreement and its supplemental agreement between the Company and CNAF, the Charter Flight Service Framework Agreement and its supplemental agreement between the Company and CNAHC, the Service Framework Agreement between the Company and the Beijing Capital Airports Group and the continuing connected transactions between the Company and Lufthansa Group
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules, i.e. “assets ratio”, “profits ratio”, “revenue ratio”, “consideration ratio” and “equity capital ratio”
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Prospectus”	the Company’s prospectus dated 3 December 2004
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company



中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 753)

Executive Directors:

Mr. Ma Xulun
Mr. Cai Jianjiang
Mr. Fan Cheng

Non-executive Directors:

Mr. Li Jiayang (Chairman)
Mr. Kong Dong
Mr. Wang Shixiang
Mr. Yao Weiting
Mr. Christopher Dale Pratt

Independent non-executive Directors:

Mr. Hu Hung Lick, Henry
Mr. Wu Zhipan
Mr. Zhang Ke
Mr. Jia Kang

Registered office:

9th Floor, Blue Sky Mansion
28 Tianzhu Road, Zone A
Tianzhu Airport Industrial Zone
Shunyi District
Beijing
PRC

*Principal place of business
in Hong Kong:*

5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

1 December 2006

To the Shareholders

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS**
- (2) PROPOSED FORMATION OF AVIATION SAFETY COMMITTEE**
- (3) PROPOSED ENGAGEMENT OF EXPERTS FOR BOARD COMMITTEE**
- (4) PROPOSED APPOINTMENT OF DIRECTOR**
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- STOCK APPRECIATION RIGHTS HANDBOOK**

I. CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

The Company was granted waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules by the Hong Kong Stock Exchange with respect to certain continuing connected transactions as disclosed in the Prospectus. Such waivers will expire on 31 December 2006. After such date, the Company must re-comply with the relevant provisions of the Hong Kong Listing Rules in order to continue these continuing connected transactions.

LETTER FROM THE BOARD

On 10 November 2006, the Board approved and ratified the continuing connected transactions as set out in this circular, the revised annual cap for 2006 of certain continuing connected transaction and the relevant annual caps for each of the three years ended 31 December 2007, 2008 and 2009. The Company will seek Independent Shareholders' approval to the Non-exempt Continuing Connected Transactions and their respective proposed annual caps for each of the three years ended 31 December 2007, 2008 and 2009 in accordance with the Hong Kong Listing Rules.

2. PARTIES AND CONNECTION OF THE PARTIES

The Company, whose principal business activity is air passenger, air cargo and airline-related services, has been conducting continuing connected transactions with the following parties:

- **China National Aviation Holding Company (“CNAHC”) and its associates (“CNAHC Group”)**

CNAHC is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAHC is principally engaged in managing the holding company of CNAHC Group and the state-owned assets and equity it holds in various companies; aircraft lease; and aviation equipment maintenance, etc.

- **China National Aviation Construction and Development Company (“CNACD”)**

CNACD is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNACD is principally engaged in providing management services for infrastructure construction projects and technology reconstruction projects.

- **China National Aviation Media and Advertisement Co., Ltd. (“CNAMC”)**

CNAMC is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAMC is principally engaged in media and advertising business.

- **China National Aviation Tourism Company (“CNATC”)**

CNATC is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNATC is principally engaged in tourism.

LETTER FROM THE BOARD

- **China Aircraft Services Limited (“CASL”)**

CASL is a 40%-owned subsidiary of China National Aviation Corporation (Group) Limited (“CNACG”), which is a substantial shareholder of the Company, and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CASL is principally engaged in providing aircraft line maintenance, cabin cleaning and ground support services at Hong Kong International Airport.

- **China National Aviation Finance Co., Ltd. (“CNAF”)**

CNAF is a 74.89% held subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAF is principally engaged in providing financial services to the members of CNAHC Group.

- **Lufthansa and its associates (“Lufthansa Group”)**

Lufthansa Group holds 40% equity interest in and is a substantial shareholder of Aircraft Maintenance and Engineering Corporation (“Ameco”), a subsidiary of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Lufthansa is principally engaged in passenger traffic, logistics, MRO Services, catering, leisure travel and etc.

- **Capital Airports Holding Company and its associates (“Beijing Capital Airports Group”)**

Capital Airports Holding Company holds 24% equity interest in and is a substantial shareholder of Air China Cargo, a subsidiary of the Company, and therefore is a connected person of the Company under the Hong Kong Listing Rules. Beijing Capital Airports Group is principally engaged in both aeronautical and non-aeronautical businesses at the Beijing Capital Airport.

- **Cathay Pacific Airways Limited (“Cathay Pacific”) and its associates (“Cathay Pacific Group”)**

Cathay Pacific holds approximately 17.3% of the total issued share capital of the Company and therefore is a connected person of the Company under the Hong Kong Listing Rules. Cathay Pacific is principally engaged in the operation of scheduled passenger and cargo airline services, principally to and from Hong Kong.

3. DE MINIMIS CONTINUING CONNECTED TRANSACTIONS

3.1 Media and Advertising Services

The Company entered into a media and advertising services framework agreement (the “Advertising Services Framework Agreement”) and a supplemental agreement thereto on 1 November 2004 and on 10 November 2006, respectively, with CNAMC.

Description of transaction:

Pursuant to the Advertising Services Framework Agreement and its supplemental agreement, CNAMC will have the right to procure advertisements and to retain all advertising revenues generated from such 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 (the “Potential Items”).

As a consideration, CNAMC will pay the Company an annual concession fee for the Specified Items and 20% of the total revenues generated from advertisements appearing on the Potential Items. CNAMC has also agreed to:

- according to the annual budget of the Company, provide the Company at nil charge with the in-flight items (except for in-flight entertainment programmes) and the Potential Items (for those not owned by the Company) on which the advertisements appear or will appear;
- provide the Company with some in-flight entertainment programmes produced by it, the production cost and expense of which will be reimbursed by the Company; and
- procure contents for the Company’s in-flight entertainment programmes from independent third parties on a commission-free basis.

In addition, CNAMC has the right to bid for advertisement agency and design services to the Company.

The Advertising Services Framework Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

LETTER FROM THE BOARD

Reasons for such transaction:

The Directors believe that it is in the best interest of the Company to enter into above transaction with CNAMC because:

- media and advertising business is not the core competency of the Company while CNAMC has extensive experience in in-flight advertising operation and has a proven network of advertising sponsors to draw upon; and
- CNAMC has a better understanding of the culture of the Company than independent third party service providers, thus the in-flight magazines provided by CNAMC, the in-flight entertainment programs procured by CNAMC and advertisement designed by CNAMC can better fit the Company's public relationship strategy.

Historical caps and amounts:

The annual cap of the aggregate amount to be paid by CNAMC to the Company for each of the three years ended 31 December 2006 are RMB23 million, RMB24.7 million and RMB26.6 million, respectively. The aggregate annual amount paid by CNAMC to the Company for each of the two years ended 31 December 2004 and 31 December 2005 were approximately RMB4.3 million and RMB18.7 million, respectively.

De minimis continuing connected transaction:

The maximum aggregate annual amount to be paid by CNAMC under the Advertising Services Framework Agreement and its supplemental agreement for each of the three years ended 31 December 2007, 2008 and 2009 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

3.2 Continuing Connected Transactions with Cathay Pacific Group

Description of transaction:

The Company has entered into various transactions with Cathay Pacific Group in the ordinary course of its business. Such transactions, which constitute an essential part of the daily operations of an airline business, include, among others:

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

The above transactions have been entered into on normal commercial terms based on arm's length negotiations.

Reasons for the transaction:

The Company has entered into various transactions with Cathay Pacific Group in the ordinary course of the Company's business.

Historical caps and amounts:

The annual cap of the aggregate amount to be paid by the Company to the Cathay Pacific Group for each of the three years ended 31 December 2006 are RMB35.0 million, RMB40.0 million and RMB45.0 million, respectively. The aggregate annual amount paid by the Company to Cathay Pacific Group for each of the two years ended 31 December 2004 and 31 December 2005 were approximately RMB10.9 million and RMB20.14 million, respectively.

De minimis continuing connected transaction:

The maximum aggregated annual amount to be paid by the Company to Cathay Pacific Group and that to be paid by Cathay Pacific Group to us for the above transactions for each of the three years ended 31 December 2007, 2008 and 2009 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transactions will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

LETTER FROM THE BOARD

4. CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

4.1 Construction Project Management Services

The Company entered into a construction project management agreement (the "Construction Project Management Agreement") and a supplemental agreement thereto with CNACD on 1 November 2004 and on 10 November 2006, respectively.

Description of transaction:

Pursuant to the Construction Project Management Agreement and its supplemental agreement:

- CNACD will provide the Company project management services on projects involving the construction of any property or industrial plant/facility with budgeted costs of RMB20.0 million or above;
- in return for its project management services, the Company shall pay CNACD a fee of up to 2% of the construction budget if the total budget of the project is RMB1 billion or more, and up to 2.5% if the total amount of the project is below RMB1 billion;
- if the actual settlement price of the project managed by CNACD is higher than the total budget of the project agreed upon in the contract, CNACD will pay the Company the difference between the actual settlement price and the total budget of the project agreed upon in the contract, unless the difference is caused by (i) a change of government policies; (ii) factors attributed to the Company; or (iii) force majeure; and
- if CNACD acquires land relating to a project on the Company's behalf, the Company 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 and travelling expenses, but excluding land premium).

The Construction Project Management Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

Reasons for such transaction:

It is customary to engage construction project management services provider for complex construction projects. The outsourcing of project management services allows the Company to focus on its core business operation. Since CNACD

LETTER FROM THE BOARD

possesses aviation industry related experience and knowledge, which is not generally available from independent third party services providers, the Directors believe it is desirable to engage CNACD as project manager by entering into such transaction.

Historical amounts and proposed caps:

The management fee paid by the Company to CNACD for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were nil, approximately RMB1.18 million and RMB1.17 million, respectively.

It is proposed that the maximum annual aggregate amount of the construction project management fee payable by the Company to CNACD for each of the three years ended 31 December 2007, 2008, 2009 will not exceed the annual limit of RMB40 million, RMB30 million and RMB30 million, respectively.

	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Unaudited historical amount for the period from 1 Jan to 30 Jun	Estimated annual amount for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec
Transaction	2004	2005	2006	2004	2005	2006	2006	2007	2008	2009
Construction project management fee	RMB40 million	RMB40 million	RMB40 million	Nil	RMB1.18 million	RMB1.17 million	RMB2 million	RMB40 million	RMB30 million	RMB30 million

Basis for such caps:

In arriving at the above caps, the Directors considered particular situation of certain construction projects and the construction schedule of these projects in the coming three years.

In the past more than two years, the management fee the Company paid to CNACD was low because:

- In 2005 and 2006, the Company commissioned CNACD to provide project management service for the construction projects including the Air China part of the T3 terminal building in Beijing (“T3 Terminal”) and aircrew office building of Zhejiang (branch) company (“Zhejiang Project”). As the T3 Terminal has not entered the construction stage yet, there was no management fee incurred for it. As for the Zhejiang Project, some management fee was incurred, but as the Company is strictly following the payment schedule based on the progress of construction, some management fee will be paid at the end of 2006; and

LETTER FROM THE BOARD

- due to the prolonged construction designing and relevant PRC planning authorities' examination and approval procedures, in the past three years, construction of relatively few projects has been started and therefore the Company did not pay much construction management fee.

However, with the continuing growth of our operation scale, our infrastructure construction will concentrate in the future three years, in particular, 2007 and 2008, to reach a peak. Among the projects, whose construction term covers the future two or three years, are the stay-over building in Guangzhou, the aircrew office building in Chongqing, aircrew office building in Chengdu, the aircraft maintenance center in Shanghai, warehouse project in Tianjin, T3 Terminal in Beijing and etc. The total budgeted amount of the above projects is about RMB4.3 billion and the estimated budgeted amount for each of the future three years is approximately RMB1.62 billion, RMB1.66 billion and RMB1.04 billion, respectively. Given the fact the Company may not be able to have full control over the development process of certain large construction projects due to various reasons, the Company has considered the possibility that large amount of capital expenditure may be incurred within one single year.

4.2 Property Leasing

The Company entered into a properties leasing framework agreement (the "Properties Leasing Framework Agreement") and a supplemental agreement thereto with CNAHC on 1 November 2004 and 10 November 2006, respectively.

Description of transaction:

Pursuant to the Properties Leasing Framework Agreement and its supplemental agreement, the Company will lease from CNAHC 16 properties covering an aggregate gross floor area of approximately 59,318.88 sq.m. for various uses including as business premises, offices and storage facilities.

The Company will lease to the CNAHC Group a total of 6 properties covering an aggregate gross floor area of approximately 7,996.55 sq.m. for various uses including as business premises and offices.

The rent payable under the Properties Leasing Framework Agreement and its supplemental agreement currently is, and will continue to be determined in accordance with the relevant PRC regulations or market rates. In principle, the annual increase in rental rate will not exceed 5%.

The Properties Leasing Framework Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

LETTER FROM THE BOARD

Reasons for such transaction:

In the ordinary course of business, the Company has entered into similar property leasing transactions with various parties including both connected persons and independent third parties.

Historical amounts and proposed caps:

The aggregate amount of rent paid by the Company to CNAHC for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB16.99 million, RMB29.89 million and RMB26.55 million, respectively.

It is proposed that the maximum annual aggregate amount of rent payable by the Company to CNAHC for each of the three years ended 31 December 2007, 2008, 2009 will not exceed the annual limit of RMB55 million, RMB60 million and RMB70 million, respectively.

The maximum annual aggregate amount of the rent payable by CNAHC to the Company for each of the next three years ended 31 December 2007, 2008 and 2009 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirements for connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited historical amount for the period from 1 Jan to 30 Jun 2006	Estimated annual amount for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
Rent paid by us to CNAHC under the Properties Leasing Agreement	RMB47.6 million	RMB50 million	RMB52.5 million	RMB16.99 million	RMB29.89 million	RMB26.55 million	RMB48.73 million	RMB55 million	RMB60 million	RMB70 million

Basis for such caps:

In arriving at the above 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 rate of 5%, and the potential increase in the floor area of properties leased by the Company from CNAHC.

LETTER FROM THE BOARD

As of to date, the properties leased by the Company from CNAHC and its subsidiaries cover a floor area of 59,318 sq.m., representing an increase of floor area of approximately 6,200 sq.m. compared to the period from 2004 to 2005. In 2006, three newly leased properties, i.e. Zhejiang Jiaoyun Building, Sanliting aircrew boarding house in Hangzhou and a ticketing office at Chengdu, were added to the properties leased by the Company. Considering the rising rental rate of properties in the PRC, and the coming 2008 Beijing Olympic Games and other factors, the Directors expect that the rental payment will continue to rise in the next three years. Additionally, the construction of the Xi'nan Air China Building, which is owned by CNAHC, is almost finished. After that, the gross floor area of properties leased from CNAHC will increase.

4.3 Tourism Co-operation Services

The Company entered into a tourism services cooperation agreement (the “Tourism Cooperation Agreement”) and a supplemental agreement thereto with CNATC on 1 November 2004 and on 10 November 2006, respectively.

Description of transaction:

Pursuant to the Tourism Cooperation Agreement and its supplemental agreement, the Company has agreed to provide the following services to CNATC:

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

LETTER FROM THE BOARD

Pursuant to the Tourism Cooperation Agreement, CNATC agreed to provide the following services to the Company:

- FFP co-operation services: under the FFP, if our Companion card members redeem their mileage credits for free, discounted or upgraded stay at CNATC's hotels, the Company will reimburse CNATC for such redemption at a price similar to our arrangements with other FFP partners.
- Hotel accommodation services: CNATC will provide hotel accommodation services to the Company's employees on duty and passengers affected by our flight delays or cancellations, for which services the Company will pay relevant fees to CNATC at group rates.
- Aviation tourist services with special features including but not limited to a newly launched service of ground transportation for passengers of two classes.

The Tourism Co-operation Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

Reasons for the transaction:

In the ordinary course of business, the Company has entered into similar transactions with various parties including both connected persons and independent third parties. CNATC is a resourceful and well-known tourism corporation with outstanding competency in air tourism. Tourism cooperation with CNATC enables both CNATC and the Company to fully leverage on their advantages to achieve better operating performance.

Historical amounts, revised cap and proposed caps:

The annual aggregated amount paid by CNATC to the Company for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB6.74 million, RMB16.16 million and RMB25.81 million, respectively.

The Directors have been monitoring the Company's continuing connected transactions. Due to the launch of charter flight route business and based on internal estimate of the annual transaction amount of 2006, the Directors note that the existing cap for 2006 for tourism cooperation with CNATC will not be sufficient for the Company's current requirement and therefore propose that the existing cap, i.e. RMB40.4 million, be revised to be RMB51 million.

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It is proposed that the aggregate amount to be paid by CNATC to the Company for tourism cooperation for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB59.20 million, RMB69.04 million, and RMB80.84 million, respectively.

The maximum aggregate annual amount to be paid by the Company to CNATC for tourism cooperation for each of the three years ended 31 December 2007, 2008 and 2009 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

Transaction	Historical Caps			Historical Figures					Future Caps			
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited			Revised annual cap for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
						historical amount for the period from 1 Jan to 30 Jun 2006	Estimated amount for the year ended 31 Dec 2006					

Amount to be paid by CNATC to the Company under the Tourism Co-operation Services Agreement	RMB30.8 million	RMB35.6 million	RMB40.4 million	RMB6.74 million	RMB16.16 million	RMB25.81 million	RMB51 million	RMB51 million	RMB59.2 million	RMB69.04 million	RMB80.84 million
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Basis for such caps:

In arriving at the above caps, the Directors have considered the historical figures for the same transactions and have taken into account the positive prospects of such transactions.

Since early 2006, the Company cooperated with CNATC to offer commercial charter flight route services to CNATC for the less popular routes, i.e. the route between Beijing and Xilin Haote as well as that between Beijing and Mianyang. Under such cooperation, the two flight routes are chartered to CNATC. In other words, all the flights on the two flight routes are chartered to CNATC. Such cooperation model has substantially increased the amount paid by CNATC to the Company.

From January 2006 to September 2006, CNATC paid us approximately RMB28 million for charter flight route service. Such revenue is expected to reach up to approximately RMB41 million in total for 2006. Accordingly, the revenue generated from FFP cooperation services as well as the package tours co-operation services also have a substantial growth. Such revenue generated in 2006 is estimated to be not more than RMB10 million. Accordingly the estimated annual transaction amount for 2006 will be approximately RMB51 million.

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The Company and CNATC intend to further strengthen their cooperation in respect of the charter flights available for the less popular routes. The Company expects to enjoy a revenue growth in the next three years for further improvement of the operation of the said two charter flight routes and the potential cooperation opportunities emerging from the addition of extra less popular routes. Based on the projection that the revenue generated from charter flight cooperation during 2007 and 2009 is expected to achieve an annual growth of 20%, the number of frequent flyers will also be further increased. Accordingly, the revenue generated from its FFP cooperation services as well as the package tours co-operation services is also expected to have a continuous growth.

4.4 Comprehensive Services

The Company entered into a comprehensive services agreement (the “Comprehensive Services Agreement”) and a supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006 respectively.

Description of transaction:

pursuant to the Comprehensive Services Agreement and its supplemental agreement:

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

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The charges payable by the Company to CNAHC for the comprehensive services above shall be based on prevailing market rate or, if no prevailing market rate is available, fair and reasonable price determined after arm's length negotiation. The management charges payable by CNAHC to the Company for the welfare-logistics services provided to its retired employees shall be settled at a rate of 4%. Such charges relating to retired employees shall be appropriated to the Company before the quarter for making such payment.

The Comprehensive Services Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

Reasons for the transaction:

For the services to be provided by CNAHC, the Directors believe that CNAHC has special strengths that independent parties do not possess, including (1) knowledge of the aviation industry; (2) a proven track record of quality and timely service; and (3) the site where services are provided by CNAHC are generally near to the site of the Company and therefore the ability to offer efficient services. In light of these factors, the Directors believe that it is in the best interest of the Company to enter into above transactions with CNAHC.

Historical amounts and proposed caps:

The annual aggregated amount paid by the Company to CNAHC for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB92.80 million, RMB91.20 million and RMB39 million, respectively.

It is proposed that the total amount to be paid by the Company to CNAHC under the Comprehensive Services Agreement for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB80 million, RMB90 million and RMB100 million, respectively.

For each of the three years ended 31 December 2007, 2008 and 2009, the total annual amount to be paid by CNAHC to the Company for the provision of welfare-logistics services to the retired employees is expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transaction will be exempt from the announcement and independent shareholder approval requirement for connected transactions.

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Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Unaudited		Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec
						historical amount for the period from 1 Jan to 30 Jun	Estimated annual amount for the year ended 31 Dec			
2004	2005	2006	2004	2005	2006	2006	2007	2008	2009	
Amount to be paid by us to CNAHC under the Comprehensive Services Agreement	RMB100 million	RMB115 million	RMB132 million	RMB92.80 million	RMB91.20 million	RMB39 million	RMB75 million	RMB80 million	RMB90 million	RMB100 million

Basis for such caps:

In arriving at the above caps, the Directors have considered the historical figures for the same transaction and have taken into account the expected growth of the Company's air passenger services in the next few years.

On the one hand, there were decreasing transaction amounts recorded in the past three years, which were mainly due to the restructuring and streamlining of enterprises that provided services to the Company and the disposal of interests in such enterprises by CNAHC Assets Management Company (the Assets Management Company). As at the end of 2006, the number of affiliates of Assets Management Company has been reduced by four.

On the other hand, in 2005, the transaction amount relating to the in-flight catering services accounted for approximately 60% of those of the comprehensive services. As the number of flights is growing, it is expected that the catering business of the affiliated enterprise of the Assets Management Company, i.e. Zhejiang Zhongyu, will also be increased in the future. Accordingly, the projected transaction amounts will increase from 2007 to 2009.

4.5 Line Maintenance and Other Ground Services

The Company entered into a standard ground handling agreement (the "Standard Ground Handling Agreement") with CASL on 17 April 2004, which has a term of one year and is subject to renewal and the latest renewal was done in January 2006 and the renewed term is still one year.

Description of transaction:

CASL provides line maintenance and other ground services at Hong Kong International Airport to the Company. The services are charged at market rates.

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Reasons for the transaction:

CASL had been providing such services to the Company prior to the restructuring for the Company's initial public offering in 2004 and the Company will continue to require such services.

Historical amounts and proposed caps:

The aggregated amount paid by the Company to CASL for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB23.7 million, RMB29.15 million and RMB14.32 million, respectively.

It is proposed that the maximum annual aggregate amount payable by the Company to CASL for the line maintenance and other ground services for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB45 million, RMB50 million and RMB55 million, respectively.

	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Unaudited historical amount for the period from 1 Jan to 30 Jun	Estimated annual amount for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec
Transaction	2004	2005	2006	2004	2005	2006	2006	2007	2008	2009
Amount to be paid by us to CASL under the Standard Ground Handling Agreement	RMB40 million	RMB45 million	RMB50 million	RMB23.7 million	RMB29.15 million	RMB14.32 million	RMB33 million	RMB45 million	RMB50 million	RMB55 million

Basis for such caps:

In arriving at the above caps, the Directors have considered the historical figures for the same transaction and the high speed of growth of transaction amounts in recently years, and have also taken into account the possible increase in the Company's demand for the line maintenance and other ground services including some new services at the Hong Kong International Airport along with the increasing demand for the Company's passenger services in the next few years.

In addition, due to the rapid business growth of the Company, our fleet size has been growing very fast. The number of aircraft operated by the Company at the end of 2004, 2005 and the first six months of 2006 amounted to 151, 176 and 192, respectively. In 2006, purchase agreements in respect of the purchase of 49 aircrafts in total were executed. There will be more flights to Hong Kong that will increase relevant ground service charges.

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Besides, there is a possibility that 3% Goods and Service Tax will be charged by the Government of Hong Kong Special Administrative Region, which may or may not be approved in the future. Locally, Hong Kong has continued to suffer inflationary pressure with Consumer Pricing Index rising to 2.3% for the month of July 2006. All these factors will probably lead to the increase of the service charges to be paid by the Company to CASL.

4.6 Sales Agency Services for Airline Tickets and Cargo Space

The Company entered into a sales agency framework agreement (the “Sales Agency Services Framework Agreement”) and a supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006, respectively.

Description of transaction:

Pursuant to the Sales Agency Services Framework Agreement and its supplemental agreement, certain associates of CNAHC acting as the Company’s sales agents will:

- purchase air tickets and cargo spaces from the Company at wholesale prices and resell such air tickets and cargo spaces to end-purchasers; or
- procure purchasers for the Company’s air tickets and cargo spaces on a commission basis.

The Company will pay the relevant agency commission based on relevant PRC regulations or, where the regulations do not provide a specific commission, based on market rates. Currently, the commissions prescribed for sales of air tickets are as follows:

- 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, the Company may also offer incentives to sales agents for reaching certain ticket sale targets.

The Sales Agency Services Framework Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

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Reasons for the transaction:

The Company has entered into similar transactions with various parties including both connected persons and independent third parties in its ordinary course of business. The agency companies of CNAHC have rich experience and sizable customer base in air transportation agency business.

Historical amounts and proposed caps:

The annual aggregate sales agency commission and amount of incentive paid by the Company to CNAHC Group for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB25.91 million, RMB34.74 million and RMB19.18 million, respectively. The annual aggregate sales of airline tickets and cargo space to CNAHC Group for on-sale to end-users for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB218.4 million, RMB232.83 million and RMB103.71 million, respectively.

It is proposed that the maximum annual aggregate amount of sales agency commission and amount of incentive to be paid by the Company to CNAHC Group for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB63 million, RMB75.60 million and RMB90.72 million, respectively; and that the annual aggregate sales of airline tickets and cargo space to CNAHC Group for on-sale to end-users for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB357 million, RMB408 million and RMB459 million, respectively.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited	Estimated annual amount for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
						historical				
						amount				
						period from 1 Jan to 30 Jun 2006				
Agency commissions and incentives paid by us to CNAHC)	RMB29 million	RMB35 million	RMB42 million	RMB25.91 million	RMB34.74 million	RMB19.18 million	RMB41 million	RMB63 million	RMB75.60 million	RMB90.72 million
Sales of airline tickets and cargo space to CNAHC Group	RMB420 million	RMB470 million	RMB533 million	RMB218.4 million	RMB232.83 million	RMB103.71 million	RMB260 million	RMB357 million	RMB408 million	RMB459 million

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Basis for such caps:

In arriving at the above caps, the Directors have considered the historical figures for the past three years and the potential growth of such transactions.

The actual amount of the agency commission and amount of incentives paid in respect of ticket sales for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were RMB25.91 million, RMB34.74 million and RMB19.18 million, respectively. The annual growth rate of 2005 over 2004 was 35%.

Due to the rapid business growth of the Company, its fleet size has been growing very fast. Through implementation of the first and business class renovation works as well as by leveraging on the potential business growth arising from the 2008 Beijing Olympic Games, the Directors expect that the agency commission and amount of incentives paid in respect of ticket sales will considerably increase accordingly. The Directors expect the transaction amount will have an annual increase of approximately 20% over the future three years.

As for the sale of air tickets and cargo space, the actual revenues generated from the ticket and cargo space sales in the first six months of 2006 were RMB103.71 million. The revenue generated from the ticket and cargo space sales is expected to be up to RMB260.10 million in 2006. The Company's cargo fleet now has 8 aircraft, compared to 4 aircraft in 2004. The future expansion of the Company's fleet size and the restructuring of Air China Cargo plus the 2008 Beijing Olympic Games will lead to sustainable growth of the ticket and cargo space sales.

5. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

5.1 Financial Services

The Company entered into a financial services agreement (the "Financial Services Agreement") and a supplemental agreement thereto with CNAF on 1 November 2004 and on 10 November 2006, respectively.

Description of transaction:

Pursuant to the Financial Services Agreement and its supplemental agreement, CNAF has agreed to provide the Group with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;
- negotiable instrument and letter of credit services;

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- 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 under the approval of the China Banking Regulatory Commission (“CBRC”).

The fees and charges payable by the Group to CNAF under the Financial Services Agreement and its supplemental agreement are determined with reference to the applicable fees and charges specified by the People’s Bank of China (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 service will be provided by CNAF on terms no less favourable than terms available from commercial banks in China and the terms offered by CNAF to other members of CNAHC Group.

The Financial Services Agreement will expire on 31 December 2006 and as provided in its supplemental agreement, among others, its term has been extended to 31 December 2009.

Reasons for the transaction:

The Directors believe that it is in the interest of the Company to enter into above transaction with CNAF having taken into account the following factors:

- in respect of transactions between the Group and members of CNAHC group, CNAF is able to provide more efficient settlement service compared with independent third party banks; and
- since CNAF is 19.31% owned by the Company, the Company can ultimately benefit from the business development of CNAF.

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Historical amounts and proposed caps:

The annual aggregated amount of certain transactions between the Group and CNAF for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 are as follows:

- maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNAF were RMB1,196 million, RMB1,047 million and RMB784 million, respectively;
- maximum daily outstanding balance of loans (including accrued interest) granted by CNAF to the Group were RMB523.9 million, RMB597.47 million and RMB690 million, respectively; and
- fees and charges paid by the Group to CNAF for other financial Services were nil, approximately RMB14.40 million and RMB7.91 million, respectively.

It is proposed that the maximum aggregate annual amount of certain transactions between the Group and CNAF for each of the next three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit as follows:

- maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNAF will be RMB2.5 billion; and
- maximum daily outstanding balance of loans (including accrued interest) granted by CNAF to the Group will be RMB2.5 billion.

The maximum aggregate annual amount to be paid by the Group to CNAF for other financing services for each of the three years ended 31 December 2007, 2008 and 2009 are expected to fall below the de minimis threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules, therefore such transactions will be exempt from the announcement and independent shareholders' approval requirement for connected transactions.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited historical amount for the period from 1 Jan to 30 Jun 2006	Estimated annual amount for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
Financial Services (deposit)	RMB5 billion	RMB5 billion	RMB5 billion	RMB1,196 million	RMB1,047 million	RMB784 million	RMB1 billion	RMB2.5 billion	RMB2.5 billion	RMB2.5 billion
Financial Services (loan)	RMB3 billion	RMB3 billion	RMB3 billion	RMB523.9 million	RMB597.47 million	RMB690 million	RMB750 million	RMB2.5 billion	RMB2.5 billion	RMB2.5 billion

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Basis for such caps:

In arriving at the caps for financial services to be provided by CNAF, the Directors have considered the historical figures and have taken into account (i) the historical and estimated figures as set out in the table above; (ii) the level of financial flexibility required by the Company; and (iii) the increase in capital expenditures needs as the business scale expands.

The Company has entered into a new stage of swift growth after its restructuring and successful listing and has more room for development. Its demands for financial services will be increased accordingly. Since the fuel price has become relatively stable, the Company's performance will be improved steadily and the cash flow will increase gradually, which will result in a substantial demand for deposits. Meanwhile, the expansion of the Company's fleet size and the air routes network will also lead to a higher demand for loans. In particular, huge amount of loans are needed to finance the purchase of new aircraft each year for the coming three years.

5.2 Subcontracting of Charter Flight Services

The Company entered into a charter flight service framework agreement (the "Charter Flight Service Framework Agreement") and a supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006, respectively.

Description of transaction:

Pursuant to the Charter Flight Service Framework Agreement and its supplemental agreement, CNAHC will subcontract to the Company its obligation of government charter flight that it undertakes from the PRC government. The Company's hourly rate of the charter flight service fee will be calculated on the basis of the following formula that includes total cost and reasonable margins:

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

Total cost includes all direct costs and indirect costs.

The Charter Flight Service Framework Agreement will expire on 31 December 2006 and as provided in its supplemental agreement thereto, among others, its term has been extended to 31 December 2009.

Reasons for the transaction:

As the national flag carrier of China, the Company has historically provided charter flights for government related travel services to national leaders, government delegations, national sports teams and cultural envoys. The Company has gained significant brand recognition by being the designated government charter flight carrier. Based upon the hourly rate formula under the Charter Flight Service Framework Agreement and its supplemental agreement, it is expected that the Company will generate considerable revenue from such transaction.

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Historical amounts and proposed caps:

The aggregate annual amount paid by CNAHC to the Company for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were nil, approximately RMB407.05 million and RMB221.83 million, respectively.

It is proposed that the maximum annual aggregate amount of revenue derived from the Charter Flight Service Framework Agreement and its supplemental agreement for each of the three years ended 31 December 2007, 2008 and 2009 will not exceed the annual limit of RMB700 million, RMB812 million and RMB917 million, respectively.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Actual annual amount for the year ended 31 Dec	Unaudited	Estimated annual amount for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec	Annual cap for the year ended 31 Dec
						historical				
						amount for the period from 1 Jan to 30 Jun				
Transaction	2004	2005	2006	2004	2005	2006	2006	2007	2008	2009
Amount of revenue derived from the Charter Flight Service Framework Agreement	RMB600 million	RMB650 million	RMB700 million	Nil	RMB407.05 million	RMB221.83 million	RMB500 million	RMB700 million	RMB812 million	RMB917 million

Basis for such caps:

In arriving at the above caps, the Directors considered the historical and estimated figures as set out in the table above of the same transaction and the following factors:

- considering the development of China's foreign relationship as well as its booming foreign economic cooperation, the Directors expect that governmental delegates, national sports teams and cultural envoys will have more frequent visits to foreign countries, especially before 2008 Beijing Olympics Games. The Directors expect substantial increase in flight hours is respect of such charter flight in 2007 and 2008;
- the level of flexibility as suggested by relevant government bodies; and
- the potential future surge in the fuel and other flight-related costs.

5.3 Continuing Connected Transactions between the Group and the Lufthansa Group

Description of transaction:

The Company has entered into various transactions under separate agreements with different periods, some of which are more than three years, with Lufthansa Group in the ordinary course of its business, including, among others:

- MRO Services provided by the Company 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 the Company.

The above transactions have been entered into on normal commercial terms based on arm's length negotiations.

Reasons for the transaction:

The Company has entered into various transactions with Lufthansa Group in the ordinary course of the Company's business. Lufthansa is one of the leading airlines worldwide and is one of the founding members of the Star Alliance, which is the largest and most awarded airline alliance in the world. Lufthansa, being the largest German airline, is a premium brand which has a high level of recognition and a first class reputation. Through the co-operation with Lufthansa Group, the Group could further enhance the quality and attractiveness of its products and services. Furthermore, the transactions with Lufthansa Group are indispensable to the daily operation of the Group's airline business for the German routes and necessary to the long term development of the Group. The Group has also entered into similar arrangements with certain other airlines to facilitate its international routes

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Historical amounts and proposed caps:

For each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006, (i) the aggregate annual amount paid by the Company to Lufthansa Group, for its ground handling and catering services and pursuant to sales agency arrangement, code-sharing, special prorate and other airline cooperation arrangements, were approximately RMB435.05 million, RMB634.34 million and RMB234.28 million, respectively; and (ii) the aggregate annual amount paid by Lufthansa Group to the Company, for our ground handling service and MRO Services and pursuant to sales agency arrangement, code-sharing, special prorate and other airline cooperation arrangements, were approximately RMB409.30 million, RMB466.27 million and RMB209.28 million, respectively.

It is expected that for each of the three years ended 31 December 2007, 2008 and 2009, (i) the maximum amount payable by the Company to Lufthansa Group, for its ground handling and catering services and pursuant to sales agency arrangement, code-sharing, special prorate and other airline cooperation arrangements, will not exceed the annual limit of RMB775.20 million, RMB900 million and RMB1,017 million, respectively; and (ii) the maximum amount payable by Lufthansa Group to the Company, for our ground handling service and MRO services and pursuant to sales agency arrangement, code-sharing, special prorate and other airline cooperation arrangements, will not exceed the annual limit of RMB592.80 million, RMB687.70 million and RMB777 million, respectively.

Transaction	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited historical amount for the period from 1 Jan to 30 Jun 2006	Estimated annual amount for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
Amount to be paid by the Company to Lufthansa Group	RMB630 million	RMB660 million	RMB750 million	RMB435.05 million	RMB634.34 million	RMB234.28*	RMB680 million	RMB775.20 million	RMB900 million	RMB1,017 million
Amount to be paid by the Lufthansa Group to Company	RMB500 million	RMB530 million	RMB600 million	RMB409.30 million	RMB466.27 million	RMB209.28*	RMB520 million	RMB592.8 million	RMB687.7 million	RMB777 million

* Due to accounting policy reason and that the high season for travelling is July, August and September, the transaction amount in the second half year will be much higher than that of the first half year.

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Basis for such caps:

In arriving at the above caps, the Directors have considered (i) the historical and estimated figures as set out in the table above; and (ii) the discussion with Lufthansa Group about its planned flight schedules between Germany and China; and (iii) the Company's business plan about increased flight routes to Germany.

It is expected that compared to 2005, the rate of growth for the actual transaction amount of 2006 will be about 7.2% for amounts paid by the Company to Lufthansa Group, and about 11.5% for amounts to be paid by Lufthansa Group to the Company. This is mainly due to the increase in code sharing services, which resulted from the rapid business growth of the Company and the growth of its fleet size.

Considering the expansion of the Company's fleet, plus that the expected increase in the business of the Company and Lufthansa Group brought by the 2008 Beijing Olympic Games and the stronger trading relationships between China and Germany along with the economic development of China and Germany, transaction amount for the future three years are expected to considerably increase. In addition, after the Company becomes a member of the Star Alliance, the Company will have more opportunities of commercial cooperation with Lufthansa Group.

Based on the above reasons, the Directors consider that the annual growth rate for the caps is expected to be less than 14%, 16% and 13%, respectively, for the three years ended 31 December 2009 are fair and reasonable. The growth rates of 2007 and 2008 will be higher than that of 2009 due to the impact of 2008 Beijing Olympic Games, with 2008 being the highest amongst the three years due to the fact that the 2008 Beijing Olympic Games will take place in 2008.

5.4 Continuing Connected Transactions between the Group and the Beijing Capital Airports Group

Description of transaction:

The Company had entered into various transactions with Beijing Capital Airports Group in the ordinary course of its business under various agreements. On 10 November 2006, the Company and Beijing Capital Airports Group entered into a service framework agreement ("Service Framework Agreement"), under which the services include, among others:

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

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- provision of ground handling services to the Company by the Beijing Capital Airports Group.

All the services provided by the Beijing Capital Airports Group to the Company are charged on the pricing terms which are prescribed, approved or recommended by PRC governmental authorities, and if there is no state-prescribed price, according to the relevant market prices.

The Service Framework Agreement has a term of three years from 1 January 2007 to 31 December 2009, subject to renewal.

Reasons for the transaction:

The Company has entered into various transactions with Beijing Capital Airports Group in the ordinary course of the Company's business. Such transactions are indispensable to the daily operation of the Company's airline business.

Historical amounts and proposed caps:

The actual transaction amounts paid by the Company to the Beijing Capital Airports Group for each of the two years ended 31 December 2004 and 31 December 2005 and the first six months of 2006 were approximately RMB653.40 million, RMB709.82 million and RMB381.82 million, respectively.

It is proposed that for each of the three years ended 31 December 2007, 2008 and 2009, the maximum amount payable by the Company to Beijing Capital Airports Group under the Service Framework Agreement will not exceed the annual limit of RMB1,026 million, RMB1,190 million and RMB1,350 million, respectively.

	Historical Caps			Historical Figures				Future Caps		
	Annual cap for the year ended 31 Dec 2004	Annual cap for the year ended 31 Dec 2005	Annual cap for the year ended 31 Dec 2006	Actual annual amount for the year ended 31 Dec 2004	Actual annual amount for the year ended 31 Dec 2005	Unaudited historical amount for the period from 1 Jan to 30 Jun 2006	Estimated annual amount for the year ended 31 Dec 2006	Annual cap for the year ended 31 Dec 2007	Annual cap for the year ended 31 Dec 2008	Annual cap for the year ended 31 Dec 2009
Amount paid by us to the Beijing Capital Airports Group	RMB730 million	RMB900 million	RMB1,200 million	RMB653.40 million	RMB709.82 million	RMB381.82 million	RMB900 million	RMB1,026 million	RMB1,190 million	RMB1,350 million

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Basis for such caps:

In arriving at the above caps, the Directors have taken into account (i) the historical and estimated figures as set out in the table above, and (ii) the increase in the number of flights as the result of increasing passenger throughput based on the Company's projections, as well as:

- that the Company will continue to position Beijing as the hub for its development strategy. Considering that the fast growing fleet size of the Company and the 2008 Beijing Olympic Games, the number of aircrafts of the Company taken off/landed at Beijing Capital Airport will increase accordingly and as a result, the landing fee and other services fee charged by the Beijing Capital Airports is expected to be increased; and
- in addition, the operating costs incurred in connection with public facilities and ground operations etc. of the Beijing Capital Airports will also be increased due to the rise in the energy costs in recent years, the expansion of the infrastructural facilities in the Beijing Capital Airports and the completion of the T3 Terminal.

6. LISTING RULES IMPLICATIONS

- 6.1 The continuing connected transactions (excluding the de minimis continuing connected transactions) under the Financial Services Agreement and its supplemental agreement between the Company and CNAF, the Charter Flight Service Framework Agreement and its supplemental agreement between the Company and CNAHC, and the Service Framework Agreement between the Company and the Beijing Capital Airports Group, and the continuing connected transactions between the Company and Lufthansa Group fall under Rule 14A.35 of the Hong Kong Listing Rules. These transactions are subject to reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and are required to be approved by the Independent Shareholders in accordance with the requirements set out under Rules 14A.48 at the Company's EGM.
- 6.2 Except the Non-exempt Continuing Connected Transactions, as each of the Percentage Ratios (other than the profits ratio) of the other continuing connected transactions (excluding the de minimis continuing connected transactions) set out in this circular, on an annual basis, higher than 0.1% and less than 2.5%, they therefore fall under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, these continuing connected transactions are subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, but are exempt from the requirements of independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

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7. PRC LAW IMPLICATIONS

Pursuant to the Listing Rules of the Shanghai Stock Exchange, the following agreements shall be approved or ratified by the Shareholders at the EGM:

- (a) the supplemental agreement to the Financial Services Agreement;
- (b) the supplemental agreement to the Charter Flight Service Framework Agreement;
- (c) the supplemental agreement to the Sales Agency Services Framework Agreement;
and
- (d) the renewed Standard Ground Handling Agreement.

8. RECOMMENDATION OF THE BOARD

8.1 The Board (including the independent non-executive directors of the Company) considers that the abovementioned continuing connected transactions have been conducted on normal commercial terms or on terms no less favourable than those available to independent third parties and were entered into on a continuing and regular basis and in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the revised annual cap of 2006 for certain continuing connected transaction and the annual cap for each of the future three years ended 31 December 2007, 2008 and 2009 for the abovementioned continuing connected transactions are fair and reasonable.

8.2 The Board recommends that Shareholders vote to approve the Non-exempt Continuing Connected Transactions and their proposed annual cap for each of the three years ended 31 December 2007, 2008 and 2009 at the EGM.

II. PROPOSED FORMATION OF AVIATION SAFETY COMMITTEE

At the Board meeting held on 30 August 2006, the Board resolved to propose that the Board form an Aviation Safety Committee comprising 3 members, and Mr. Wang Shixiang serve as the chairman of this committee while Mr. Ma Xulun and Mr. Cai Jianjiang be the committee members.

This proposal is subject to the Shareholders' approval at the EGM.

LETTER FROM THE BOARD

III. PROPOSED ENGAGEMENT OF EXPERTS FOR BOARD COMMITTEE

At the Board meeting held on 30 August 2006, the Board resolved to propose that all special board committees under the Board are allowed to engage both internal and external experts to provide professional support for their decision-making. The terms of such engagement shall expire upon the expiration of the current Board session. The internal experts will not receive any compensation for their service as experts.

At the Board meeting held on 10 November 2006, the Board further resolved to propose the first list of experts of each Board committee as follows:

Aviation Safety Committee

Song Zhiyong	Deputy President of the Company with 19 years of work experience in the fields of aviation flight and aviation safety management
He Li	Deputy President of the Company with 33 years of work experience in the fields of aviation maintenance and aviation safety management
Gao Dianbang	Chief pilot of the Company with 36 years of work experience in the fields of aviation flight and aviation safety management
Wang Shengping	General manager assistant and director of the aviation safety office of CNHAC with 29 years of work experience in the fields of aviation flight and aviation safety management

Strategy and Investment Committee

Yang Guishan	General manager of the planning and development department of CNAHC with 22 years of work experience in the fields of corporate planning and development as well as investment
Gao Jianming	General manager of the capital operation department of CNAHC with 11 years of work experience in the fields of corporate planning and development as well as investment
Chen Xin	Deputy general manager of the planning and development department of the Company with 4 years of work experience in the fields of corporate planning and development as well as investment

LETTER FROM THE BOARD

Audit and Risk Control Committee

Zhou Guoyou	Deputy general manager of the enterprises supervisory department of CNAHC with 5 years of work experience in the fields of corporate auditing and risk control
Xu Yulan	Deputy general manager of the finance department of CNAHC with 21 years of work experience in the fields of corporate financial auditing
Zheng Baoan	Company secretary and Board secretary of the Company with 14 years of work experience in the fields of corporate finance
Li Youqiang	General manager of the finance department of the Company with 18 years of work experience in the fields of corporate financial auditing
An external expert	Specializing in finance and futures

Nomination and Remuneration Committee

Li Hui	General manager of the human resources department of CNAHC with 14 years of work experience in the fields of human resources management
Chen Ruiwen	Deputy general manager of the human resources department of CNAHC with 6 years of work experience in the fields of human resources management
Meng Xianbin	General manager of the human resources department of the Company with 7 years of work experience in the fields of human resources management

and that all the Board committees be authorized thereafter to select and replace such experts and to decide other relevant engagement matters including but without limitation external expert's remuneration.

This proposal is subject to the Shareholders' approval at the EGM.

IV. PROPOSED APPOINTMENT OF DIRECTOR

At the Board meeting held on 27 October 2006, the Board resolved to propose that Mr. Chen Nan Lok Philip be appointed as a non-executive Director. An ordinary resolution to consider and approve the appointment of Mr. Chen will be proposed at the EGM.

Mr. CHEN Nan Lok Philip, aged 51, has been a director of Cathay Pacific Airways Limited since July 1998 and was appointed Chief Executive of that company in January 2005. He is also a director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited and

LETTER FROM THE BOARD

Chairman of Hong Kong Dragon Airlines Limited. He joined the John Swire & Sons Limited group in 1977 and in addition to Hong Kong has worked with the group in Mainland China and the Asia Pacific region. He has an honours degree in Political Science and History.

Mr. Chen has not held any directorship in any other listed companies or taken up a post in any affiliated companies of the Company in the past three years. Further, Mr. Chen does not have any relationship with any other director, senior management, substantial shareholder or controlling shareholder of the Company. Mr. Chen does not have any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). There is no information to be disclosed on items from (h) to (v) in Rule 13.51(2) of the Listing Rules. No other matter needs to be brought to the attention of the Shareholders in respect of the Company and its Directors and supervisors of the Company.

Mr. Chen will not receive any compensation for his service as a Director of the Company. The term of his office shall commence upon the approval to the amendment to the Articles of Association in respect of the number of Directors by relevant PRC authorities and shall end on the expiry of the term of the current session of the Board.

V. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

At the Board meeting held on 6 July 2006, the Board proposed the amendments to the amended Articles of Association passed at the Company's extraordinary general meeting held on 28 March 2006 and the amendments were made in accordance with the Guidance on Articles of Association of Public Companies (2006 Revised) issued by the China Securities Regulatory Commission. At the Board meeting held on 10 November 2006, the Board proposed to further amend the Articles of Association according to the changes of the Company's registered capital and shareholding structure upon the completion of A share issue and additional H share issue, as well as the changes of current PRC laws and rules.

Besides, at the Board meeting held on 27 October 2006, the Board proposed to amend the Articles of Association to increase the number of Directors from 12 to 13.

According to the Articles of Association and the relevant laws and regulations, the foresaid amendments to the Articles of Association are subject to the Shareholders' approval by way of special resolution at the EGM. Further, the proposed amendments will become effective after relevant PRC authorities approve them. Details regarding the proposed amendments are set out in Appendix II of this circular.

VI. PROPOSED ADOPTION OF THE DIRECTORS AND SENIOR MANAGEMENT STOCK APPRECIATION RIGHTS HANDBOOK

At the Board meeting held on 30 August 2006, the Board resolved to propose to adopt the Administrative Measures for the Stock Appreciation Rights, the Proposal for Distribution of the Stock Appreciation Rights, the Agreement in respect of the Stock Appreciation Rights and other procedural documents of the Company (collectively "Stock Appreciation Rights Administrative Handbook").

The Stock Appreciation Rights Administrative Handbook was formulated in accordance with the proposal in respect of the stock appreciation rights approved by the State-Owned Assets Supervision and Administration Commission of the State Council.

This proposal is subject to the Shareholders' approval at the EGM. Details regarding the proposed Stock Appreciation Rights Administrative Handbook are set out in Appendix III of this circular.

LETTER FROM THE BOARD

VII. EGM

The Company will convene the EGM at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on 28 December 2006 to consider and, if thought fit, to pass resolutions in respect of the matters described under I to VI of this circular that shall be approved by the Shareholders. A notice of EGM, a form of proxy and an attendance notice have been dispatched to the shareholders in accordance with Hong Kong Listing Rules on 13 November 2006. The notice of EGM is reproduced in Appendix IV.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon. If you intend to attend the EGM, you are required to complete and return the notice of attendance to the Secretariat of the Board of the Company on or before 7 December 2006.

Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the meetings or at any adjourned meetings should you so wish and completion and return of the notice of attendance do not affect the right of a shareholder to attend the respective meeting.

Pursuant to Rule 14A.54 of the Hong Kong Listing Rules, any connected person and any Shareholder and their associates with a material interest in the Non-exempt Connected Transactions are required to abstain from voting on the relevant resolution at the EGM. At as the date of this circular, CNAHC is a substantial shareholder of the Company and CNAF is CNAHC's subsidiary. Accordingly, CNAHC and CNACG, which is CNAHC's wholly owned subsidiary, are required to abstain from voting on the resolutions in respect of the Financial Service Agreement and its supplemental agreement and Charter Flight Service Framework Agreement and its supplemental agreement. In addition, CNAHC and CNACG are also required to abstain from voting on the resolution in respect of the supplemental agreements to the Sales Agency Service Framework Agreement and the Standard Ground Handling Agreement, respectively, which are required by the Listing Rules of Shanghai Stock Exchange to be approved by the Shareholders at the EGM.

VIII. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 37 to 38 of this circular which contains its recommendation to the Independent Shareholders of the Company as to the voting at the EGM regarding the Non-exempt Connected Transactions.

Your attention is also drawn to the letter from BNP Paribas set out on pages 39 to 50 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Non-exempt Connected Transactions as well as the principal factors and reasons considered by it in concluding its advice and the additional information set out in the appendices to this circular.

By Order of the Board
Li Jiaxiang
Chairman

Beijing, the PRC



中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 753)

Independent Board Committee

Mr. Wu Zhi Pan

Mr. Zhang Ke

Mr. Jia Kang

1 December 2006

To the Independent Shareholders of the Company

Dear Sirs or Madams,

NON-EXEMPT CONNECTED TRANSACTION

We refer to the circular dated 1 December 2006 (Circular) issued by the Company to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 10 November 2006, the Board approved and ratified the Continuing Connected Transactions as set out in this Circular, and the relevant annual caps for the three years ended 31 December 2007, 2008 and 2009.

The Continuing Connected Transactions contain certain Non-exempt Connected Transactions. These connected transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Circular describes such connected transactions that the Company entered into, in each case subject to the approval or ratification, as the case may be, by the independent shareholders to be sought at the EGM.

The terms and the reasons for the Non-exempt Connected Transactions are summarised in the Letter from the Board set out on pages 3 to 32 of the Circular.

The Independent Board Committee was formed to make a recommendation to the independent shareholders as to whether, in its view, the terms of the Non-exempt Connected Transactions are fair and reasonable so far as the independent shareholders are concerned. BNP Paribas has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Non-exempt Connected Transactions.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Continuing Connected Transactions, the terms of the Continuing Connected Transactions and the basis upon which their terms have been determined. We have also considered the key factors taken into account by BNP Paribas in arriving at its opinion regarding the Non-exempt Connected Transactions as set out in the letter from BNP Paribas on pages 39 to 50 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of BNP Paribas, considers the terms of the Non-exempt Connected Transactions to be in the best interest of the Company and to be fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee also considers the Non-exempt Connected Transactions to be carried out in the usual and ordinary course of business, on normal commercial terms and the respective annual cap for the Non-exempt Connected Transactions to be fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of relevant ordinary resolutions set out in the notice of the EGM.

Yours faithfully,

Independent Board Committee

Mr. Wu Zhi Pan

Independent

non-executive director

Mr. Zhang Ke

Independent

non-executive director

Mr. Jia Kang

Independent

non-executive director

BNP PARIBAS PEREGRINE

1 December 2006

*The Independent Board Committee
and the Independent Shareholders*

Air China Limited
9/F, Blue Sky Mansion
28 Tianzhu Road, Zone A
Tianzhu Airport Industrial Zone
Shunyi District
Beijing, China

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the letter from the Board contained in the circular of the Company dated 1 December 2006 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

At the time of listing, the Company has entered into a number of continuing connected transactions with various connected parties. Waivers from strict compliance with the Hong Kong Listing Rules requirements in relation to some of these continuing connected transactions were sought at the time of the listing. As a result of the expiry of these waivers, the Company needs to re-comply with the Hong Kong Listing Rules requirements. The agreements associated with the Non-exempt Continuing Connected Transactions are: (a) the Financial Services Agreement and its supplemental agreement; (b) the Charter Flight Services Framework Agreement and its supplemental agreement; (c) various agreements with Lufthansa Group (the “Agreements with Lufthansa Group”); and (d) the Service Framework Agreement with Beijing Capital Airports Group. The Directors confirmed that these agreements have been entered into on a continuing and regular basis, in the ordinary and usual course of business of the Company.



BNP Paribas Peregrine Capital Limited
63/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CNAHC is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAF is a 74.89% subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. Lufthansa Group holds 40% equity interest in and is a substantial shareholder of Ameco (a subsidiary of the Company) and is therefore a connected person of the Company under the Hong Kong Listing Rules. Capital Airports Holding Company holds 24% equity interest in and is a substantial shareholder of Air China Cargo (a subsidiary of the Company) and therefore is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under (a) the Financial Services Agreement and its supplemental agreement; (b) the Charter Flight Services Framework Agreement and its supplemental agreement; (c) the Agreements with Lufthansa Group; and (d) the Service Framework Agreement with Beijing Capital Airports Group will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the aggregate amount of each of the Non-exempt Continuing Connected Transactions is expected to exceed 2.5% of certain Percentage Ratios (other than the profits ratio), they will also be subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As at the date of this circular, CNAHC and its associates beneficially own 51.66% of the issued share capital of the Company. CNAHC and its associates will abstain from voting on the resolutions to approve the Non-exempt Continuing Connected Transactions. Under the Hong Kong Listing Rules, the voting in respect of the approval of such resolutions must be taken by poll at the EGM. The Independent Board Committee has been formed by the Company for the purposes of considering the terms of the Non-exempt Continuing Connected Transactions and advising the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the Non-exempt Continuing Connected Transactions.

Apart from normal professional fees for our services to the Company as described above, no arrangement exists whereby we will receive any fees or benefits from the Company, CNAHC, Lufthansa, Capital Airports Holding Company or their respective subsidiaries. We are independent of the directors, chief executive or substantial shareholders of the Company, CNAHC, Lufthansa, Capital Airports Holding Company or any of their respective subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, BNP Paribas Group provided financing to some of the parties involved in the Non-exempt Continuing Connected Transactions, with an aggregate loan amount of less than 1% of total assets of BNP Paribas Group (based on its consolidated balance sheet as at 31 December 2005). As at the Latest Practicable Date, BNP Paribas Arbitrage (HK) Ltd., a member of a group of companies to which we belong, had the following interests in the parties involved in the Non-exempt Continuing Connected Transactions:

	Number of shares of each party to the Non-exempt Continuing Connected Transactions held by BNP Paribas Arbitrage	% of issued share capital of each party to the Non- exempt Continuing Connected Transactions
Air China Ltd.	9,226,110	0.075%
Cathay Pacific Air	1,313,000	0.039%
Beijing Capital International Airport	8,041,542	0.209%

We do not however consider these interests would affect the objectivity of our advice. We consider ourselves independent to give independent financial advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions pursuant to Rule 13.84 of the Hong Kong Listing Rules.

In arriving at our advice, we have relied on the statements, information and facts supplied, the opinions expressed and the representations made by the Directors and management of the Company and assumed that all statements, intentions, opinions and representations made were true, complete and accurate at the time they were made and continue to be so in all respects at the date of the Circular. We have assumed that all of the expectations of the Directors can be met. We have also relied on the assumptions described in the Circular and certain information available to the public and we have assumed such information to be accurate and reliable. We have reviewed, inter alia: (a) the Financial Services Agreement and its supplemental agreement; (b) the Charter Flight Services Framework Agreement and its supplemental agreement; (c) the Agreements with Lufthansa Group; and (d) the Service Framework Agreement with Beijing Capital Airports Group. We consider that we have reviewed sufficient information to enable us to reach an informed view. We have not, however, carried out any independent verification of such information, nor have we conducted an independent investigation into the business and affairs of the Company or the connected parties involved in the Non-exempt Continuing Connected Transactions. We have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular and we have no reasons to believe that any material information has been withheld, or doubt the truth or accuracy of the information provided.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us as of the date of the opinion. We have no obligation to update this opinion to take into account subsequent events occurring after this opinion is delivered to the Independent Board Committee and the Independent Shareholders. As a result, circumstances could develop or change prior to the date of the Circular that if had they been known at the time we rendered our opinion, would have altered or affected our opinion whether in whole or in part.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our view on the Non-exempt Continuing Connected Transactions, we have taken into consideration the principal factors and reasons as set out below.

Reasons for entering into the Non-exempt Continuing Connected Transactions

The Group is the national flag carrier of China and a leading provider of air passenger, air cargo and airline-related services in China and is primarily based in Beijing. The Company is also a member of the Star Alliance, which is the largest and most awarded airline alliance in the world.

The Financial Services Agreement and its supplemental agreement

The Company entered into the Financial Services Agreement and its supplemental agreement thereto with CNAF on 1 November 2004 and on 10 November 2006, respectively.

As stated in the letter from the Board contained in the Circular, it is in the interest of the Company to enter into the Financial Services Agreement and its supplemental agreement with CNAF having taken into account the following factors:

- (i) in respect of transactions between the Group and members of CNAHC Group, CNAF is able to provide more efficient settlement service compared with independent third party banks; and
- (ii) since CNAF is 19.31% owned by the Company, the Company can ultimately benefit from the business development of CNAF.

The Charter Flight Services Framework Agreement and its supplemental agreement

The Company entered into the Charter Flight Services Framework Agreement and its supplemental agreement thereto with CNAHC on 1 November 2004 and on 10 November 2006 respectively.

As stated in the letter from the Board contained in the Circular, as the national flag carrier of China, the Group has historically provided charter flights for government related travel services to national leaders, government delegations, national sports teams and cultural envoys.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group has gained significant brand recognition by being the designated government charter flight carrier. Based upon the hourly rate formula under the Charter Flight Services Framework Agreement and its supplemental agreement, it is expected that the Group will generate considerable revenue from such transactions.

The Agreements with Lufthansa Group

The Company has entered into various transactions with separate agreements with different periods, some of which are more than three years, with Lufthansa Group in the ordinary course of the Company's business. As stated in the letter from the Board contained in the Circular, Lufthansa is one of the leading airlines worldwide and is one of the founding members of the Star Alliance. Lufthansa, being the largest German airline, is a premium brand which has a high level of recognition and a first class reputation. Through the co-operation with Lufthansa Group, the Group could further enhance the quality and attractiveness of its products and services.

The Service Framework Agreement with Beijing Capital Airports Group

The Service Framework Agreement with Beijing Capital Airports Group is entered into on 10 November 2006 to include all services provided by Beijing Capital Airports Group to the Company.

As stated in the letter from the Board contained in the Circular, the Company has entered into various transactions with Beijing Capital Airports Group in the ordinary course of the Company's business. Such transactions are indispensable to the daily operation of the Company's airline business.

We note that the nature of the Non-exempt Continuing Connected Transactions form a necessary part of the everyday business of the Company, and the relevant waivers for the Non-exempt Continuing Connected Transactions were granted by the Hong Kong Stock Exchange ever since listing of the Company.

Having considered the rationale of entering into the Non-exempt Continuing Connected Transactions, we concur with the Directors' view that they are entered into on a continuing and regular basis and in the ordinary course of business of the Company.

Terms of the Non-exempt Continuing Connected Transactions

The Financial Services Agreement and its supplemental agreement

Pursuant to these agreements thereto, CNAF has agreed to provide the Group with a range of financial services including the following:

- deposit services;
- loan and finance leasing services;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 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 under the approval of the China Banking Regulatory Commission (the “CBRC”).

The fees and charges payable by the Group to CNAF under the Financial Services Agreement and its supplemental agreement are determined with reference to the applicable fees and charges specified by the People’s Bank of China (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, the service will be provided by CNAF on terms no less favourable than those available from commercial banks in China and terms offered by CNAF to other members of CNAHC Group.

The Financial Services Agreement will expire on 31 December 2006, whereupon it will be extended to 31 December 2009 under its supplemental agreement.

Given that the basis for determining the prices of the Financial Services Agreement and its supplemental Agreement have been negotiated by the Company and CNAF with 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, the service will be provided by CNAF on terms no less favourable than those available from commercial banks in China and terms offered by CNAF to other members of CNAHC Group, we concur with the Directors’ view that the terms of the Financial Services Agreement are fair and reasonable and the transaction is in the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Charter Flight Services Framework Agreement and its supplemental agreement

Pursuant to these agreements thereto, CNAHC will subcontract to the Group its obligation of government charter flight that it undertakes from the PRC government. The Group's hourly rate of the charter flight service fee will be calculated on the basis of the following formula which includes total cost and reasonable margins:

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

Whereas total cost includes all direct costs and indirect costs.

The Charter Flight Service Framework Agreement will expire on 31 December 2006, whereupon it will be extended to 31 December 2009 under its supplemental agreement.

As advised by the Directors, the basis for determining the pricing of the Charter Flight Services Framework Agreement and its supplemental agreement are prescribed, approved or recommended by PRC governmental authorities, and the calculation of the hourly rate includes a reasonable margin. In addition, there is no mark-up of fees collected by CNAHC for the subcontract of such services. For the above reasons, we concur with the Directors' view that the terms of the Charter Flight Service Framework Agreement and its supplemental agreement are fair and reasonable and the transaction is in the interests of the Independent Shareholders.

The Agreements with Lufthansa Group

The Company has entered into various transactions under separate agreements with different periods, some of which are more than three years, with Lufthansa Group in the ordinary course of its business, including, among others:

- maintenance, repairs and overhaul services provided by the Group 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 code-share 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 the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Directors, the transactions with Lufthansa Group are indispensable to the daily operation of the Group's airline business for the German routes and necessary to the long-term development of the Group. It is noted that some agreements with Lufthansa Group are of terms longer than three years. In this relation, the Directors have also advised that it is a standard international practice for this type of contracts to have a long duration. The Directors further advise that the Group has also entered into similar arrangements with certain other airlines to facilitate its international routes. It should be noted that co-operation with Lufthansa Group is long term in nature and a smooth operation is required. Taking into account the above reasons and factors, we are of the opinion that for transaction of such nature, it is normal business practice for such agreements to be of tenure of more than three years. The Directors consider that the pricing basis for the transactions listed above are determined based on normal commercial terms resulted from arm's length negotiations. In this regard, it should be noted that Lufthansa Group is considered to be a connected person of the Company only because of its 40% interest in Ameco (one of the subsidiaries of the Company). It does not have any other shareholding interest in the Company or any of its subsidiaries. For the above reasons, we concur with the Directors' view that the terms of the Agreements with Lufthansa Group are fair and reasonable and the transaction is in the interests of the Independent Shareholders.

The Service Framework Agreement with Beijing Capital Airports Group

The Company has entered into the Framework Service Agreement with Beijing Capital Airports Group in the ordinary course of its business, including, among others:

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

The Agreement with Beijing Capital Airports Group will expire on 31 December 2009, subject to renewal.

Given that the transactions listed above are charged based on the terms which are prescribed, approved or recommended by PRC governmental authorities, and if there is no state-prescribed price, according to relevant market prices, we concur with the Directors' view that the terms of the Framework Service Agreement with Beijing Capital Airports Group are fair and reasonable and the transaction is in the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Proposed annual caps for the Non-exempt Continuing Connected Transactions

Each type of the Non-exempt Continuing Connected Transactions will be subject to, among other things, the relevant annual cap for each of the three financial years ending 31 December 2009. As referred to in the letter from the Board contained in the Circular, the Company proposes to set the following annual cap for each of these categories of the Non-exempt Continuing Connected Transactions:

<i>Amounts in RMB millions</i>	Historical audited figures for the year ended 31 December		Actual figures for the six months ended 30 June	Estimated figures for the year ending 31 December	Proposed Annual Caps for the year ended 31 December			Growth Rate		
	2004	2005	2006	2006	2007	2008	2009	2007	2008	2009
Financial Services										
– Deposits	1,196	1,047	784	1,000	2,500	2,500	2,500	150%	0%	0%
– Loans	524	597	690	750	2,500	2,500	2,500	233%	0%	0%
Subcontracting of Charter Flight Services	–	407	222	500	700	812	917	40%	16%	13%
Transactions with Lufthansa Group										
– Amounts paid to Lufthansa Group	435	634	234	680	775.2	900	1,017	14%	16%	13%
– Amounts received from Lufthansa Group	409	466	209	520	592.8	687.7	777	14%	16%	13%
Transactions with Beijing Capital Airports Group	653	710	382	900	1,026	1,190	1,350	14%	16%	13%

In determining whether the above annual caps proposed by the Company are fair and reasonable in so far as the Independent Shareholders are concerned, we have discussed with the Directors the basis for setting the annual caps for the above Non-exempt Continuing Connected Transactions and have taken into account the reasons and factors as set out below.

The Financial Services Agreement and its supplemental agreement

As stated in the letter from the Board contained in the Circular, the proposed caps for the deposits placed with CNAF are arrived based on the historical and estimated figures as set out in the table above and the level of financial flexibility required by the Group. The proposed caps for the loans obtained from CNAF are arrived based on the historical and estimated figures as set out in the table above and the increase in capital expenditures as the business scale expands. The Directors are of the view that the projected growth rates adopted for determining the above caps are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In arriving at the caps for the deposits, the Directors have also taken account of the fact that: (i) the Group has entered into a new stage of swift growth after its restructuring and successful listing and has more room for development; (ii) since the fuel price has become relatively stable, the Group's performance and cash flow are expected to be improved steadily and increased gradually respectively, which will result in a substantial demand for deposits; and (iii) CNAF is able to provide more efficient settlement service compared with independent third party banks. The Directors determine that the deposit level attained in year 2007 to be at the appropriate level and this level should remain relatively stable for the coming three years.

In arriving at the caps for the loans, the Directors have also taken account of the expansion of the Group's fleet size and air routes network, which will lead to a higher demand for loans, in particular, to finance the purchase of new planes each year for the coming three years.

Taking into account the above reasons and factors, we consider the annual cap for the Non-exempt Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

The Charter Flight Services Framework Agreement and its supplemental agreement

As stated in the letter from the Board contained in the Circular, the proposed caps for the charter flight service arrangements are arrived based on: (i) the historical and estimated figures as set out in the table above; (ii) the potential future surge in the fuel and other flight-related costs; and (iii) the level of flexibility as suggested by the relevant government bodies. The Directors are of the view that the projected growth rates adopted for determining the above caps are fair and reasonable.

In arriving at the caps, the Directors have also taken account of the historical growth in number of flights, as well as the projected increase in future demand resulted from the development of China's foreign relationship and its foreign economic cooperation. The Directors expect that government delegates, national sports teams and cultural envoys will have more frequent visits to foreign countries, especially before 2008 Beijing Olympics Games. It is noted that the growth rate is substantially higher for 2007. This is in line with the suggestion from the relevant government bodies that there will be a substantial increase in number of air flight routes in 2007.

Taking into account the above reasons and factors, we consider the annual cap for the Non-exempt Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Agreements with Lufthansa Group

As stated in the letter from the Board contained in the Circular, the proposed caps for the aggregate annual amount to be paid to Lufthansa Group are arrived based on: (i) the historical and estimated figures as set out in the table above; and (ii) the discussion with Lufthansa Group about its planned flight schedules between Germany and China. The proposed caps for the aggregate annual amount to be received from Lufthansa Group are arrived based on: (i) the historical and estimated figures as set out in the table above; and (ii) the Company's business plan on increasing flight routes to Germany. The Directors are of the view that the projected growth rates adopted for determining the above caps are fair and reasonable.

In arriving at the caps for aggregate annual amounts to be paid to and received from Lufthansa Group, the Directors have also taken account of the expansion of the Company's fleet, plus the expected increase in the business between the Company and Lufthansa Group brought by the 2008 Olympic Games and the strong trading relationships between China and Germany. In addition, after the Company becomes a member of the Star Alliance, the Company will have more opportunities of commercial cooperation with Lufthansa Group. It is noted that the growth rate for 2007 and 2008 is higher than for 2009, with 2008 being the highest. It is justifiable given the fact that the 2008 Olympic Games will be held in Beijing.

Taking into account the above reasons and factors, we consider the annual cap for the Non-exempt Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

The Service Framework Agreement with Beijing Capital Airports Group

As stated in the letter from the Board contained in the Circular, the proposed caps for the arrangements with Beijing Capital Airports Group are arrived based on: (i) the historical and estimated figures as set out in the table above; (ii) the increase in passenger throughput from the Company's business plan; and (iii) the increasing operating costs of Beijing Capital Airports. The Directors are of the view that the projected growth rates adopted for determining the above caps are fair and reasonable.

In arriving at the caps, the Directors have also taken account of the historical growth rate in number of flights and passenger throughput, and the projection of passenger throughput from the Company's business plan. The Company will continue to position Beijing as the hub for its development strategy. In light of the fast growing fleet size of the Company and the 2008 Olympic Games' effect, the number of aircraft of the Company taken off/landed at the Beijing Capital Airports is expected to increase and as a result, the total landing fee and other service fees charged by Beijing Capital Airport is expected to be increased accordingly. In addition, it is expected that the operating costs in connection with the public facilities and ground operations of the Beijing Capital Airports will be increased due to rise in the energy cost in recent years, expansion of the infrastructural facilities in the Beijing Capital Airports and completion of the T3 Terminal. It is noted that the growth rate for 2007 and 2008 is higher than for 2009, with 2008 being the highest. It is justifiable given the fact that the 2008 Olympic Games will be held in Beijing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the above reasons and factors, we consider the annual cap for the Non-exempt Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We note that upon the expiry of the three-year period ending on 31 December 2009, in respect of the continuing connected transactions set out above, the Company is required to fully comply with the requirements of the Hong Kong Listing Rules. This will provide the Shareholders with an opportunity to review and reconsider the terms and/or the annual cap of such transactions (as the case may be).

CONCLUSION

Having considered the principal reasons and factors set out in this letter, we are of the view that the terms of the Non-exempt Continuing Connected Transactions and their annual caps are fair and reasonable and in the interest of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and their annual caps.

Yours faithfully,

For and on behalf of

BNP Paribas Peregrine Capital Limited

Isadora Li

Head of Investment Banking – North Asia

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, Mr. Zhang Xianlin, a Supervisor of the Company, had interests in 33,126,000 shares, which represents approximately 1% of the share capital of China National Aviation Company Limited (“CNAC”).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company has interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

None of the Directors or Supervisors or expert of the Company has any direct or indirect interest in any assets which have been, since 31 December 2005 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to, to any member of the Group.

None of the Directors or Supervisors of the Company is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

Mr. Christopher Dale Pratt is a non-executive director of the Company and concurrently Mr. Christopher Dale Pratt is chairman and executive director of Cathay, which is a substantial shareholder of the Company and wholly owns Hong Kong Dragonair Airline Limited (“Dragonair”). Mr. Li Jiexiang is the chairman and a non-executive director of the Company and concurrently Mr. Li Jiexiang is a non-executive director of Cathay. Cathay and Dragonair compete or are likely to compete either directly or indirectly with some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

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

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, to the knowledge of the Directors, Supervisors and chief executive of the Company, the interests and short positions of the following persons (other than a Director, supervisor or chief executive of the Company) who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group are as follows:

(a) Substantial interests in the Company

Name	Type of interests	Type and number of shares of the Company concerned	Percentage of the total issued shares of the Company	Percentage of the total issued domestic shares of the Company	Percentage of the total issued H shares of the Company	Short position
CNAHC	Beneficial owner	4,949,066,567 domestic shares	40.40%	63.08%	–	–
CNAHC ⁽¹⁾	Attributable	1,380,482,920 domestic shares	11.27%	17.60%	–	–
China National Aviation Corporation (Group) Limited	Beneficial owner	1,380,482,920 domestic shares	11.27%	17.60%	–	–
Cathay Pacific	Beneficial owner	2,124,818,455 H shares	17.34%	–	48.23%	–
Swire Pacific Limited ⁽²⁾	Attributable interests	2,124,818,455 H shares	17.34%	–	48.23%	–
John Swire & Sons Limited ⁽²⁾	Attributable interests	2,124,818,455 H shares	17.34%	–	48.23%	–
John Swire & Sons (H.K.) Limited ⁽²⁾	Attributable interests	2,124,818,455 H shares	17.34%	–	48.23%	–
JPMorgan Chase & Co. ⁽³⁾	Investment manager	391,255,100 H shares	3.19%	–	8.88%	–
		128,628,100 H shares (lending poll)	1.05%	–	2.92%	–
Morgan Stanley ⁽⁴⁾	Investment manager	302,854,509 H shares	2.27%	–	6.30%	–
		65,185,136 H Shares (short position)	0.33%	–	0.92%	–

Note: Based on the information available to the Directors, chief executive and Supervisors of the Company (including such information as was available on the website of the Stock Exchange) and so far as the Directors, chief executive and Supervisors are aware, as at the Latest Practicable Date:

1. By virtue of CNAHC’s 100% interest in China National Aviation Corporation (Group) Limited, CNAHC is deemed to be interested in the 1,380,482,920 domestic shares of the Company directly held by China National Aviation Corporation (Group) Limited.
2. By virtue of John Swire & Sons Limited’s 100% interest in John Swire & Sons (H.K.) Limited and their approximately 30% equity interest and 53% voting rights in Swire Pacific Limited, and Swire Pacific Limited’s approximately 46% interest in Cathay Pacific, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited are deemed to be interested in the 2,124,818,455 H shares of the Company directly held by Cathay Pacific.

- 3. JPMorgan Chase & Co, through its controlled entities, had an attributable interest in 391,255,100 H shares of the Company and 128,628,100 H shares of the Company as lending pool, out of which the interest in 128,628,100 H shares was held directly by JPMorgan Chase Bank, N.A., 215,790,000 H shares was held directly by JF Asset Management Limited, 13,746,000 H shares was held directly by JF International Management Inc., 7,909,000 H shares was held directly by J.P. Morgan Whitefriars Inc., 1,400,000 H shares was held directly by J.P. Morgan Securities Ltd., 22,720,000 H shares was held directly by JPMorgan Asset Management (Japan) Limited and 1,062,000 H shares was held directly by JF Asset Management (Singapore) Limited.
- 4. Mrgan Stanley, through its controlled entities, had an attributable interest in 302,854,509 H shares of the Company and maintained a short position of 65,185,136 H shares of the Company, out of which Morgan Stanley Investment Management Company directly held 222,696,000 H shares, Morgan Stanley & Co International Limited directly held 14,949,041 H shares and maintained a short position of 11,420,070 H shares, Morgan Stanley Dean Witter Hong Kong Securities Limited directly held 36,431 H shares and maintained a short position of 100,000 H shares, Morgan Stanley Asset & Investment Trust Management Co., Limited directly held 10,946,000 H shares, MSDW Equity Financing Services (Cayman) Limited directly held 14,434,000 H shares and maintained a short position of 14,434,000 H shares, Morgan Stanley Capital (Cayman Islands) Limited maintained a short position of 3,570,000 H shares, Morgan Stanley Capital Services Inc. directly held 302,624 H shares, Morgan Stanley Capital (Luxembourg) S.A. directly held 3,612,000 H shares, and Morgan Stanley & Co. Inc. directly held 35,878,413 H shares and maintained a short position of 35,661,066 H shares.

(b) Substantial interests in CNAC

Capacity capital	Type of interests	Number of issued shares	Percentage of the share
CNAHC ⁽¹⁾	Attributable interest	2,264,628,000	68.36
The Company ⁽²⁾	Beneficial owner	2,264,628,000	68.36
Best Strikes Limited	Beneficial owner	187,656,000	5.66
On Ling Investments Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Novel Investments Holdings Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Novel Enterprises Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Novel Enterprises (BVI) Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Novel Credit Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Novel Holdings (BVI) Limited ⁽³⁾	Attributable interest	322,856,000	9.75
Westleigh Limited ⁽³⁾	Attributable interest	322,856,000	9.75

Notes:

- 1. CNAHC owns approximately 51.16% of the total issued share capital of the Company and the entire issued share capital of CNACG, a company incorporated in Hong Kong, which in turn owns approximately 14.64% of the total issued share capital of the Company. Accordingly its interests in CNAC duplicate with those interest of the Company.

2. CNACG, the CNAC's former immediate controlling shareholder, transferred its approximately 69% shareholding interest in CNAC to the Company in September 2004 by way of a capital contribution in return for the Company's non-H foreign shares, as such the Company becomes the immediate controlling shareholder of CNAC. Its interest in CNAC duplicates with those interests of CNAHC.
3. 5.6% of the interest held by each of these companies in CNAC duplicates with Best Strikes Limited's interest in CNAC. The interests of these companies in CNAC also duplicate each other.

(c) Substantial interests in other members of the Group

Member of the Group capital	Name	Approximate % of share
Air Macau	CNAC	51%
Air Macau	Sociedade de Turismo e Diversões de Macau	14%
Air Macau	Servico, Administracao e Participacoes, Lda.	20%
Ameco	Deutsche Lufthansa AG	40%
Air China Cargo	Capital Airport Holding Company	24%
Air China Cargo	CITIC Pacific Limited	25%

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors, chief executive and Supervisors of the Company, no other person (other than a Director, Supervisor or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to the SFO, or otherwise was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. MATERIAL CONTRACTS

The Group has entered into the following material contracts within the two years immediately preceding the date of this circular (capitalised terms used in this section has the same meaning as those defined in the Company's prospectus dated 3 December 2004):

- (a) the Hong Kong Underwriting Agreement dated 2 December 2004 entered into among the Company, CNAHC, the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters and HSBC Nominees (Hong Kong) Limited pursuant to which it is agreed, inter alia:
 - (i) the Company agreed, subject to certain conditions, to issue and allot, at the Offer Price, the Offer Shares to be issued in connection with the Hong Kong Public Offering;

- (ii) the Hong Kong Underwriters agreed, subject to certain conditions, to procure subscribers (or subscribe themselves) for the Offer Shares;
 - (iii) the Hong Kong Underwriters will be paid on admission to listing on the Hong Kong Stock Exchange a commission of 2.5% of the Offer Price multiplied by the number of Offer Shares allotted pursuant to the Hong Kong Public Offering;
 - (iv) the obligations of the Hong Kong Underwriters to procure subscribers for, or failing which, themselves to subscribe for, Offer Shares are subject to certain conditions. These conditions include, amongst others, delivery of certain condition precedent documents and registering various documents with Registrar of Companies. In addition, the Hong Kong Underwriters have the right to terminate the Hong Kong Underwriting Agreement in certain circumstances prior to admission;
 - (v) the Company agreed to pay certain costs, charges, fees and expenses of the Hong Kong Public Offering;
 - (vi) each of the Company and CNAHC gave certain representations, warranties and other undertakings, subject to certain limits, to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters;
 - (vii) the Company gave certain indemnities, subject to certain limits, to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters;
- (b) the Sponsor's Agreement dated 3 December 2004 between the Company and the London Sponsor pursuant to which the Company appoints the London Sponsor as the sponsor in connection with the London Listing in consideration for the Company agreeing to pay to Merrill Lynch Far East Limited as a Hong Kong Underwriter a commission under the Hong Kong Underwriting Agreement (See Paragraph (a) above) and all costs and expenses incurred in connection with the London Listing, provided that the London Sponsor will not commit or purport to commit the Company to pay any such amounts, save as agreed beforehand between the Company and the London Sponsor. The Company undertakes, among other things, to (i) procure that certain documents in connection with the London Listing are published, (ii) deliver the Prospectus to the UK Registrar of Companies and (iii) not make announcements regarding the London Listing without notifying the London Sponsor. The Sponsor's Agreement provides that the London Sponsor may terminate the Sponsor's Agreement if, among other things, (i) it comes to the attention of the London Sponsor that any statement in the Prospectus is untrue and (ii) the Company has not complied with the Sponsor's Agreement in any respect which is material in the context of the London Listing;

- (c) the Paying Agency Appointment Letter dated 3 December 2004 between the Company and Computershare Investor Services Plc (“Computershare”) pursuant to which the Company appoints Computershare as paying agent in connection with the London Listing and in consideration for the Company agreeing to pay an initial fee of £4,000 and a minimum annual fee of £5,000, Computershare shall, among other things, (i) calculate the amount of any dividend payable to each UK shareholder and (ii) dispatch all payments, as instructed by the Company. The Paying Agency Agreement also provides that the Company shall, in certain circumstances, indemnify Computershare against, among other things, all actions, proceedings, liability and claims in to acting in accordance with the Company’s instructions;
- (d) the Short-term Commercial Paper Underwriting Agreement dated 26 April 2005 entered between the Company and Bank of China Limited, pursuant to which Bank of China Limited has agreed to be to form an underwriting syndicate and be the lead underwriter for the RMB2 billion short term commercial paper issued by the Company for a lump sum consulting fee of RMB3 million and a lead underwriting fee of 0.12% of the value of the commercial paper issued by the Company;
- (e) the A330-200 Purchase Agreement dated 26 January 2005 entered into between the Company, AIE and Airbus S.A.S. in relation to the purchase of 20 A330-200 aircraft, the details of the agreement are set out in Company’s circular dated 4 March 2005;
- (f) the Boeing Aircraft Purchase Agreement dated 8 August 2005 entered into between the Company, AIE and Boeing Company in relation to the purchase of 15 Boeing 787 aircraft, the details of the agreement are set out in the Company’s circular dated 30 August 2005;
- (g) the Boeing Aircraft Purchase Agreement dated 17 January 2006 entered into between the Company, AIE and Boeing Company in relation to the purchase of 10 Boeing 737 aircraft, the details of the agreement are set out in the Company’s circular dated 29 March 2006;
- (h) the Boeing Aircraft Purchase Agreement dated 19 April 2006 entered into between the Company, AIE and Boeing Company in relation to the purchase of 15 Boeing 737 aircraft, the details of the agreement are set out in the Company’s circular dated 26 May 2006;
- (i) the Operating Agreement dated 8 June 2006 entered into between the Company and Cathay pursuant to which the Company and Cathay have agreed to co-operate in various operational areas, the details of the agreement are set out in the Company’s joint announcement with Cathay dated 8 June 2006;
- (j) the Restructuring Agreement dated 8 June 2006 entered into between the Company, Cathay, CNAC Limited, CITIC Pacific and SPAC in relation to the restructuring of the parties’ shareholdings in Cathay and Dragonair, the details of the agreement are set out in the section headed “Description of the Transaction” of this circular;

- (k) the Shareholders Agreement dated 8 June 2006 entered into between the Company, SPAC, CNAC Limited and CITIC Pacific for the purpose of regulating their relationship with each other as shareholders of Cathay and certain aspects of the affairs of, and their shareholdings in, Cathay, the details of the agreement are set out in the section headed “Description of the Transaction” of this circular;
- (l) the Airbus Aircraft Purchase Agreement dated 14 June 2006 entered into between the Company, AIE and Airbus Company, pursuant to which the Company has agreed to purchase 24 Airbus 320-series aircraft from Airbus Company, the details of the agreement will be set out in the circular to be dispatched by the Company within 21 days after the announcement in respect of the Airbus Aircraft Purchase Agreement published on 15 June 2006;
- (m) the supplemental agreement dated 10 November 2006 to the Advertising Services Framework Agreement between the Company and CNAMC as described in the section headed “Continuing Connected Transactions” of this circular;
- (n) the supplemental agreement dated 10 November 2006 to the Construction Project Management Agreement between the Company and CNACD as described in the section headed “Continuing Connected Transactions” of this circular;
- (o) the supplemental agreement dated 10 November 2006 to the Properties Leasing Framework Agreement between the Company and CNAHC as described in the section headed “Continuing Connected Transactions” of this circular;
- (p) the supplemental agreement dated 10 November 2006 to the Tourism Cooperation Agreement between the Company and CNATC as described in the section headed “Continuing Connected Transactions” of this circular;
- (q) the supplemental agreement dated 10 November 2006 to the Comprehensive Services Agreement between the Company and CNAHC as described in the section headed “Continuing Connected Transactions” of this circular;
- (r) the supplemental agreement dated 10 November 2006 to the Sales Agency Services Framework Agreement between the Company and CNAHC as described in the section headed “Continuing Connected Transactions” of this circular;
- (s) the supplemental agreement dated 10 November 2006 to the Financial Services Agreement between the Company and CNAF as described in the section headed “Continuing Connected Transactions” of this circular;
- (t) the supplemental agreement dated 10 November 2006 to the Charter Flight Service Framework Agreement between the Company and CNAHC as described in the section headed “Continuing Connected Transactions” of this circular; and
- (u) Service Framework Agreement dated 10 November 2006 between the Company and Beijing Capital Airports Group as described in the section headed “Continuing Connected Transactions” of this circular.

Except as disclosed above, the Directors confirm that no other material contract has been entered into by the Group within the two years immediately preceding the date of this circular.

5. SERVICE CONTRACTS

Each of the Directors except Mr. Christopher Dale Pratt and Mr. Jia Kang has entered into a service contract with the Company for a term of three years from 30 September 2004 other than Mr. Fan Cheng, whose service contract has a term of three years from 18 October 2005 and the service contract is thereafter subject to termination by either party giving written notice to the other party. Mr. Christopher Dale Pratt and Mr. Jia Kang have entered into a service contract, respectively, with the Company with a term that shall begin as of 12 June 2006 and 5 June 2006 respectively and end on the expiry of the term of the current session of the Board.

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

6. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group’s financial or trading position since 31 December 2005, being the date to which the latest published audited accounts of the Group have been made up.

7. EXPERT

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

Name	Qualification
BNP Paribas	a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in respect of the Non-exempt Connected Transactions.

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

8. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 72 of the Articles of Association of the Company, at any general meeting of shareholders of the Company a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

The demand for a poll may be withdrawn by the person who makes such demand. Further details of the procedure for demanding a poll were set out in Appendix VIII “Summary of Articles of Association” to the Company’s prospectus dated 3 December 2004.

9. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Zheng Baoan and Li Man Kit. Mr. Li is an associate member of the Institute of Chartered Secretaries and Administrators, UK and the Hong Kong Institute of Company Secretaries.
- (b) The qualified accountant of the Company is David Tze-kin Ng. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants.
- (c) The registered address of the Company is at 9th Floor, Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at South Terminal, Beijing Capital International Airport, Chaoyang District, Beijing, China.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 5th Floor, CNAC House, 12 Tung Fai Road, Hong Kong International Airport, Hong Kong up to and including 15 December 2006:

- (a) the articles of association of the Company;
- (b) the 2005 audited financial statements of the Group, the text of which is set out in Appendix I to this circular;

- (c) major transaction circular dated 4 March 2005 issued by the Company in respect of the purchase of 20 A330-200 aircraft;
- (d) major transaction circular dated 30 August 2005 issued by the Company in respect of the purchase of 15 Boeing 787 aircraft;
- (e) discloseable transaction circular dated 29 March 2006 issued by the Company in respect of the purchase of 10 Boeing 737 aircraft;
- (f) major transaction circular dated 26 May 2006 issued by the Company in respect of the purchase of 15 Boeing 737 aircraft;
- (g) material contracts referred in the section headed “Material Contracts” of this circular; and
- (h) consent letter issued by the expert referred to in this circular.

AIR CHINA LIMITED

**EXPLANATIONS TO THE APPLICABLE ARTICLES OF ASSOCIATIONS (DRAFT)
POST ISSUANCE OF A SHARES AND ADDITIONAL H SHARES**

We are an H shares and A shares company. Pursuant to the relevant requirements of China Securities Regulatory Commission (the “CSRC”) with reference to the relevant regulations applicable to A shares companies, primarily including the Company Law of the People’s Republic of China (as amended in 2005), the Securities Law of the People’s Republic of China (as amended in 2005), Guidelines for Articles of Association of Listed Companies, Standards for the Governance of Listed Companies, Guidance Opinions regarding the Establishment of the System of Independent Directors, Notice on the Regulation of External Guarantees of Listed Companies, the Company has prepared the Articles of Association (Draft) applicable to the post additional issuance of A shares. The revised Draft shall become effective upon approval by shareholders in the First Extraordinary General Meeting for 2006 of the Company and pending approval by the relevant supervisory authorities.

In the course of the additional issuance of A shares, and pursuant to the requirements of CSRC with reference to the newly issued Guidelines for Articles of Association of Listed Companies (amended in 2006) and the newly issued Rules Governing the Shareholders’ Meetings of Listed Companies (the “Rules of Shareholders’ Meetings”), additional amendments have been made by the Company to the aforementioned revised Draft as approved by shareholders in the First Extraordinary General Meeting for 2006 but not yet effective. The revised Draft has been approved by the Board.

Upon completion of the additional issuance of A shares of the Company and based on the changes in shareholders, registered capital and capital structure of the Company as well as the conversion of the Company into an A shares company, necessary supplements and amendments have been made to the terms of Articles of Association, and the Articles of Association (Draft) applicable to the post additional issuance of A shares have also been prepared. Following the additional issuance of A shares, the Company has issued additional H shares. Subsequently, the Company has made further necessary amendment to the terms of Articles of Association to form this definitive revised Draft in accordance with the changes in the capital structure, registered capital and the change of the relevant laws and regulations accordingly.

Details of the amendment are set out as follows (without additional explanation on the changes in the sequence numbers of chapters, articles, sub-articles and items):

1. EXPLANATION OF THE AMENDMENT TO THE EXPRESSION OF FIGURES AND WORDINGS

1. All percentage figures are expressed in form of “%” for the purpose of consistency.
2. According to the definition of “more than”, amendment to the relevant clauses shall be made accordingly.
3. Re-numbering of the articles, sub-articles and items shall be made. Amendment shall also be made to the relevant expressions and wordings.

2. EXPLANATION OF THE INDIVIDUAL AMENDED CLAUSES

1. The first paragraph of Article 6 of the original Draft, which reads:

“Pursuant to the Company Law, Special Regulations, Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the “Mandatory Provisions”), Guidelines for Articles of Association of Listed Companies (the “Guidelines for Articles of Association”), Standards for the Governance of Listed Companies (the “Standards for the Governance”), and other relevant requirements of the laws and administrative regulations of the State, the Company shall convene a shareholders’ general meeting on 28 March 2006 to amend the original Articles of Association of the Company (the “original Articles of Association”) for preparation of the Articles of Association of the Company (the “Articles of Association of the Company” or the “Articles of Association”).”,

is hereby amended as follows:

“Pursuant to the Company Law, Special Regulations, Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the “Mandatory Provisions”), Guidelines for Articles of Association of Listed Companies (the “Guidelines for Articles of Association”), Standards for the Governance of Listed Companies (the “Standards for the Governance”), and other relevant requirements of the laws and administrative regulations of the State, the Company shall amend the original Articles of Association of the Company (the “original Articles of Association”) for preparation of the Articles of Association of the Company (the “Articles of Association of the Company” or the “Articles of Association”).”

2. The third and fourth paragraphs of Article 20 of the original Draft, which read:

“Upon the completion of the issuance of the Overseas-Listed Foreign Shares set forth above and subject to the approval in form of a special resolution adopted at the shareholders’ general meeting, the general meeting for holders of the domestic shares and the general meeting for holders of the foreign shares, the Company has, upon the approval by competent examination and approval departments authorized by the State Council, issued [●] shares of Domestically-Listed Domestic Shares (A shares). The share capital structure of the Company after the said capital increase upon the issuance of A shares shall be as follows:

the Company has a total of [●] ordinary shares in issue, of which China National Aviation Holding Company holds 4,826,195,989 Domestic Shares, representing approximately [●]% of the Company’s total share capital; China National Aviation Corporation (Group) Limited holds 1,380,482,920 Foreign Shares, representing approximately [●]% of the Company’s total share capital; other holders of the Overseas-Listed Foreign Shares (H shares) hold 3,226,532,000 shares, representing approximately [●]% of the Company’s total share capital; holders of the Domestically-Listed Domestic Shares hold [●] shares, representing approximately [●]% of the Company’s total ordinary shares in issue.”

The third and fourth paragraphs shall be amended and two additional provisions shall be added as the fifth and sixth paragraphs as follows:

“Upon the completion of the issuance of the Overseas-Listed Foreign Shares set forth above and subject to the approval in form of a special resolution adopted at the shareholders’ general meeting, the general meeting for holders of the domestic shares and the general meeting for holders of the foreign shares, the Company has, upon approval after verification by competent examination and approval departments authorized by the State Council, issued 1,639,000,000 shares of Domestically-Listed Domestic Shares (A shares) in 2006. Besides, China National Aviation Holding Company, the Company’s shareholder, increased its shareholding in the Company by an aggregate of 122,870,578 shares according to its undertaking to China Securities Regulatory Commission. The share capital structure of the Company after the said capital increase upon the issuance of A shares and the said increase of shareholder’s interest shall be as follows:

the Company has a total of 11,072,210,909 ordinary shares in issue, of which China National Aviation Holding Company holds 4,949,066,567 Domestic Shares, representing approximately 44.70% of the Company’s total share capital; China National Aviation Corporation (Group) Limited holds 1,380,482,920 Foreign Shares, representing approximately 12.47% of the Company’s total share capital; other holders of the Overseas-Listed Foreign Shares (H shares) hold 3,226,532,000 shares, representing approximately 29.14% of the Company’s total share capital; other holders of the Domestically-Listed Domestic Shares hold 1,516,129,422 shares, representing approximately 13.69% of the Company’s total ordinary shares in issue.

Upon the completion of the issuance of the Domestically-Listed Domestic Shares set forth above and subject to the approval after verification by competent examination and approval departments authorized by the State Council, the Company has issued 1,179,151,364 Overseas-Listed Foreign Shares (H Shares) to Cathay Pacific Airways Limited, a shareholder of the Company, in 2006.

The share capital structure after the said additional issuance of H shares shall be as follows: The Company has a total of 12,251,362,273 ordinary shares in issue, of which China National Aviation Holding Company holds 4,949,066,567 Domestic Shares, representing approximately 40.40% of the Company’s total share capital; China National Aviation Corporation (Group) Limited holds 1,380,482,920 Foreign Shares, representing approximately 11.27% of the Company’s total share capital; Cathay Pacific Airways Limited holds 2,122,472,455 Overseas-Listed Foreign Shares (H Shares), representing approximately 17.32% of the Company’s total share capital; other holders of the Overseas-Listed Foreign Shares (H shares) hold 2,283,210,909 shares, representing approximately 18.63% of the Company’s total share capital; other holders of the Domestically-Listed Domestic Shares hold 1,516,129,422 shares, representing approximately 12.38% of the Company’s total ordinary shares in issue.”

3. Article 23 of the original Draft, which reads:

“The Company’s registered capital is RMB9,433,210,909.00. [The registered capital is subject to be adjusted according to the actual circumstances after the issuance of A Shares.]”

is hereby amended as follows:

“The Company’s registered capital is RMB12,251,362,273.”

4. Two additional provisions shall be added to the first paragraph of Article 28 as Sub-Articles (iii) and (iv) in the original Draft:

“Should the following situation occur, the Company may, after adoption in accordance with the procedures stipulated in the Articles of Association of the Company, make a submission to the relevant supervisory departments of the State for approval to repurchase its issued and outstanding shares:

.....

(iii) granting shares as incentive to the employees of the Company;

(iv) acquiring as requested the shares of shareholders who vote against any resolution on the merger or demerger of the Company adopted at a shareholders’ general meeting;

.....”

5. Article 41 of the original Draft, which reads:

“Should the Company’s directors, supervisors, president, vice president, other senior management personnel and shareholders holding more than 5% of the Company’s voting shares sell their shares in the Company within 6 months from the date of purchase of the same, or repurchase the Company’s shares within 6 months from the date of selling the same, the profits derived from such activities shall be vested in the Company.

The aforementioned provision shall apply to senior management personnel who holds more than 5% of the voting shares in the Company as a legal person shareholder under the Articles of Association of the Company, including but not limited to its directors, supervisors, president, vice president and other senior management personnel.”,

is hereby amended as follows:

“Should the Company’s directors, supervisors, president, vice president, other senior management personnel and shareholders holding more than 5% of the Company’s shares sell their shares in the Company within 6 months from the date of purchase of the same,

or repurchase the Company’s shares within 6 months from the date of selling the same, the profits derived from such activities shall be vested in the Company. The Company’s Board of Directors shall recover from the aforementioned parties the gains derived therefrom, except that the six-month time limit with respect to the sale of such shares shall not apply to any holding 5% or more of the shares of the Company by any securities company as a result of its purchase of remaining shares sold under an underwriting obligation.

Should the Company’s Board of Directors not comply with the provision set forth in the preceding paragraph and act accordingly, the shareholders shall have the right to request the Board of Directors to duly act in accordance with the same within 30 days. Should the Company’s Board of Directors not act in accordance with the same within the aforementioned period, the shareholders shall have the right to initiate proceedings at a People’s Court directly in his/her own name for the interests of the Company.

Should the Company’s Board of Directors not comply with the provision set forth in the first paragraph and act accordingly, the responsible Directors shall assume joint liability in accordance with the law.”

6. Sub-Article (i) of the first paragraph of Article 42 in the original Draft, which reads:
- “The Company shall keep a register of shareholders which shall contain the following particulars:
- (i) the name (title), address (residence) and the occupation or the nature of the occupation of each shareholder;
-”

is hereby amended as follows:

- “The Company shall keep a register of shareholders which shall contain the following particulars:
- (i) the name (title), address (residence) and the occupation or the nature of each shareholder;
-”

7. The fourth paragraph of Article 46 of the original Draft shall be deleted.

The fourth paragraph of Article 46 of the original Draft, which reads:

“Directors, supervisors, presidents, vice presidents and other senior management personnel shall report their shareholdings in the Company and the change of such shareholdings to the Company.”

8. Article 47 of the original Draft, which reads:

“No change may be made in the register of shareholders as a result of a transfer of shares within 30 days prior to the convening of a shareholders’ general meeting or within 5 days prior to the base day on which the Company determines its distribution of dividends.”

is hereby amended as follows:

“No change may be made in the register of shareholders as a result of a transfer of shares within 30 days prior to the convening of a shareholders’ general meeting or within 5 days prior to the base day on which the Company determines its distribution of dividends. The aforementioned regulation applies to holders of H Shares.”

9. Article 48 of the original Draft, which reads:

“Should the Company convene a shareholders’ general meeting, distribute dividends, carry out liquidation and perform other activities that require the confirmation of the shareholdings, the board of directors shall decide on a date for confirmation of such shareholdings. At the close of such date, the shareholders whose names appear on the share register shall be the Company’s shareholders.”

is hereby amended as follows:

“Should the Company convene a shareholders’ general meeting, distribute dividends, carry out liquidation and perform other activities that require the confirmation of the shareholdings, the board of directors or the convener of the shareholders’ general meeting shall decide on a date for confirmation of such shareholdings. Shareholders whose names are registered on the share register after the closing of the market on such date shall be the Company’s shareholders with the entitlement to the relevant rights.”

10. Sub-Article (vii) shall be added to Article 54 of the original Draft. Sub-Articles (ii) and (viii) of this Article shall be amended, in which the Sub-Article (viii) shall be re-numbered as Sub-Article (ix).

Sub-Articles (ii) and (viii) of this Article in the original Draft, which read:

“Holders of the ordinary shares of the Company shall enjoy the following rights:

.....

(ii) To participate or to appoint proxies to participate in the shareholders meetings, and to vote according to the proportion to the number of shares in their possession;

.....

(viii) Other rights conferred by the laws, the administrative regulations and the Articles of Association of the Company.”

Amendment to Sub-Articles (ii) and (viii) shall be made and thereby the Sub-Article (viii) shall be re-numbered as Sub-Article (ix) while an additional item shall be added as Sub-Article (vii) as follows:

“Holders of the ordinary shares of the Company shall enjoy the following rights:

.....

- (ii) To request to convene, convene, preside over, participate or appoint proxies to participate in the shareholders meetings, and to vote according to the proportion to the number of shares in their possession pursuant to the laws;

.....

- (vii) With respect to shareholders who vote against any resolution adopted at the shareholders’ general meeting on the merger or demerger of the Company, to request the Company to acquire their shares;

.....

- (ix) Other rights conferred by the laws, administrative regulations, departmental rules and regulations and the Articles of Association of the Company.”

11. Sub-Articles (iii) and (iv) shall be added to the first paragraph of Article 55 of the original Draft while Sub-Article (iii) of the original Draft shall be re-numbered as Sub-Article (v).

The first paragraph of this Article in the original Draft, which reads:

“Holders of the ordinary shares of the Company shall assume the following obligations:

- (i) To abide by the Articles of Association of the Company;
- (ii) To pay subscription monies in accordance with the number of shares subscribed and the mode of investment;
- (iii) To assume other obligations imposed by the laws, administrative regulations and the Articles of Association of the Company.”,

is hereby amended as follows:

“Holders of the ordinary shares of the Company shall assume the following obligations:

- (i) To abide by the Articles of Association of the Company;
- (ii) To pay subscription monies in accordance with the number of shares subscribed and the mode of investment;

- (iii) unless otherwise provided for by the laws and regulations, not to withdraw their shares;
- (iv) not to abuse the rights of the shareholders to impair the interests of the Company or other shareholders; not to abuse the independent legal person status of the Company and the enjoyment of limited liabilities of the shareholders to impair the Company's creditors interest. Should the Company's shareholders abuse their shareholder's rights and cause losses to the Company or other shareholders, the said shareholders shall be liable for damages pursuant to the law. Should the Company's shareholders abuse the Company's independent legal person status and the enjoyment of limited liabilities of the shareholders to evade debt liabilities, resulting in materially impairing the interests of the Company's creditors, the said shareholders shall bear joint liabilities to the Company's debts;
- (v) To assume other obligations imposed by the laws, administrative regulations and the Articles of Association of the Company."

12. An additional provision shall be added as Article 56, which provides that:

"Should a shareholders holding more than 5% of the voting shares pledges any shares in his/her possession, he or she shall submit to the Company a written report on the day on which he/she pledges his/her shares."

13. An additional provision shall be added as Article 57, which provides that:

"The controlling shareholders and the de facto controlling persons of the Company shall not make use of its connected relationship to impair the Company's interest. The abovementioned persons who violate such provisions and cause losses to the Company shall be liable for damages to the Company.

The controlling shareholders and the de facto controlling persons of the Company shall have fiduciary duties to both the Company and its public shareholders. The controlling shareholders shall exercise its rights as a capital contributor in strict compliance with the law. The controlling shareholders shall neither impair the legal interests of the Company and the public shareholders through profit distribution, asset restructuring, external investment, use of funds, guarantee of borrowings as well as other methods, nor shall they make use of its controlling position to impair the interest of the Company and the public shareholders."

14. The second paragraph of Article 57 of the original Draft shall be deleted.

The second paragraph of Article 57 of the original Draft, which reads:

"For the purpose of this Article, the term "acting in concert" shall mean two or more than two persons reaching an unanimous agreement (whether in verbal or written form) to effect or consolidate their control over the Company by way of obtaining the voting rights of the Company through any such person."

15. Article 58 of the original Draft shall be deleted.

Such provision in the original Draft, which reads:

“The controlling shareholders and the de facto controlling persons of the Company shall have fiduciary duties to both the Company and its public shareholders. The controlling shareholders shall exercise its rights as a capital contributor in strict compliance with the law. The controlling shareholders shall neither impair the legal interests of the Company and the public shareholders through connected transactions, profit distribution, asset restructuring, external investment, use of funds, guarantee of borrowings as well as other methods, nor shall they make use of its controlling position to impair the interest of the Company and the public shareholders.”

16. Article 60 of the original Draft shall be re-numbered as Article 61. Amendment shall be made to the original Sub-Articles (iii), (xiv) and (xvi) and thereby the original Sub-Article (xiv) shall be re-numbered as Sub-Article (xiii) and the original Sub-Article (xvi) shall be re-numbered as Sub-Article (xvii). The original Sub-Article (xiii) shall be deleted. Two additional provisions shall be added as Sub-Articles (xv) and (xvi) as follows:

The Sub-Articles (iii), (xiii), (xiv) and (xvi) of this Article in the original Draft, which read:

“Functions and powers to be performed and exercised at the shareholders’ general meeting are as follows:

.....

(iii) To elect and replace the supervisors appointed from the representatives of the shareholders and to determine issues relating to the remuneration of the supervisors;

.....

(xiii)To consider the proposals submitted by the board of supervisors and by the shareholders who hold voting shares in excess of 3% of the total voting shares of the Company;

(xiv) To resolve the material purchase and sale of assets with a value in excess of 30% of the Company’s total assets during the year;

.....

(xvi) To resolve other matters at the shareholders’ general meetings in accordance with the laws, administrative regulations and the Articles of Association of the Company.”

Amendment is hereby be made to the original Sub-Articles (iii), (xiv) and (xvi) and thereby the original Sub-Article (xiv) shall be re-numbered as Sub-Article (xiii) and the original Sub-Article (xvi) shall be re-numbered as Sub-Article (xvii). The original Sub-Article (xiii) shall be deleted. Two additional provisions shall be added as Sub-Articles (xv) and (xvi) as follows:

“Functions and powers to be performed and exercised at the shareholders’ general meeting are as follows:

.....

(iii) To elect and replace the supervisors appointed from personnel who are not representatives of the employees and to determine issues relating to the remuneration of the supervisors;

.....

(xiii) To resolve the material purchase and sale of assets with a value in excess of 30% of the most recent audited total assets of the Company during the year;

.....

(xv) To consider and approve the variation of use of proceeds;

(xvi) To consider the shares incentive program;

(xvii) To resolve other matters at the shareholders’ general meetings in accordance with the laws, administrative regulations, departmental rules and regulations and the Articles of Association of the Company.”

17. Article 61 of the original Draft shall be re-numbered as Article 62. Amendment shall be made to the concluding paragraph of the first paragraph and its Sub-Articles (i), (v) and (vi). The second paragraph shall be deleted.

The concluding paragraph set forth in the first paragraph in this Article in the original Draft and its Sub-Articles (i), (v) and (vi) and its second paragraph, which read:

“Any matters in relation to the provision of external guarantee by the Company shall be approved by the board of directors. The following matters shall be submitted to the shareholders’ general meetings for examination and approval after the same have been considered by the board of directors:

(i) Any guarantee to be provided by the Company and its subsidiaries, with the total amount of the external guarantee exceeds 50% of the most recent audited net assets;

.....

- (v) Any external guarantee provided by the Company during the year, with the amount of which exceeds 30% of the total assets of the Company;
- (vi) Matters to be submitted to the shareholders’ general meeting for examination and approval as required by other laws and regulations and the Articles of Association of the Company.

Matters mentioned in Sub-Article (v) above shall be passed by two-third and more of the voting shares of shareholders (including their proxies) attending the shareholders’ general meeting.”

The concluding paragraph set forth in the first paragraph in this Article and its Sub-Articles (i), (v) and (vi) are hereby amended as follows and the second paragraph in this Article shall also be deleted:

“Any matters in relation to the provision of external guarantee by the Company shall be approved by the board of directors. The following matters relating to the provision of guarantee shall be submitted to the shareholders’ general meetings for examination and approval after the same have been considered by the board of directors:

- (i) Any guarantee to be provided by the Company and its subsidiaries, with the total amount of the external guarantee which reaches or exceeds 50% of the most recent audited net assets;

.....

- (v) Any guarantee provided by the Company with the total amount of the external guarantee reaches or exceeds 30% of the most recent audited total assets;
- (vi) Matters relating to the provision of guarantee that need to be submitted to the shareholders’ general meeting for examination and approval as required by other laws and regulations and the Articles of Association of the Company.”

18. Article 64 of the original Draft shall re-numbered as Article 65. Amendment shall also be made to the first and second paragraphs of this Article.

The first and second paragraphs of this Article in the original Draft, which read:

“The shareholders’ general meetings shall be classified as the annual general meetings and the extraordinary general meetings. The shareholders’ general meetings shall be convened by the board of directors. The annual general meetings shall be convened once every year and held within 6 months from the end of the previous accounting year.

Should any of the following conditions occurs, the board of directors shall convene an extraordinary general meeting within 2 months:

- (i) Whenever the number of Directors does not reach the number stipulated by the Company Law or is less than two-third of the number specified in the Articles of Association of the Company;
- (ii) Whenever the unrecovered losses of the Company amount to one-third of the total share capital;
- (iii) Whenever shareholders who separately or jointly hold voting shares exceeding 10% of the total issued and outstanding shares (excluding the voting right of the proxies) submitted a written request for the convening of an extraordinary general meeting;
- (iv) Whenever the board of directors forms the view that it is necessary to convene an extraordinary general meeting, or the board of supervisors so requested;
- (v) Whenever the required number of Independent Directors requests the convening of an extraordinary general meeting.”,

are hereby amended as follows:

“The shareholders’ general meetings shall be classified as the annual general meetings and the extraordinary general meetings. The annual general meetings shall be convened once every year and held within 6 months from the end of the previous accounting year. Meeting venues shall be fixed for the shareholders’ general meetings, and the shareholders’ general meetings shall be convened in the on-site conference mode.

Should any of the following conditions occurs, the board of directors shall convene an extraordinary general meeting within 2 months:

- (i) Whenever the number of directors is less than 8;
- (ii) Whenever the unrecovered losses of the Company amount to one-third of the total paid-up share capital;
- (iii) Whenever shareholders who separately or jointly holds more than 10% of the total Company’s shares make such request;
- (iv) Whenever the board of directors forms the view that it is necessary to convene an extraordinary meeting or the board of supervisors so requested;
- (v) Under other conditions as provided for by the laws, administrative regulations, departmental rules and regulations or the Articles of Association.”

19. Article 66 of the original Draft shall be re-numbered as Article 67.

This Article in the original Draft, which reads:

“Where the Company convenes a shareholders’ general meeting, the board of supervisors and shareholders who separately or jointly hold more than 3% of the shares of the Company may submit written interim proposals to the board of directors 10 days prior to the convening of the shareholders’ general meeting. The board of directors shall inform other shareholders of the proposals within 2 days upon receipt of the proposals. The board of directors shall submit the interim proposals to the shareholders’ general meeting for consideration. The content of the interim proposals shall fall within the terms of reference of the shareholders at the general meetings and shall contain definite topics for discussion and specific matters for resolution”,

is hereby amended as follows:

“Where the Company convenes a shareholders’ general meeting, the board of directors, the board of supervisors and shareholders who separately or jointly hold more than 3% of the shares of the Company may submit proposals to the Company.

Shareholders who separately or jointly hold more than 3% of the shares of the Company may submit written interim proposals to the convener 10 days prior to the convening of the shareholders’ general meeting. The convener shall issue a supplementary notification within 2 days upon receipt of the proposals and shall make an announcement on the content of the proposals.

With the exception of conditions mentioned above, the convener shall neither amend the proposals specified on the notice of the shareholders’ general meeting, nor add any new proposals after the issuance of the notice of the shareholders’ general meeting.”

20. Article 68 of the original Draft shall be re-numbered as Article 69. Amendment shall also be made to the second paragraph of this Article.

The second paragraph of this Article in the original Draft, which reads:

“Issues not specified in the notice as provided for in Article 65 and Article 66 of the Articles of Association shall not be resolved at the shareholders’ general meetings.”,

is hereby amended as follows:

“Issues not specified in the notice as provided for in Article 66 and Article 67 of the Articles of Association or proposals which do not conform with the requirements contained in Article 67 of the Articles of Association shall not be voted and resolved at the shareholders’ general meetings.”

21. Article 69 of the original Draft shall be re-numbered as Article 70. Amendment shall also be made to Sub-Article (iii) of this Article.

Sub-Article (iii) of this Article in the original Draft, which reads:

“The proposals tabled to a shareholders’ general meetings shall be specific motions relating to matters which should be discussed at the shareholders’ general meetings. The proposals made at the shareholders’ general meetings shall conform with the conditions listed below:

.....

(iii) To be submitted or delivered to the board of directors in writing.”,

is hereby amended as follows:

“The proposals tabled to a shareholders’ general meetings shall be specific motions relating to matters which should be discussed at the shareholders’ general meetings. The proposals made at the shareholders’ general meetings shall conform with the conditions listed below:

.....

(iii) To be submitted or delivered to the convener in writing.”

22. Article 78 of the original Draft shall be re-numbered as Article 79. Amendment shall also be made to the first paragraph.

The first paragraph of this Article in the original Draft, which reads:

“Should matters on connected transactions be considered at the shareholders’ general meetings, connected shareholders shall not participate in the voting of the resolution. The number of voting shares in their possession shall not be counted as the total number of valid voting shares. The announcements of the resolutions passed at the shareholders’ general meetings shall sufficiently disclose the number of votes cast by non-connected shareholders. Should the connected shareholders not be able to be excused from voting due to special circumstances, the Company may perform the normal resolution procedure after gaining the consent from the related departments. The announcements of the resolutions passed at the shareholders’ general meetings shall specify the said circumstances in details.”,

is hereby amended as follows:

“Should matters on connected transactions be considered at the shareholders’ general meetings, connected shareholders shall not participate in the voting of the resolution. The number of voting shares in their possession shall not be counted as the total number of valid voting shares. The announcements of the resolutions passed at the shareholders’ general meetings shall sufficiently disclose the number of votes cast by non-connected shareholders.”

23. Article 82 of the original Draft shall be re-numbered as Article 83. Amendment shall also be made to the first paragraph.

The first paragraph of this Article in the original Draft, which reads:

“When shareholders (including their proxies) vote at the shareholders’ general meeting, they shall exercise their voting rights pursuant to the number of voting shares in their possession. Notwithstanding that Article 108 of the Articles of Association provides for the adoption of the cumulative voting system for the election of directors, each shares shall have one vote.”,

is hereby amended as follows:

“When shareholders (including their proxies) vote at the shareholders’ general meeting, they shall exercise their voting rights pursuant to the number of voting shares in their possession. Notwithstanding that Article 108 of the Articles of Association provides for the adoption of the cumulative voting system for the election of directors, each shares shall has one vote. The shares held by the Company itself shall not be attached with voting rights. Those shares shall not be counted as the total number of voting shares held by shareholders attending the shareholders’ general meetings.”

24. Article 88 of the original Draft shall be re-numbered as Article 89. Two additional provisions shall be added as Sub-Articles (v) and (vi) of this Article. The Sub-Article (v) of this Article shall be re-numbered and amended as Sub-Article (vii).

Sub-Article (v) of this Article in the original Draft, which reads:

“Matters listed below shall be resolved by special resolution at a shareholder’s general meeting:

.....

(v) any other matters considered in a shareholders’ general meeting by way of an ordinary resolution, which may have a material impact on the Company and are required to be adopted by special resolution.”

Two additional provisions are hereby added as Sub-Articles (v) and (iv) and the Sub-Article (v) of this Article in the original Draft shall be re-numbered and amended as Sub-Article (vii):

“Matters listed below shall be resolved by special resolution at a shareholder’s general meetings:

.....

- (v) the material purchase or sale of assets or the provision of guarantee by the Company during the year that is in excess of 30% of the most recent audited total assets value of the Company;
- (vi) the shares incentive program;
- (vii) any other matters as provided for by the laws, administrative regulations, departmental rules and regulations or the Articles of Association, and as considered in a shareholders' general meeting by way of an ordinary resolution, which may have a material impact on the Company and are required to be adopted by special resolution."

25. Article 90 of the original Draft shall be re-numbered as Article 91.

This Article in the original Draft, which reads:

"The following procedures shall be adopted should the board of supervisors or the shareholders request for the convening of an extraordinary general meeting or a class meeting:

- (i) The board of supervisors, two or more shareholders who separately or jointly hold voting shares in excess of 10% at the proposed meeting may sign a copy, or several copies, of written request in the same form and substance, and request the board of directors to convene an extraordinary general meeting or a class meeting, with clearly stated topics for discussion at the meeting. After receiving the aforementioned written request, the board of directors shall convene an extraordinary general meeting or a class meeting as soon as practicable. The number of shareholdings referred to in the above shall be calculated as at the date of such request raised by the shareholders.
- (ii) Should the board of directors not issue a notice for convening a meeting within 30 days upon receipt of the written request, the board of supervisors or the shareholders who made the request may convene a meeting within 4 months upon receipt of such request by the board of directors. The procedures for convening such meeting shall be identical to those employed by the board of directors for convening a shareholders' general meeting as far as practicable.

The Company shall bear all reasonable costs incurred by the board of supervisors or shareholders who convened on their own a meeting after the board of directors failed to convene the same upon the receipt of requests abovementioned. The costs incurred shall be deducted from the amount owed by the Company to such directors who have committed negligence of duties.",

is hereby amended as follows:

“The following procedures shall be adopted should the independent directors, the board of supervisors, shareholders who separately or jointly hold voting shares in excess of 10% request for the convening of an extraordinary general meeting or class meeting:

- (i) To sign a copy, or several copies, of written request in the same form and substance, and request the board of directors to convene an extraordinary general meeting or a class meeting, with clearly stated topics for discussion at the meeting. Within 10 days of receiving the written request, the board of directors shall reply in writing on whether or not they agree to convene an extraordinary general meeting.
- (ii) Should the board of directors agree to convene an extraordinary general meeting, it shall issue a notice for convening a shareholder’s general meeting within 5 days after the board of directors has adopted a resolution. Prior approval for making amendment to the original proposal contained in the notice shall be obtained from the original proposer.
- (iii) Should the board of directors not agree to convene an extraordinary general meeting as proposed by the independent directors, it shall state its reasons and issue an announcement of the same.
- (iv) Should the board of directors not agree to convene an extraordinary general meeting as proposed by the board of supervisors, or not provide any reply within 10 days upon receipt of the said request, the board of directors is deemed to be unable to perform or failed to perform its duties in respect of convening the shareholders’ general meeting. The board of supervisors may convene and preside over the meeting by itself. The procedures for convening such meetings shall be identical to those employed by the board of directors for convening a shareholders’ general meeting as far as practicable.
- (v) Should the board of directors not agree to convene an extraordinary general meeting as proposed by the shareholders, or not provide any reply within 10 days upon receipt of the said request, the shareholders shall propose to the board of supervisors in writing to convene an extraordinary general meeting.

Should the board of supervisor agree to convene an extraordinary general meeting, it shall issue a notice for convening a shareholder’s general meeting within 5 days of receiving the said request. Prior approval for making amendment to the original proposal contained in the notice shall be obtained from the original proposer.

Should the board of supervisors not issue a notice for the shareholders’ general meetings within the stipulated period, the board of supervisors shall be deemed to not convene and preside over the shareholders’ general meeting and shareholders who separately or jointly hold more than 10% of the Company’s shares for a consecutive 90 days may convene and

preside over the said meeting. (Prior to the announcement of the resolutions adopted at the shareholders' general meeting, the shares held by the convening shareholders shall not be less than 10% of the total number of shares). The procedures for convening such meetings shall be identical to those employed by the board of directors for convening a shareholders' general meeting as far as practicable.

Should the board of supervisors or the shareholders convene and hold a meeting pursuant to the rules above, they shall inform the board of directors in writing, and submit their applications to the relevant supervisory departments in accordance with the applicable rules. The board of directors and the secretary to the board of directors shall provide assistance in connection with the meeting. The board of directors shall provide the share register. The Company shall bear all reasonable costs incurred by the meeting. The costs incurred shall be deducted from the amount owed by the Company to such directors who have committed negligence of duties."

26. Article 91 of the original Draft shall re-numbered as Article 92.

This Article in the original Draft, which reads:

"A shareholders' general meeting shall be convened by the board of directors. The chairman of the board of directors shall preside over and act as the chairman of the meetings. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall preside over and act as the chairman of the meeting. Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall preside over and act as the chairman of the meeting. Should the board of directors be unable to perform or fail to perform its duties to convene a shareholders' general meeting, the board of supervisors shall timely convene the said meeting, and preside over as well as act as the chairman of the said meeting. Should the board of supervisors not convene or preside over the meeting, shareholders who separately or jointly hold more than 10% of the Company's shares for a consecutive 90 days may convene and preside over the said meeting by itself. Shareholders who attend the meeting may elect one person to act as the chairman. Should the shareholders be unable to elect a chairman due to any reasons, the shareholders (including their proxies) who hold the largest number of voting shares at the meeting shall become the chairman.",

is hereby amended as follows:

"A shareholders' general meeting shall be presided over and chaired by the chairman of the board of directors. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall preside over and act as the chairman of the said meeting (and in case the Company has two or more vice chairmen of the board of directors, the vice chairman of the board of directors jointly elected by more than half of the number of directors may preside over such meeting). Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall preside over and act as the chairman of the said meeting.

A shareholders' general meeting convened by the board of supervisors shall be presided by the chairman of the board of supervisors. Should the chairman of the board of supervisors be unable to perform or fail to perform his/her duties, the vice chairman of the board of supervisors shall preside over the meeting. Should the vice chairman of the board of supervisors be unable to perform his/her duties or fail to perform his/her duties, a supervisor jointly elected by more than half of the number of supervisors may preside over the said meeting.

Where the shareholders' general meeting is convened by the shareholders on their own, the convener shall elect a representative to preside over the meeting.

When convening a shareholders' general meeting, should the presiding officer of the meeting violates the rules of the proceedings, resulting that the shareholders' general meeting becomes unable to proceed, a person may, subject to the consent of half of the number of shareholders with voting rights attending the meeting at the scene, be elected at the shareholders' general meeting to act as the presiding officer of the shareholders' general meeting such that the meeting may be continued."

27. Article 94 of the original Draft shall be re-numbered as Article 95. Amendment shall also be made to the second and third paragraphs of this Article.

The second and third paragraphs of this Article in the original Draft, which read:

"The minutes of a shareholders' general meeting shall be recorded by the secretary and shall be signed by the presiding officer (chairman of the meeting) and directors attending the meeting.

The resolutions passed at a shareholders' general meeting shall be recorded in the minutes. The records and minutes of the meeting shall be prepared in Chinese. The minutes, the sign-in register of the attending shareholders, and the powers of attorney issued to the attending proxies shall be permanently kept at the Company's place of domicile."

are hereby amended as follows:

"The minutes of a shareholders' general meeting shall be recorded by the secretary and shall be signed by the presiding officer (chairman of the meeting), the directors attending the meeting, the supervisors, the secretary to the board of directors, the convener or their representatives.

The resolutions passed at a shareholders' general meeting shall be recorded in the minutes. The records and minutes of the meeting shall be prepared in the Chinese. The minutes, the sign-in register of the attending shareholders, the powers of attorneys issued to the attending proxies shall be kept at the Company's place of domicile for a period of not less than 10 years."

28. Articles 101 and 102 of the original Draft shall be consolidated into a single provision and re-numbered as Article 102.

29. The first paragraph of Article 105 of the original Draft, which reads:

“The Company shall have a board of directors. The board of directors shall consist of 12 directors, at least half of which shall be external directors (hereinafter referred to those who do not hold offices of the Company), and a number of four or above independent directors (hereinafter referred to directors who are independent from the Company’s shareholders and do not hold offices of the Company). At least one of the independent directors shall have appropriate professional qualification or expertise in accounting or related financial management.”,

is hereby amended as follows:

“The Company shall have a board of directors. The board of directors shall consist of 13 directors, at least half of which shall be external directors (hereinafter referred to those who do not hold offices of the Company), and a number of four or above independent directors (hereinafter referred to directors who are independent from the Company’s shareholders and do not hold offices of the Company). At least one of the independent directors shall have appropriate professional qualification or expertise in accounting or related financial management.”

30. The Sub-Article (iii) of Article 107 of the original Draft, which reads:

“The following procedures shall be completed prior to the election of non-independent directors:

.....

(iii) Should shareholders who separately or jointly hold more than 5% of the total voting shares of the Company or the board of supervisors proposes an interim proposal in respect of the election of non-independent directors, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept nomination together with the written materials and undertakings containing such particulars of the nominee as set out in Sub-Article (i) of this Article shall be despatched to the Company within 16 days prior to the convening of the annual general meeting. Such notice shall commence no earlier than the day after the despatch of the notice of the meeting for election of directors and end no later than 7 days prior to the date of such meeting.”,

is hereby amended as follows:

“The following procedures shall be completed prior to the election of non-independent Directors:

.....

(iii) Should shareholders who separately or jointly hold more than 5% of the total voting shares of the Company proposes an interim proposal in respect of the election of non-independent directors, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept

nomination together with the written materials and undertakings containing such particulars of the nominee as set out in Sub-Article (i) of this Article shall be despatched to the Company within 10 days prior to the convening of the shareholders’ general meeting. Such notice shall commence no earlier than the day after the despatch of the notice of the meeting for election of directors and end no later than 7 days prior to the date of such meeting.”

31. Amendment shall be made to the Sub-Article (ix) and (xi) of the first paragraph as well as to the second paragraph of Article 110 of the original Draft. Three additional provisions shall be added as Sub-Article (xiii), (xiv) and (xv) of the first paragraph at the same time.

Sub-Articles (ix) and (xi) of the first paragraph as well as the second paragraph of this Article in the original Draft, which read:

“The board of directors is accountable to the shareholders in shareholders’ general meeting and exercises the following functions and powers:

.....

(ix) To determine the Company’s general investment, risks investments, connected transactions, mortgage of assets and other guarantee matters within the scope of authority granted at a shareholders’ general meeting;

.....

(xi) To appoint or dismiss the Company’s president, to appoint or dismiss the Company’s vice president and chief accountant pursuant to the nomination by the president and to consider the remuneration of the above personnel;

.....

Other than matters specified in Sub-Article (vi), (vii) and (xiii) and external guarantees that shall be passed by affirmative votes of more than two-thirds of the directors, the board resolutions in respect of the aforementioned matters may be passed by affirmative votes of more than half of all directors.”

Amendment shall be made to Sub-Articles (ix) and (xi) of the first paragraph as follows. Three additional provisions shall be added as Sub-Articles (xiii), (xiv) and (xv) and thereby Sub-Article (xiii) of the original Draft shall be re-numbered as Sub-Article (xvi):

“The board of directors is accountable to the shareholders in shareholders’ general meeting and exercises the following functions and powers:

.....

(ix) To determine the Company’s external investments, purchases and sales of assets, mortgage of assets, entrusted assets management, and connected transactions within the scope of authority granted at a shareholders’ general meeting;

.....

- (xi) To appoint or dismiss the Company’s president and secretary to the board of directors, to appoint or dismiss the Company’s vice president and chief accountant pursuant to the nomination by the president and to consider the remuneration of the above personnel;

.....

- (xiii)To manage matters relating to the disclosure of information by the Company;
- (xiv) To make recommendations to the shareholders’ general meetings on the appointment or change of the accounting firm which perform the audit work for the Company;
- (xv) To hear from the company’s managers reports on work performed and to inspect the work of the managers;

.....

Other than matters specified in Sub-Article (vi), (vii) and (xvi) and external guarantees that shall be passed by affirmative votes of more than two-thirds of the directors, the board resolutions in respect of the aforementioned matters may be passed by affirmative votes of more than half of all directors.”

- 32. Sub-Articles (iv), (v) and (vi) of the first paragraph of Article 114 of the original Draft shall be deleted. Amendment shall also be made to the second paragraph.

Sub-Articles (iv), (v) and (vi) of the first paragraph as well as the second paragraph of this Article of the original Draft, which read:

“The chairman of the board of directors shall exercise the following functions and powers:

.....

- (iv) To sign important documents of the board of directors and other documents that are to be signed by the Company’s legal representatives;
- (v) To exercise the functions and powers of the legal representatives;
- (vi) To exercise special power of disposition in compliance with rules and regulations and in the best interests of the Company during the occurrence of major natural disasters and other force majeure and to report the same to the board of directors and the shareholders at the shareholders’ general meeting subsequently;

.....

The vice chairman of the board of directors shall assist the chairman of the board of directors with his/her duties. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall perform the said duties. Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall perform the said duties.”

Sub-Articles (iv), (v) and (vi) of the first paragraph of the original Draft shall be deleted and the second paragraph shall be amended as follows:

“The vice chairman of the board of directors shall assist the chairman of the board of directors with his/her duties. Should the chairman of the board of directors be unable to perform or fail to perform his/her duties, the vice chairman of the board of directors shall perform the said duties (and in case the Company has two or more vice chairmen of the board of directors, the vice chairman of the board of directors jointly elected by more than half of the number of directors shall perform the said duties). Should the vice chairman of the board of directors be unable to perform or fail to perform his/her duties, a director jointly elected by more than half of the number of Directors shall perform the said duties.”

33. The second paragraph of Article 115 of the original Draft, which reads:

“Should any of the following conditions occurs, the chairman of the board of directors shall convene an extraordinary board of directors’ meeting within 10 days, and the notification shall not be restricted by the period of notice:

.....”,

is hereby amended as follows:

“Should any of the following conditions occurs, the chairman of the board of directors shall convene an extraordinary board of directors’ meeting within 10 days, and the notification shall not be restricted by the abovementioned period of notice:

.....”

34. The first paragraph of Article 119 of the original Draft, which reads:

“Directors shall attend the board of directors’ meetings in person. Should directors be not able to attend the said meetings for any reasons, they may appoint other directors in writing to attend the said meetings on their behalf. The powers of attorney shall expressly specify the extent of powers conferred upon the proxies.”,

is hereby amended as follows:

“Directors shall attend the board of directors meetings in person. Should directors be not able to attend the said meetings for any reasons, they may appoint other directors in

writing to attend the said meetings on their behalf. The powers of attorney shall expressly specify the names of the proxies, the matters to be dealt with by the agents, the extent of powers conferred upon the proxies, and the effective term thereof. The powers of attorney shall be signed or sealed by the principals.”

35. The Article 121 of the original Draft, which reads:

“The board of directors shall record the resolution of matters discussed at the meetings in Chinese and shall prepare minutes therefor. The Directors who attended the meetings have the right to request that their speech made at the meetings be expressly noted on the minutes. The opinions of the independent directors shall be recorded in the resolutions of the board of directors. The minutes of each of the board of directors’ meetings shall be provided to all Directors for examination as soon as practicable. Directors who wish to make amendment or add supplementary information to the minutes shall report their comments in writing to the chairman of the board of directors within 1 week upon receipt of the minutes. After the minutes have been finalised, the directors who attended the meetings and the person making the record shall sign on the minutes. The minutes of the board of directors’ meeting shall be permanently kept at the Company’s place of domicile in China. Completed copies of the minutes shall be distributed to each of the Directors as soon as practicable.”

is hereby amended as follows:

“The board of directors shall record the resolution of matters discussed at the meetings in Chinese and shall prepare minutes therefor. The Directors who attended the meetings have the right to request that their speech made at the meetings be expressly noted on the minutes. The opinions of the independent directors shall be recorded in the resolutions of the board of directors. The minutes of each of the board of directors’ meeting shall be provided to all Directors for examination as soon as practicable. Directors who wish to make amendment or add supplementary information to the minutes shall report their comments in writing to the chairman of the board of directors within 1 week upon receipt of the minutes. After the minutes have been finalised, the directors who attended the meetings and the person making the record shall sign on the minutes. The minutes of the board of directors’ meeting shall be kept at the Company’s place of domicile in China. Completed copies of the minutes shall be distributed to each of the Directors as soon as practicable. The minutes shall be kept for a period of not less than 10 years.”

36. The Article 123 of the original Draft, which reads:

“Unless otherwise required by the laws and regulations, a director shall be removed before his/her expiry of office by passing a special resolution in shareholders’ general meeting (with the exception of claims arising from any contract).”

is hereby amended as follows:

“Subject to the relevant laws and regulations and the requirements of administrative regulations, a director shall be removed before his/her expiry of office by passing an ordinary resolution in shareholders’ general meeting (with the exception of claims arising from any contract).”

37. An addition provision shall be added as the fourth paragraph of Article 124 of the original Draft, which provides that:

“Other than conditions aforementioned, the resignation of director shall be effective upon the delivery of its resignation report to the board of directors.”

38. The fourth paragraph of Article 125 of the original Draft, which reads:

“Should shareholders who separately or jointly hold more than 5% of the voting shares of the Company, or the board of supervisors proposes an interim proposal in respect of the election of independent directors, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept nomination together with the written materials and undertakings containing such particulars of the nominee as set out in Sub-Article (i) and (ii) of this Article shall be despatched to the Company within 16 days prior to the convening of the shareholders’ general meeting.”

is hereby amended as follows:

“Should shareholders who separately or jointly hold more than 5% of the voting shares of the Company, or the board of supervisors proposes an interim proposal in respect of the election of independent directors, the written notice specifying the intention to propose a person for election as a director and the willingness of the nominee to accept nomination together with the written materials and undertakings containing such particulars of the nominee as set out in Sub-Article (i) and (ii) of this Article shall be despatched to the Company within 10 days prior to the convening of the shareholders’ general meeting.”

39. The Sub-Article (v) of the first paragraph of Article 130 of the original Draft, which reads:

“Apart from the duties set forth above, independent directors shall also express their independent opinion on the following matters to the board of directors or at a shareholders’ general meeting:

.....

(v) material capital transactions between the Company and its shareholders or their affiliates;

..... ,”

is hereby amended as follows:

“Apart from the duties set forth above, independent directors shall also express their independent opinion on the following matters to the board of directors or at a shareholders’ general meeting:

.....

(v) material capital transactions between the Company and its shareholders, or the de facto controlling person of the Company and its affiliates;

.....”

40. A new provision shall be added to Article 135, which provides that:

“The board of directors may establish an aviation safety committee and other special committees pursuant to the relevant resolutions adopted at the shareholders’ general meetings.”

41. The third paragraph of Article 139 of the original Draft shall be deleted.

The third paragraph of this Article in the original Draft, which reads:

“Directors may concurrently be appointed as the president, the vice president or other senior management personnel. However, the number of directors who are concurrently appointed as the president, the vice president or other senior management personnel shall not exceed half of the total number of the Company’s Directors.”

42. Sub-Article (x) of Article 141 of the original Draft shall be deleted. The original Sub-Article (xi) and (xii) of this Article shall re-numbered as Sub-Article (x) and (xi).

Sub-Article (x) of Article 141 in the original Draft, which reads:

“The President shall be accountable to the board of directors and shall exercise the following functions and powers:

.....

(x) to formulate the salaries, fringe benefits, awards and penalties of the employees of the Company and to determine the appointment and dismissal of employees of the Company.”

43. Article 142 of the original Draft shall be deleted

This Article in the original Draft, which reads:

“The President shall report to the board of directors, or shall report at the requests of the board of supervisors, on the signing and the implementation of the material contracts, the use of funds and the profit and loss conditions of the Company. The President must guarantee the truthfulness of the such report.”

44. Article 143 of the original Draft shall be deleted

This Article in the original Draft, which reads:

“The President shall obtain the opinions of the employees prior to formulating the salaries, the fringe benefits, the safety production and labour issues, the labour insurance, the termination (or dismissal) of the employees, and other issues that involved the personal benefits of the employees.”

45. Article 143 of the original Draft, which reads:

“The president shall attend the board of directors’ meetings and shall have the right to receive the notice of the meetings and the related documents. A president who is not a director shall have no voting power at the board of directors’ meetings.”,

is hereby amended as follows:

“The president shall attend the board of directors’ meetings. A president who is not a director shall have no voting power at the board of directors’ meetings.”

46. Article 151 of the original Draft, which reads:

“The board of supervisors meetings shall be convened at least once every 6 months. The chairman of the board of supervisors shall convene and chair the said meetings. Should the chairman of the board of supervisors be unable to perform his/her duties or fail to perform his/her duties, a supervisor jointly elected by more than half of the number of supervisors shall convene and chair the board of supervisors’ meeting. A notice of the board of supervisors’ meeting shall be delivered to all supervisors in writing 10 days prior to the convening of the said meeting.”,

is hereby amended as follows:

“The board of supervisors meetings shall be convened at least once every 6 months. The chairman of the board of supervisors shall convene and chair the said meetings. Should the chairman of the board of supervisors be unable to perform his/her duties or fail to perform his/her duties, a supervisor jointly elected by more than half of the number of supervisors shall convene and chair the board of supervisors’ meeting. A notice of the board of supervisors’ meetings shall be delivered to all supervisors in writing 10 days prior to the convening of the said meeting. The notice of meeting shall incorporate the following information:

- (i) The date, venue and duration of the meeting;
- (ii) The reason for convening the meeting and the topics for discussion thereat;
- (iii) The date on which the notice is issued.”

47. Article 152 of the original Draft shall be deleted.

This Article in the original Draft, which reads:

“Should a supervisor be unable to attend the meetings of the board of supervisors twice consecutively, and where he/she did not appoint another supervisor to attend the said meetings on his/her behalf, he/she shall be deemed to fail to perform his/her duties. Such supervisor shall be replaced at a shareholders’ general meeting or an employees’ representative meeting.”

48. Article 154 of the original Draft shall be re-numbered as Article 152. Amendment shall also be made to Sub-Articles (i), (ii), (v), (vi) and (viii) of the first paragraph as well as the fourth paragraph of this Article.

Sub-Articles (i), (ii), (v), (vi) and (viii) of the first paragraph as well as the fourth paragraph of this Article, which read:

“The board of supervisors shall be accountable to the shareholders at the shareholders’ general meetings and shall perform the following functions and powers:

- (i) To inspect the Company’s financial situation;
- (ii) To supervise any activities which has violated the laws, administrative regulations or the Articles of Association of the Company when the directors, president, vice president and other senior management personnel perform their duties in the Company;

.....

- (v) To raise interim proposals at the shareholders’ general meetings;
- (vi) To propose the convening of the extraordinary general meetings;

.....

- (viii)To represent the Company when negotiating with or initiating legal proceedings against a director;

.....

The Supervisors shall attend the board of directors’ meetings.”,
are hereby amended as follows:

“The board of supervisors shall be accountable to the shareholders at the shareholders’ general meetings and shall perform the following functions and powers:

- (i) To inspect the Company’s financial situation, to examine the Company’s regular reports prepared by the board of directors and to prepare written opinion after the same have been examined;
- (ii) To supervise any activities which has violated the laws, administrative regulations or the Articles of Association of the Company when the directors, president, vice president and other senior management personnel perform their duties in the Company, and to recommend the dismissal of any directors and senior management personnel who has violated the laws, administrative regulations, the Articles of Association or the resolutions passed at the shareholders’ general meetings;

.....

- (v) To raise proposals at the shareholders’ general meetings;
- (vi) To propose the convening of the extraordinary general meetings and to convene and preside over the shareholders’ general meetings when the board of directors fails to do so;

.....

- (viii) To represent the Company when negotiating with or initiating legal proceedings against a director and the senior management personnel;

.....

The Supervisors may attend the board of directors’ meetings, and to interrogate or give suggestion to the resolutions at the board of directors.”

49. Article 157 of the original Draft shall be re-numbered as Article 155.

This Article in the original Draft, which reads:

“The board of supervisors shall prepare minutes on the decisions made at the meetings. The supervisors who attended the meetings and the person making the record shall sign on the minutes. The supervisors shall have the right to request that their speech made at the meetings be expressly noted on the minutes. The minutes of the board of supervisors shall be duly and permanently kept as the important records of the Company.”,

is hereby amended as follows:

“The board of supervisors shall prepare minutes on the decisions made at the meetings. The supervisors who attended the meetings and the person making the record shall sign on the minutes. The supervisors shall have the right to request that their speech made at the meetings be expressly noted on the minutes. The minutes of the board of supervisors shall be kept for at least 10 years as the important records of the Company.”

50. Article 160 of the original Draft shall be re-numbered as Article 158. An additional provision shall be added as Sub-Article (xi) of the first paragraph of this Article, which provides that:

“Should any of the following conditions occurs, a person shall not act as the directors, supervisors, president, vice president or other senior management personnel of the Company:

.....

(xi) other contents as provided for by the laws, administrative regulations or departmental rules and regulations.”

51. Article 165 of the original Draft shall be re-numbered as Article 163. Amendment shall also be made to Sub-Article (xi) of the first paragraph of this Article. An additional provision shall also be added to this Article as second paragraph.

Sub-Article (xi) of the first paragraph of this Article in the original Draft, which reads:

“The Company’s directors, the supervisors, the president, the vice president and other senior management personnel shall abide by the fiduciary principle when performing their duties. They shall not place themselves in situations where their personal interests are in conflict with the obligations assumed. Such principle includes but not limited to the fulfillment of the obligations listed below:

.....

(xi) Not to misappropriate the Company’s funds or lend any such funds to other party, not to open any account in his/her own name or in the name of other party for depositing the Company’s asset into such account and not to use such assets to guarantee the debts of a shareholder of the Company or any other personal debts;”

Sub-Article (xi) of the first paragraph of this Article shall be amended while an additional provision shall be added as the second paragraph as follows:

“The Company’s directors, the supervisors, the president, the vice president and other senior management personnel shall abide by the fiduciary principle when performing their duties. They shall not place themselves in situations where their personal interests are in conflict with the obligations assumed. Such principle includes but not limited to the fulfillment of the obligations listed below:

.....

(xi) Not to misappropriate the Company’s funds, not to open any account in his/her own name or in the name of other party for depositing the Company’s asset into the such account and not to lend the funds of the Company to other party or to use such assets to guarantee the debts of other party unless with the full knowledge and consent of the shareholders given at a shareholders’ general meetings or of the board of directors;

Gains derived by the directors, the president, the vice president and other senior management personnel by violation of this Article shall be returned to the Company. The said officers shall be liable for damages should their actions cause losses to the Company.”

52. Article 166 in the original Draft shall be re-numbered as Article 164. Amendment shall also be made to the first paragraph of this Article.

The first paragraph of this Article in the original Draft, which reads:

“Should the directors, the supervisors, the president, the vice president and other senior management personnel be requested to attend a shareholders’ general meeting, such directors, supervisors, president, vice president and other senior management personnel shall attend the same and be subject to interrogations raised by the shareholders.”,

is hereby amended as follows:

“Should the directors, the supervisors, the president, the vice president and other senior management personnel be requested to attend a shareholders’ general meeting, such directors, supervisors, president, vice president and other senior management personnel shall attend the same and provide response and explanations to the interrogations and suggestion raised by the shareholders.”

53. Article 169 in the original Draft shall be re-numbered as Article 167.

This Article in the original Draft, which reads:

“Any directors, supervisors, president, vice president and other senior management personnel of the Company who leaves the Company without permission before the expiry of their respective term of office resulting in causing losses to the Company shall be liable for damages to the Company.”,

is hereby amended as follows:

“Any directors, supervisors, president, vice president and other senior management personnel who, when performing their duties in the Company, violates the laws, administrative regulations, departmental rules and regulations or the provisions contained in the Articles of Association resulting in causing losses to the Company shall be liable for damages to the Company. Any directors, supervisors, president, vice president and other senior management personnel who leaves the Company without permission before the expiry of their respective term of office resulting in causing losses to the Company shall be liable for damages to the Company.”

54. Article 189 of the original Draft shall be re-numbered as Article 187.

This Article in the original Draft, which reads:

“The Company’s annual financial reports and the interim financial reports which recorded the distribution of interim profits shall incorporate the followings:

- (i) balance sheet;
- (ii) profit and loss accounts;

- (iii) profit distribution statement;
- (iv) cash flow statement;
- (v) notes to the accounting statements.

Should the Company not distribute the interim profits, the interim financial report shall incorporate all of the above accounting statements and notes related thereto other than item (iii) above.”,

is hereby amended as follows:

“The Company’s financial reports shall be prepared pursuant to the relevant laws, administrative regulations and departmental rules and regulations.”

55. Article 192 of the original Draft shall be re-numbered as Article 190. Amendment shall also be made to the first paragraph of this Article.

The first paragraph of this Article in the original Draft, which reads:

“When the Company is distributing the after-tax profits of the current year, it shall allocate 10% of the Company’s net profit as prepared under the PRC Accounting Standards into the Company’s statutory common reserve fund. When the accumulated amount of the Company’s statutory common reserve fund reaches more than 50% of the Company’s registered capital, the Company may cease making such allocation.”,

is hereby amended as follows:

“When the Company is distributing the after-tax profits of the current year, it shall allocate 10% of the profit into the Company’s statutory common reserve fund. When the accumulated amount of the Company’s statutory common reserve fund reaches more than 50% of the Company’s registered capital, the Company may cease making such allocation.”

56. Article 193 of the original Draft shall be re-numbered as Article 191. Amendment shall also be made to the first paragraph of this Article.

The first paragraph of this Article in the original Draft, which reads:

“Before the Company has made up its loss and has made allocation to the statutory common reserve fund and the statutory public welfare fund, the Company shall not distribute any dividends or make other distributions in the form of dividends. Dividends paid by the Company shall not carry any interest except where the Company has failed to pay the dividends to the shareholders on the date on which such dividends become payable.”,

is hereby amended as follows:

“Before the Company has made up its loss and has made allocation to the statutory common reserve fund, the Company shall not distribute any dividends or make other distributions in the form of dividends. Dividends paid by the Company shall not carry any interest except where the Company has failed to pay the dividends to the shareholders on the date on which such dividends become payable.”

57. Article 195 of the original Draft shall be re-numbered as Article 193 and amendment shall also be made to the second paragraph.

The second paragraph of this Article in the original Draft, which reads:

“However, when capitalizing the statutory common reserve fund, the balance of the fund shall not be less than 25 percent of the registered capital of the Company before capitalization.”,

is hereby amended as follows:

“When capitalizing the statutory common reserve fund, the balance of the fund shall not be less than 25% of the registered capital of the Company before capitalization.”

58. Article 196 of the original Draft shall be deleted.

This Article in the original Draft, which reads:

“The allocation made to the statutory public welfare fund of the Company shall be used for the collective welfare of the employees of Company.”

59. Article 212 of the original Draft shall be re-numbered as Article 209. Amendment shall also be made to the first paragraph.

The first paragraph of this Article in the original Draft, which reads:

“Decisions on the appointment, dismissal or non-reappointment of the accounting firm shall be made at a shareholders’ general meeting. If required by the applicable laws, regulations and/or the relevant Listing Rules, the Company shall disclose information regarding such decision made at the shareholders’ general meetings on the published media in accordance therewith. The Company shall disclose the reasons for the change of the accounting firm, when necessary, and shall file the same with the authority in charge of securities under the State Council and China Registered Accountant Association for record.”,

is hereby amended as follows:

“Decisions on the appointment, dismissal or non-reappointment of the accounting firm shall be made at a shareholders’ general meeting and shall be filed with the authority in charge of securities under the State Council for record.”

60. Article 213 of the original Draft shall be re-numbered as Article 110. Amendment shall also be made to the first paragraph.

The first paragraph of this Article in the original Draft, which reads:

“Should the Company dismiss or non-reappoint the accounting firm, the Company shall inform the accounting firm 10 days in advance. The accounting firm shall have the right to present their opinions at a shareholders’ general meeting. If the accounting firm is of the view that its dismissal or non-reappointment by the Company is without a proper reason, such firm may lodge a complaint with the authority in charge of securities under the State Council and China Registered Accountant Association. Should the accounting firm resigns from its position, it shall inform the shareholders at a shareholders’ general meeting of whether or not there is any prevailing improper conducts.”,

is hereby amended as follows:

“Should the Company dismiss or non-reappoint the accounting firm, the Company shall inform the accounting firm 10 days in advance. The accounting firm shall have the right to present their opinions at a shareholders’ general meeting. Should the accounting firm resigns from its position, it shall inform the shareholders at a shareholders’ general meeting of whether or not there is any prevailing improper conducts.”

61. Article 214 of the original Draft shall be re-numbered as Article 211. Amendment shall also be made to the first paragraph.

The first paragraph of this Article in the original Draft, which reads:

“The Company may conduct mergers or demergers pursuant to the laws. Should the Company conduct mergers or demergers, it shall handle the same in accordance with the procedures set out below:

- (i) the board of directors shall draft a proposal for the mergers or demergers;
- (ii) A resolution shall be passed at a shareholders’ general meeting pursuant to the Articles of Association;
- (iii) The relevant parties shall sign a contract in respect of the mergers or demergers;
- (iv) Examination and approval procedures shall be taken pursuant to the laws;
- (v) Various matters of the merger and demerger concerning the creditor’s rights and debts shall be handled;
- (vi) Formalities concerning registration of the dissolution or the change of registration of the Company shall be handled.”,

is hereby amended as follows:

“The Company may conduct mergers or demergers pursuant to the laws.”

62. Article 219 of the original Draft shall be re-numbered as Article 116. Amendment shall be made to the first paragraph while the second and third paragraphs shall be deleted.

This Article in the original Draft, which reads:

“Should the Company be dissolved under Sub-Articles (i), (iv), (v) of the preceding Article, a liquidation team shall be formed within 15 days and the composition thereof shall be determined by an ordinary resolution passed at a shareholders’ general meeting. Should no liquidation team be formed within the stipulated period, the creditors may apply to the People’s Court to appoint the relevant personnel to form the liquidation team and conduct the liquidation activities.

Should the Company be dissolved under Sub-Article (ii) of the preceding Article, the liquidation activities shall be undertaken by each party of the mergers or demergers. These parties shall conduct the liquidation activities pursuant to the contracts signed during the mergers and demergers.

Should the Company be dissolved under Sub-Article (iii) of the preceding Article, the People’s Court shall appoint shareholders, the related organizations and professionals to form the liquidation team to undertake liquidation activities in accordance with relevant laws.”,

The first paragraph of this Article shall be amended while the second and third paragraphs of this Article shall also be deleted as follows:

“Should the Company be dissolved under Sub-Article (i), (iii), (iv) and (v) of the preceding Article, a liquidation team shall be formed within 15 days and the composition thereof shall be determined by an ordinary resolution passed at a shareholders’ general meeting. Should no liquidation team be formed within the stipulated period, the creditors may apply to the People’s Court to appoint the relevant personnel to form the liquidation team and conduct the liquidation activities.”

63. An additional provision shall be added as Article 238, which provides that:

“The annexes to the Articles of Association include the Rules of Procedures of the Shareholder’s General Meetings, the Rules of Procedures of the Board of Directors and the Rules of Procedures of the Board of Supervisors.”

THE STOCK APPRECIATION RIGHTS HANDBOOK

FOR

AIR CHINA LIMITED

CONTENTS

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Measures on Management of the Stock Appreciation Rights
in respect of
Air China Limited

CHAPTER 1 GENERAL

- Article 1

In order to establish and perfect the management of the intellectual intensive expertise of a large listed company and the medium to long term incentive system, to establish an effective incentive and restraint mechanism through the SARS Program, to align the interests of the shareholders, the Company and the management, to maintain competitive edge of the Company in terms of recruiting and retaining the best executives, and to preserve the Company’s ability to achieve sustainable development so as to create value for the shareholders, these Measures on Management of the Stock Appreciation Rights (hereinafter referred to as these “Management Measures”) are hereby formulated by AIR CHINA LIMITED (hereinafter the “Company”).
- Article 2

For the purposes hereof, the term “Stock Appreciation Rights”, or “SARS”, refers to a form of rights to be granted by the Company to the participants of this Program. It is not necessary for the Holders of SARS to actually purchase and sell shares in the stock market. They can obtain the price differences between the market price and the exercise price of the shares during a stipulated time limit through simulating the exercise of the stock option.
- Article 3

The principle of integration of rewards and restraints, the principles of fairness, impartiality and transparency and the principle of legal compliance shall be upheld in these Management Measures.

CHAPTER 2 THE MANAGEMENT ORGANIZATION

- Article 4

The Company’s shareholders’ general meeting shall be the Managing decision-making authority of the SARS Program and shall perform the responsibilities set out below:

(1)

To examine and approve the SARS Program submitted by the Company’s Board of Directors;

(2)

To examine and approve the amendment, suspension and termination of the SARS Program of the Company;

(3)

To handle other issues to be decided on at a shareholders’ general meeting.

Article 5 The Company's board of Directors is the management organization of the SARS Program. With the authority conferred at a shareholders' general meeting, the Management Personnel Training and Remuneration Committee of the Board of Directors shall exercise the rights granted by the Board of Directors.

Article 6 The Board of Directors shall perform the following duties:

- (1) To examine the SARS Program drafted and amended by the Management Personnel Training and Remuneration Committee and to submit the same to a shareholders' general meeting for approval;
- (2) To consider and approve the related rules and regulations applicable to the SARS Program drafted and amended by the Management Personnel Training and Remuneration Committee;
- (3) To handle other issues to be decided on by the Board of Directors.

Article 7 The Management Personnel Training and Remuneration Committee is a special committee of the Board of Directors established upon approval by the shareholders' general meeting, which shall perform the following duties:

- (1) To enact remuneration programs or plans based on the major terms of reference, duties and importance of the management position of the directors and senior management, and with reference to the remuneration of the similar positions offered by other similar enterprises. The remuneration programs or plans include but not limited to the performance evaluation standards, procedures and major evaluation system as well as major reward and punishment proposals and systems;
- (2) To examine the performance of the Company's directors (non-independent Directors) and the senior management personnel and to conduct annual performance appraisals on the said directors and senior management personnel;
- (3) To draft and amend the relevant rules and regulations of the Company applicable to the SARS Program, to draft and amend the Company's SARS Program, to enact the Annual Implementation Plan for the SARS Program of the Company and to be responsible for the day-to-day management of the SARS Program;
- (4) To be responsible for supervising the implementation of the Company's remuneration system;
- (5) To handle other matters delegated by the Board of Directors and other matters that should be determined by the Management Personnel Training and Remuneration Committee;

- (6) The Management Personnel Training and Remuneration Committee may engage an intermediary to provide professional opinions for its decision-making.

Article 8 A working group shall be established under the Management Personnel Training and Remuneration Committee, which shall be responsible for handling the day-to-day affairs delegated thereto by the Management Personnel Training and Remuneration Committee. The working group shall comprise of professionals in the areas of human resources management and finance etc. Members of the working group shall be appointed and removed by the Management Personnel Training and Remuneration Committee upon decision.

Article 9 Specific rules and contents of the work performed by the Management Personnel Training and Remuneration Committee shall be otherwise provided for and prescribed in the Constitution of the Management Personnel Training and Remuneration Committee and shall be submitted to the Board of Directors for approval.

Article 10 The Company's supervisory committee shall be the supervisory organization of the SARS Program, which is responsible for the supervision of the enactment, amendment and implementation of the Company's SARS Program. The supervisory committee shall perform the following duties:

- (1) To supervise the operation of the Company's SARS Program, including but is not limited to supervising the fairness of the performance assessment of the Management Personnel Training and Remuneration Committee, the Company and the staff and whether or not the program is implemented in compliance with the relevant regulations;
- (2) To regularly report to the shareholders' general meeting problems discovered during the supervision of the SARS Program.

CHAPTER 3 QUALIFICATIONS OF THE GRANTEES

Article 11 The grantees under the SARS Program include the Company's non-independent directors, senior management personnel and key technicians. Major grantees are the Chairman, the Vice Chairman, the non-independent directors, the President, the Vice President, the Chief Engineers, the Assistants to the President, the Board Secretary, the responsible persons of all divisions and major departments of the Company.

Article 12 No rights may be granted under the SARS Program without the approval of the shareholders' general meeting. Connected shareholders shall be abstained from voting the resolution. Other qualifications of the grantees shall be confirmed by the Management Personnel Training and Remuneration Committee.

Article 13 Should any of the following events occur, the Management Personnel Training and Remuneration Committee shall determine whether not or to cancel the qualifications of a grantees under the SARS Program:

- (1) the grantee is in violation of the laws resulting that he or she is convicted of any criminal offence;
- (2) the grantee is in violation of the articles of association of the Company and other rules and regulations, commits serious negligence of duties or misconduct causing huge losses to the Company;
- (3) other conditions stipulated by the applicable Chinese and overseas laws and regulations.

CHAPTER 4 GRANTING OF THE STOCK APPRECIATION RIGHTS

Article 14 The Management Personnel Training and Remuneration Committee shall enact an Implementation Plan for Allocation of the Stock Appreciation Rights. The Company shall obtain approval from the shareholders' general meeting by resolution prior to implementing the SARS Program.

Article 15 This SARS Program shall be implemented within a period of not more than 36 months after the initial public offering of the Company's foreign share listed outside China (hereinafter referred to as "H shares"). After the 36-month period, should the condition of the business, the applicable Chinese and overseas laws and regulations and the condition of the Company so permit, the Company may consider to incorporate or replace other long-term incentive plans.

Article 16 The accumulated Units of SARS granted shall not exceed 2% of the total number of shares in issue. In addition, the number of Units of SARS granted within any 12-month period shall not exceed 0.4% of the total number of shares in issue. Should the Units of the SARS granted exceed any of the above ratios, the Company shall move a special motion in connection therewith and obtain approval from the shareholders' general meeting by special resolution. The excess portion may only be granted to the grantees specifically approved by the shareholders' general meeting. Connected shareholders shall abstain from voting the above special motion.

Article 17 Unless approved by the shareholders' general meeting by special resolution, none of the grantees shall be granted with more than 5% of the accumulated units of the Stock Appreciation Rights. Within any 12-month period during the effective term of this SARS Program, the Company shall cease to grant further units to anyone whose units (including both the exercised and non-exercised) of rights entitlement is in excess of 1% of the Company's total issued capital.

- Article 18 The Date of Grant shall be determined by the Management Personnel Training and Remuneration Committee. In general, such date shall fall within 10 working days after the issuance of the announcement of the annual general meeting of the Company.
- Article 19 The SARS of the Company shall be granted on a biennial basis with reference to the Company's Fiscal year. [Note: Pursuant to Article 15 of the "Trial Run Measures on (Overseas) Implementation of the Equity Incentive Scheme by Listed Companies Controlled by the State" issued by the State-Owned Assets Supervision and Administration Commission, the interval for granting any award in each shares incentive program shall be more than one complete fiscal year. In principal, the SARS shall be granted on a biennial basis]. The qualification of a grantee shall be assessed by the Management Personnel Training and Remuneration Committee pursuant to the regulations relating to the SARS Program. The amount granted shall be determined by the Management Personnel Training and Remuneration Committee pursuant to the evaluation of the relevant position together with the annual assessment results. Should the performance assessment reach Grade C or above, SARS may be granted.
- Article 20 Additional SARS may be granted only under the circumstances of accelerating the exercise thereof. If no such circumstances occur, no new SARS shall be granted before the end of the 5-year exercise period (including the 2-year Restriction Period).
- Article 21 When new senior management personnel join the Company, the Management Personnel Training and Remuneration Committee may grant additional SARS with reference to the prevailing conditions. Even though the acceleration of exercise does not occur, the Management Personnel Training and Remuneration Committee may have the discretion to grant additional SARS to a few numbers of outstanding staff.
- Article 22 Staff who are qualified for SARS entitlement and the bonus payment under the Captain Incentive Award are not allowed to enjoy the said rewards because both entitlements belong to the medium to long-term incentives. Grantees may voluntarily select to participate in any one of the two incentive programs. Prior to each grant period, a grantee shall have an opportunity to select his/her desired incentive program for the next period. Once selected, no grantees may revert to the other incentive program.
- Article 23 The Grant Price in respect of SARS shall not be lower than the average closing price of the Company's H shares for the 5 trading days prior to the Date of Grant. The initial grant price may be set with reference to the initial public offering price of the H shares. The grant price applicable prior to 28 February

2006 may be set with reference to 85% of the average closing price of the Company’s shares traded at the Stock Exchanges of Hong Kong Limited (hereinafter referred to as the “Stock Exchange”) for the 5 trading days prior to the Date of Grant.

Article 24

The Grant of SARS is confirmed in writing by virtue of the “Agreement for the Stock Appreciation Rights Program” entered into by and between the Company and the grantee together with the “Stock Appreciation Rights Certificate”.

Article 25

The “Agreement for the Stock Appreciation Rights” is a legal document which regulates the relationship in connection with the rights and obligations of the Holders SARS and the Company. Matters stipulated in the said Agreement shall include but are not limited to:

- (1)

The number of shares that can be subscribed by a holder of the Stock Appreciation Rights;
- (2)

Provisions in connection with the exercise price and the Exercise Period pertaining to the SARS Program;
- (3)

Provisions in connection with the acceleration, suspension and cancellation of the Stock Appreciation Rights;
- (4)

The agreed provision relating to dispute resolution;
- (5)

Other issues that need to be stated clearly.

Article 26

The “Stock Appreciation Rights Certificate” is the certificate which the Holder of SARS may use to apply for the Exercise. The said Certificate shall contain the name, the ID card number, the residential address, the mode of communication, the reference numbers of the Agreement and the Certificate, the exercise price, exercise period, the exercise records, the adjustment records, bonus payment records, information about the successors, all forms of signatures and seals and the related matters of importance etc.

Article 27

The Management Personnel Training and Remuneration Committee shall have the Stock Appreciation Rights Register in place as a documentary evidence of the execution of the management plan by the Company. The Register shall align with the Stock Appreciation Rights Certificate. The said document shall contain the name, the ID card number, the residential address, the mode of communication, the reference numbers of the Agreement and the Certificate, the exercise price, the exercise period, the exercise records, the adjustment records, the bonus payment records, information about the successors, all forms of signatures and seals and the related matters of importance etc.

Article 28 The Company is required to report to the Company’s board of directors and supervisory committee whenever the stock appreciation rights are granted.

CHAPTER 5 WITHDRAWING FUNDS FROM AND THE MANAGEMENT
OF THE REWARD FUND

Article 29 The shareholders’ general meeting shall be the uppermost decision-making organization for the withdrawal of monies from the Reward Fund. The withdrawal of funds and the management of the Reward Fund shall be determined at a shareholders’ general meeting.

Article 30 The Management Personnel Training and Remuneration Committee shall be responsible for the withdrawal, management and application of funds in the Reward Fund during the effective term of the SARS Program based on the relevant resolutions adopted at a shareholders’ general meeting.

Article 31 Withdrawals from the Reward Fund shall be calculated and made during the current year. The Reward Fund shall be drawn down pursuant to the Exercise Units and the exercise price confirmed in the current year. The amount drawn shall be disbursed as a pre-tax management expenses.

Article 32 A special account shall be opened by the Finance Department for the Reward Fund withheld by the Company and such Reward Fund shall be booked and managed under the “Other Payables” entry.

Article 33 Should there have balance amount in the Reward Fund when the SARS Program ceases to be implemented, the Management Personnel Training and Remuneration Committee shall make appropriate decisions in this respect (the monies may be used to set-off the management expenses of the current year).

CHAPTER 6 THE RIGHT TO EXERCISE

Article 34 The effective period for exercising each tranche of SARS under the SARS Program shall be 5 years. SARS may be realized for the first time 2 years after granting thereof (i.e. the grantee may exercise the Stock Appreciation Rights) and shall be exercised in full within 5 years. Specific arrangement in respect of the Exercise is as follows: 30% of the Rights may be exercised in the 3rd year after granting the SARS in full. A maximum of 70% of the accumulated rights may be exercised in the 4th year. 100% of the accumulated rights can be exercised in the 5th year. Please refer to the “Allocation Scheme for the Stock Appreciation Rights Program” for the performance conditions for granting the Stock Appreciation Rights.

- Article 35

The Exercise of the SARS shall be uniformly taken place during the Window Period. The Company shall set two Window Periods every year. The Window Periods for the Exercise shall be set within the 5 working days commencing from the 20th trading day after the date of announcement of the Company’s annual report, and within the 5 working days commencing from the 20th trading day after the date of announcement of the Company’s interim report. The Company shall accept the exercise applications during such two Window Periods.
- Article 36

The Exercise of the SARS shall be taken place during the Window Periods of each year. Such exercise shall not be taken place at the time of releasing sensitive information, annual reports, interim reports, quarterly reports or when convening a shareholders’ general meeting. Should there be any events that is likely to affect the share price, the Management Personnel Training and Remuneration Committee may determine to delay the Exercise Date to within 5 working days commencing form the 5th trading day after making a public announcement of such event.
- Article 37

Should the conditions as provided for in Articles 60, 61, 62 and 63 of these Management Measures occur on the part of the Company, The Management Personnel Training and Remuneration Committee may create a special Window Period for the Exercise.
- Article 38

The Management Personnel Training and Remuneration Committee shall be responsible for the settlement of the SARS when the same is exercised. The said Committee shall also pay the difference between the exercise price and the Grant price. The formula shall be as follows:

Cash receivable by a grantee = (exercise price- Grant Price) x units exercised

In order to enhance the effect of the incentive and restraint mechanism, the cash reward may be paid by installments for a continuous period of 12 months commencing from the Exercise Date.
- Article 39

Should Holders of SARS exercise their rights, they shall submit their applications to the Management Personnel Training and Remuneration Committee on the strength of the “Stock Appreciation Rights Certificate”, the “Application Form for Exercising the Stock Appreciation Rights”, their respective ID cards, and in case of submitting application via an agent, the power of attorney and the ID card of the agent, or other legal formalities. After approvals have been obtained, the Management Personnel Training and Remuneration Committee shall handle such application in a centralized manner upon verification.

Article 40

To the extent that the Company issue bonus shares, increase the share capital by conversion from the surplus reserve, conduct share placement and issue new shares to the existing shareholders in form of private placement and distribute cash dividends, the Management Personnel Training and Remuneration Committee shall, after making the corresponding adjustment in proportion to the numbers of stock appreciation rights held by the Holders of SARS, notify such holders in writing within 20 working days after making the adjustment.

Article 41

To the extent that the Company issue bonus shares, increase the share capital by Conversion from the surplus reserve, conduct share placement and issue new shares to the existing shareholders in form of private placement and distribute cash dividends, adjustment is required to be made to the Stock Appreciation Rights that have been granted but remain unexercised, provided that any adjustments made shall not cause the exercise price to fall below the face value of the shares. Specific details are as follows:

(1) Distribution of Cash Dividends

The adjusted price of SARS = The exercise price before adjustment-
post-tax cash dividends for each share

(2) Issuance of Bonus Shares or Increase of Share Capital by Conversion
from the Surplus Reserve

The adjusted price of the SARS = The exercise price before adjustment/
(1 + the number of bonus shares or the number of unit of the increase of
share capital by conversion from the surplus reserve)

The adjusted units of SARS = The pre-adjusted units exercised * (1 + the
number of bonus shares or the number of unit of the increase of share
capital by conversion from the surplus reserve)

(3) The Share Placement

The adjusted price of SARS = (The pre-adjusted exercise price + placing
price x the number of placing shares for each share)/(1 + the number of
placing share for each share)

The post-adjusted units of SARS = The pre-adjusted units exercised * (1
+ the number of placing share for each share)

(4) The issuance of new shares

Should shares be placed to the existing shareholders in form of private
placement or where measures are implemented such that shares are taken

on an ex-rights basis, the abovementioned conditions shall be handled using the share allotment method. Should none of the above conditions occur, no adjustment shall be made.

CHAPTER 7 ACCELERATION, SUSPENSION AND TERMINATION

- Article 42 When a Holder of SARS leaves his employment with the Company under normal circumstances, and where the said holder has completed the necessary resignation procedure with the Company, he shall complete formalities in connection with the acceleration of exercising the unexercised portion of SARS in his possession in the latest Window Period. Should such Holder of SARS not complete such formalities during the designated period, he shall be deemed to automatically waive and terminate the exercise thereof.
- Article 43 When a Holder of SARS leaves his employment with the Company under abnormal circumstances, or where the said holder has not completed the necessary resignation procedure with the Company, the exercise of the unexercised portion of SARS in his possession shall be deemed to be terminated.
- Article 44 When a Holder of SARS is dismissed by the Company or when the Company does not renew his employment contract upon expiration, such Holder of SARS shall complete formalities in connection with the acceleration of exercising the unexercised portion of SARS in his possession in the latest Window Period. Should such Holder of SARS not complete such formalities during the designated period, he shall be deemed to automatically waive and terminate the exercise thereof.
- Article 45 When a Holder of SARS retires, or where such holder leaves his employment with the Company resulting from the loss of ability to work due to workplace accidents, the SARS Program shall remain in place. Should a Holder of SARS leaves his employment with the Company resulting from the loss of ability to work due to non-workplace accidents, such Holder of SARS shall complete formalities in connection with the acceleration of exercising the unexercised portion of the SARS in his possession in the latest Window Period. Should such Holder of SARS not make the application during the designated period, he shall be deemed to automatically waive and terminate the exercise thereof.
- Article 46 Should a Holder of SARS becomes partial or complete incapacity during the employment period, the unexercised portion of SARS in his possession shall be exercised by his guardian, appointed successor or legal successor. The said guardian or successor must complete formalities in connection with the acceleration of exercising the SARS in the latest Window Period. Should the said guardian or successor not complete such formalities within the designated period, the said guardian or successor shall be deemed to automatically waive and terminate the exercise thereof.

- Article 47 Should a Holder of SARS dies during the period of employment, the unexercised portion of the SARS in his possession shall be exercised by his appointed successor or legal successor. The said Successor must complete formalities in connection with the acceleration of exercising the SARS in the latest Window Period. Should the said successor not complete such formalities within the designated period, the said successor shall be deemed to automatically waive and terminate the Exercise thereof.
- Article 48 Commencing from the date of transfer of the control of the Company, a Holder of SARS who is employed by a company or organization that is directly or indirectly controlled by the Company shall complete formalities for the acceleration of exercising the SARS in the latest Window Period. Should such Holder of SARS not complete such formalities during the designated period, he shall be deemed to automatically waive and terminate the Exercise thereof.
- Article 49 Should the conditions as provided for in Article 42 to Article 48 occur on the part of a Holder of SARS, the bonus payment corresponding to the SARS in his possession that have been exercised but remain unpaid shall be made on a one-off basis.
- Article 50 Should a Holder of SARS commit the following acts, the Management Personnel Training and Remuneration Committee shall have the power to terminate, in part or in whole, their Stock Appreciation Rights:
- (1) Transferring, selling, exchanging, mortgaging the Stock Appreciation Rights, using the same to provide guarantee, booking the same on the accounts as well as using the same to repay the outstanding debts, all of which are conducted without authorization;
 - (2) Making use of SARS for deception and extortion purposes;
 - (3) Committing any acts that is in violation of the law and is adjudicated to be liable for criminal liability;
 - (4) Committing any acts that is in breach of the Articles of Association of the Company or that impairs the interests of the Company resulting in causing loss to the Company;
 - (5) Other conditions stipulated by the applicable Chinese and overseas laws and regulations.
- Article 51 The Agreement for the Stock Appreciation Rights shall provide that should any of the following conditions occur, a listed company shall delay the Grant of SARS for a year:

- (1) The annual results of the Company do not reach the standard approved by at a shareholders' general meeting;
- (2) The certified public accountant issues a qualified opinion or an explanatory statement to the audit opinion prepared for the Company's annual financial report, which materially affects the Company's operation;
- (3) The supervisory committee issues dissenting views on the Company's business performance or on its annual financial reports.

Article 52 Should the Company terminate the existing SARS Program and implement a new plan, the Company must concurrently terminate all existing plans. The Company shall not grant any SARS again based on any terminated programs.

Article 53 Should any of the following situation occurs, the SARS Program shall be terminated:

- (1) The Company suspends trading its shares, goes into bankruptcy or dissolves due to an operating loss;
- (2) The Company shall cease granting SARS in the event that the certified public accountant has issued a negative opinion or is unable to express an opinion in respect of the Company's annual financial report, or that the Company is subject to administrative punishment due to the fraudulent misrepresentation in the financial and accounting documents;
- (3) A competent government authority has ordered the Company to stop the SARS Program on the ground that the Company committed any material act that is in breach of the laws and regulations;
- (4) The new shareholders' general meeting decides on terminating the SARS Program upon resolution when the Company conducts any merger and acquisition activities;
- (5) The shareholder's general meeting decides on terminating the SARS Program upon resolution.

CHAPTER 8 DISCLOSURE OF INFORMATION

Article 54 The Company's Board of Directors shall, in accordance with the applicable Chinese and overseas laws and regulations, fulfill its ongoing obligations in respect of the disclosure of information and reporting.

Article 55 The Company shall disclose in its periodic reports the information required by the applicable Chinese and overseas laws and regulations.

CHAPTER 9 FINANCE AND TAXATION

- Article 57 The price difference which results from the Exercise of Stock Appreciation rights by a holder thereof shall be paid from the Reward Fund withheld by the Company. Any shortfall shall be paid out of the management expenses of the current year.
- Article 58 The Company shall bear all the management expenses and handling charges arising out of the execution of the SARS Program. All these expenses shall be included in the Company's management expenses. The expenses incurred by the Holders of SARS after the Exercise shall be borne by such holders.
- Article 59 A Holder of SARS will receive the price difference upon settlement for 12 consecutive months commencing from the date on which he exercises the SARS, and shall pay taxes on his own in accordance with the law.

CHAPTER 10 SPECIAL CLAUSES

- Article 60 Should the Company engage in an acquisition by agreement or acquisition transaction resulting in the transfer of its control, the SARS Program shall be suspended. The Management Personnel Training and Remuneration Committee shall have the discretion to establish special windows for the purposes of the Exercise. Holders of SARS shall complete formalities in connection with the acceleration of exercising the portion of SARS in their possession that have been granted but remain unexercised. Should they not complete such formalities during the designated period, they shall be deemed to automatically waive and terminate the Exercise thereof.
- Article 61 Should the Company engage in a merger or division activity, the SARS Program shall be suspended. The Management Personnel Training and Remuneration Committee shall have the discretion to establish special windows for the purposes of the Exercise. Holders of SARS shall complete formalities in connection with the acceleration of exercising the portion of SARS in their possession that have been granted but remain unexercised. Should they not complete such formalities during the designated period, they shall be deemed to automatically waive and terminate the Exercise thereof.
- Article 62 Should the shareholders pass a resolution to suspend the Stock Appreciation Rights at the general meeting, the Management Personnel Training and Remuneration Committee shall have the discretion to establish special windows for the purposes of the Exercise. Holders of the SARS shall complete formalities in connection with the acceleration of exercising the portion of SARS in their possession that have been granted but remain unexercised. Should they not complete such formalities during the designated period, they shall be deemed to automatically waive and terminate the Exercise thereof.

- Article 63 Should the Company reduce its registered capital, and where special requirements in relation thereto have been decided on at the shareholders' general meeting, the Company may adjust the SARS Program.
- Article 64 In the course of the implementation of the SARS Program, where the SARS Program becomes unable to be implemented as planned, or completely loses its incentive value, due to force majeure, the Management Personnel Training and Remuneration Committee shall suspend the program and propose the shareholders at a general meeting to reformulate a new SARS Program. The Management Personnel Training and Remuneration Committee shall propose the shareholders at a general meeting to reset a new exercise price if necessary.
- Article 65 SARS shall not be transferred, sold, exchanged, mortgaged, provided as a guarantee, booked into the account and used for repaying debts without authorisation.
- Article 66 Any person who is not within the scope of granting the SARS Program shall not hold, directly or in the name of another person, any SARS of the Company. Any person who is in breach of this requirement shall be investigated and punished in accordance with the laws and regulations as well as the rules of the Company.
- Article 67 A Holder of SARS shall not manipulate, whether individually or in conjunction with a third party, share price of this Company to participate in the insider dealings so as to obtain improper gains or to transfer risks. Any person who is in breach of this requirement shall be investigated and punished in accordance with the laws and regulations as well as the rules of the Company.

CHAPTER 11 INTERPRETATION

- Article 68 The terms below shall be interpreted as follows:
- (1) **Company** means AIR CHINA LIMITED, also known as “the Company”;
 - (2) **SARS Program** means the Stock Appreciation Rights Program of AIR CHINA LIMITED;
 - (3) **Units of SARS** mean the number of units of SARS of the Company received under the SARS Program;
 - (4) **Holders of SARS** mean the directors and senior management personnel of the Company who are recognised by the Management Personnel Training and Remuneration Committee as being qualified to participate in the SARS Program together with other grantees recognized by the Management Personnel Training and Remuneration Committee;

- (5)

Grant means the act of granting SARS by the Company to the Holders of SARS;
- (6)

Grant Price means the price of SARS granted during the current period.
- (7)

Date of Grant means the date on which SARS are granted pursuant to the SARS Program;
- (8)

Exercise means an act performed by Holders of SARS via settlement with the Company within the prescribed period based on such price and conditions as agreed in advance and thereby the Company shall pay cash to the said Holders.
- (9)

Exercise Date means the date on which a grantee proposes to effect the Exercise in respect of the appreciation rights which have been cashed in and fall within the exercise period (and such date shall not be the date on which an application is made, but rather the date on which the Exercise is effectively taken place during the Window Period);
- (10)

Restriction Period means the period commencing from the Date of Grant until the date on which the Exercise is allowed to be taken place;
- (11)

Window Period means the period in which Holders of SARS are allowed to confirm with the Company the number of units to be exercised and the exercise price. This is also a period for settlement.

Article 69

The meaning of the terms not defined in these Management Measures shall be interpreted in accordance with the relevant laws and regulations of the state as well as other provisions stipulated by the Company.

CHAPTER 12 SUPPLEMENTARY CLAUSES

- Article 70

The Management Personnel Training and Remuneration Committee of the Company shall be responsible for the interpretation of these Management Measures.
- Article 71

These Management Measures shall be implemented upon approval at a shareholders’ general meeting.
- Article 72

Amendment to these Management Measures shall be made by the Management Personnel Training and Remuneration Committee and shall be submitted to the shareholders’ general meeting for approval.

Allocation Scheme for the Stock Appreciation Rights

- Article 1

AIR CHINA LIMITED (hereinafter referred to as the “Company”) has enacted this Scheme pursuant to the relevant provisions set forth in the Measures on Management of the Stock Appreciation Rights Program in respect of AIR CHINA LIMITED and the Articles of Association of the Company.
- Article 2

The Principles for Granting the Stock Appreciation Rights

(1)

Insisting on the alignment of the interests of the shareholders, the Company and the management;

(2)

Insisting on combining the reward and restraints so as to fully improve the active participation and creativity of the senior management personnel;

(3)

Insisting on following the principle of complying with the laws and regulations as well as complying with the Chinese and overseas laws and regulations and the requirements of the overseas Listing Rules;

(4)

Insisting on following the principles of fairness, impartiality and transparency;

(5)

Insists on the philosophy of rewarding the officers according to the positions they serve, their personal abilities and their contribution to the business performance.
- Article 3

Scope of Granting the Stock Appreciation Rights:

(1)

Members of the board of directors (excluding the independent non-executive directors);

(2)

Senior management personnel of the Company: The grantees shall be classified into 3 grades in accordance with their respective positions in the Company. The letters A, B and C shall represent the rankings from the top to the lowest level, in which Grade A officers refer to officers who hold positions at the levels of the Assistant to the President or above at the Headquarter (President, Executive Vice President, Vice President, Chief Accountant, Chief Pilot, Assistant to the President, Secretary to the Board of Directors), which are positions with reference grading of Grade 25 or above; Grade B officers refer to the Person-in-charge and the Deputy Person-in-charge of each division (including the Directors and Deputy Directors of each divisional committee), which are positions with reference grading of Grade 24-25; Grade C officers refer to the Managers

and the Deputy Managers of the Grade 1 departments in each division, which are positions with reference grading of Grade 18-23.

- (3) The first group of personnel participating in the Stock Appreciation Rights Program shall not exceed 151 persons.

Article 4

Determination of the Annual Basis in respect of the Quota for Granting the Stock Appreciation Rights

- (1) The accumulated quota for granting the stock appreciation rights under the Stock Appreciation Rights Program shall not exceed 2% of the number of the issued shares. The number of stock appreciation rights granted in any 12-month period shall not exceed 0.4% of the number of shares issued at the current period. In addition, within any 12-month period, the number of units of the Stock Appreciation Rights held by an individual (including both exercised and unexercised Stock Appreciation Rights) shall not exceed 1% of the total share capital of the Company. We have set the base quota for granting the Stock Appreciation Rights in each occasion as G.

The number of units of Stock Appreciation Rights initially granted under the Stock Appreciation Rights Program is 20.70 million shares, which shall be controlled within 0.23% of the total share capital issued on the market.

- (2) The Management Personnel Training and Remuneration Committee shall perform assessments based on the status of achievement of the annual business target announced by the shareholders’ general meeting:

$$V_i = \text{The actual achievement of the target} / \text{the announced target} \times 100\%$$

The above target may be adjusted with reference to the market and industry conditions.

- (3) The Management Personnel Training and Remuneration Committee shall propose the annual adjusted grant quota pursuant to the results of the annual assessment of the Company’s business performance, i.e.: $G': G' = G \times V_i$

Article 5

Calculation and Allocation Methods for the Stock Appreciation Rights

- (1) The allocation weighting shall be determined in accordance with the grades of positions of the senior management personnel (see Table 3.1);

Table 3.1 Table for Weighting the Allocation of Stock Appreciation Rights in relation to the Grades of Positions of the Company’s Senior Management Personnel (For reference only)

Grade	Number of Persons	Grade Weightings	Total Grade Weightings	Allocation Weightings	Total Percentage for the Relevant Grade
	n_i		m	α_i	β_i
	(1)	(2)	(3) = (1) x (2)	(4) = (2)/M	(5) = (1) x (4)
Chairman	1	4.0	4.0	2.00%	2.00%
Vice Chairman	2	3.6	7.2	1.8%	3.61%
Non-Executive Directors	1	3.4	3.4	1.70%	1.70%
Executive Directors and President/ Secretary	2	3.4	6.8	1.70%	3.41%
Executive Directors	1	2.9	2.9	1.45%	1.45%
Grade A1	6	2.6	15.6	1.30%	7.83%
Grade A2	4	2.2	8.8	1.10%	4.41%
Grade B1	9	1.9	17.1	0.95%	8.58%
Grade B2	9	1.7	15.3	0.85%	7.68%
Grade C1	40	1.2	48	0.60%	24.10%
Grade C2	70	1	70	0.50%	35.15%
Total		–	199.1	–	100%

(2) The performance level and the adjustment coefficients shall be determined pursuant to the results of the assessment of performance (see Table 3.2);

Each grade in any position shall be classified into 5 levels based on the results of the assessment of performance. The coefficients shall be adjusted in accordance with different grades of position.

Table 3.2 Table of the Adjustment Coefficients for Different Performance Levels

Performance Level	Level 1	Level 2	Level 3	Level 4	Level 5
Adjustment coefficient ω_j	0.2	0.4	0.6	1	1.2

- (3) Given the important roles of the directors and supervisors in the Company, the Management Personnel Training and Remuneration Committee may determine their respective grades and performance adjustment coefficients with reference to the rules presented above.
- (4) Determination of the number of Stock Appreciation Rights granted to each grantee.

The number of Stock Appreciation Rights granted to each grantee (g) can be calculated as:

$$g = G' \times \alpha_i \times \omega_j$$

$$i \in (a, b, c) \text{ where } i \text{ is derived from } a, b, c;$$

$$j = 1, 2, 3, 4, 5$$

- (5) The Total Actual Grant Quota

$$G'' = \sum g$$

The total actual grant quota for each year is determined, on the basis of the adjusted base quota, upon adjustment in accordance with the individual performance assessment result.

Article 6

The Board of Directors shall determine the number of Stock Appreciation Rights realised and the allocation plan in each tranche with reference to the performance level of the Company’s business. Should the assessment of business performance reach Grade C or above, the Stock Appreciation Rights may be granted.

AIR CHINA LIMITED**Agreement for the Stock Appreciation Rights**

Reference Number of this Agreement:

Contracting Parties:

Party A: AIR CHINA LIMITED

Party B: (Signatory)

In order to effectively encourage the active participation and creativity of the staff of the Company, and pursuant to the Stock Appreciation Rights Program of Air China Limited (hereinafter referred to as the “Stock Appreciation Rights Program”, the Annual Implementation Plan for the Stock Appreciation Rights of Air China Limited, the Measures on Management of the Stock Appreciation Rights Program of AIR CHINA LIMITED (hereinafter referred to as the “Management Measures”, the Allocation Scheme for the Stock Appreciation Rights and the Articles of Association of the Company as well as the relevant resolutions passed at the shareholder’s general meeting (the board of directors) of Party A, the Parties hereby enter into this Agreement in respect of granting the Stock Appreciation Rights by Party A to Party B and both Parties shall jointly abide by and perform this Agreement.

1. Stock Appreciation Rights

- 1.1 The Stock Appreciation Rights (SARs) is a form of rights granted by the Company to qualified persons confirmed by the Management Personnel Training and Remuneration Committee said Committee. It is not necessary for a holder of the stock appreciations rights to actually purchase and sell shares in the stock market. Such holder can obtain the price differences between the market price and the exercise price of the shares during a stipulated time limit through simulating the exercise of the stock option. In order to derive full benefits from such rights, the granting of such rights by the Company and exercising thereof by an individual must be taken place.
- 1.2 The Management Personnel Training and Remuneration Committee of Party A shall carry out the procedures for confirmation of qualification pursuant to the resolutions passed by the shareholders’ general meeting of the Company, the Stock Appreciation Rights Program, and the Management Measures. Party B shall not interfere with the work of the Management Personnel Training and Remuneration Committee by any means.
- 1.3 The procedure of granting the stock appreciation rights shall be managed by the Management Personnel Training and Remuneration Committee. The legal representative of the Company or its authorised representative shall sign on behalf of the Company the Agreement for the Stock Appreciation Rights with Party B.

- 1.4 Party B shall exercise the Stock Appreciation Rights in accordance with the agreed price and conditions. Party B shall receive the price differences between the exercise price determined at the time of granting the Stock Appreciation Rights and the settlement price at the time of exercising the same.

2. The Price Confirmation and the Grant of the Stock Appreciation Rights

Party B is employed by Party A/the company/companies which is/are effectively controlled by Party A commencing from _____ (date). Party B currently serves as _____ of the Company. Upon evaluation by the Management Personnel Training and Remuneration Committee of Party A in accordance with the Stock Appreciation Rights Program approved at the shareholders' general meeting of Party A, Party B is confirmed to be qualified to be granted the Stock Appreciation Rights. Party B shall be granted _____ units of the Stock Appreciation Rights on _____ (date) at a grant price of RMB_____ .

When executing this Agreement, Party A shall forthwith issue the Stock Appreciation Rights Certificate. By holding such appreciation rights, Party B may receive the price differences between the exercise price and the grant price at the agreed unit and price during the stipulated period.

3. Exercising the Stock Appreciation Rights

- 3.1 Party B may exercise his/her Stock Appreciation Rights within a period of 5 years. The portion of Stock Appreciation Rights that remains unexercised after the prescribed period shall be deemed as a waiver and the exercise thereof shall be terminated. The appreciation rights may be realised for the first time 2 years after granting thereof (i.e. the grantee may exercise such rights). The appreciation rights shall be exercised in full within 5 years. Please refer to the Stock Appreciation Rights Program and the Management Measures for the specific timetable for the exercise of appreciation rights.
- 3.2 Party A shall set two Window Periods every year for Party B to exercise the stock appreciation rights in a centralised manner. The Window Periods for exercising the Stock Appreciation Rights shall be set within the 5 trading days commencing from the 20th trading days after the date of announcement of the Company's annual report, and within the 5 trading days commencing from the 20th trading days after the date of announcement of the Company's interim reports. Party B shall exercise the stock appreciation rights in his/her possession during the Window Periods.

The Stock Appreciation Rights shall be exercised during the Window Periods in each year. Should there be any material events that is likely to affect the share price, the Management Personnel Training and Remuneration Committee may determine to delay Exercise Date to within 5 trading days commencing from the 5th trading day after making a public announcement of the events.

Should the conditions as provided for in Articles 60, 61, 62 and 63 of the Management Measures occur on the part of the Company, the Management Personnel Training and Remuneration Committee will set special windows for the exercise of rights.

3.3 To the extent that Party A issue bonus shares, increase the share capital by conversion from the surplus reserve, conduct share placement and issue new shares and distribute cash dividends, Party A shall proportionately adjust the Stock Appreciation Rights held by Party B in accordance with the relevant provisions provided for in the Management Measures. Party A shall notify Party B thereof in writing within 20 days after the adjustments has been made.

3.4 Should Party B exercise the Stock Appreciation Rights, the Management Personnel Training and Remuneration Committee shall be responsible for the settlement of the Stock Appreciation Rights for the grantee, and shall also pay the price differences between the exercise price and the settlement price. The formula shall be as follows:

Cash receivable by Party B = (Exercise Price – Grant Price) x Units Exercised

In order to enhance the effect of the incentive and restraint mechanism, the cash reward shall be paid by installments for a consecutive 12 months commencing from the date of exercising the Stock Appreciation Rights.

3.5 Should Holders of the Stock Appreciation Rights exercise their Stock Appreciation Rights, they should submit their application to the Management Personnel Training and Remuneration Committee on the strength of the Stock Appreciation Rights Certificate, the Application Form for Exercising the Stock Appreciation Rights, their respective ID cards, and in case of submitting application via a proxy, the power of attorney and the ID cards of the proxy, or other legal formalities. After the approvals have been obtained, the Management Personnel Training and Remuneration Committee shall handle such application in a centralized manner upon verification.

3.6 After Party B has effectively exercised the Stock Appreciation Rights, Party A shall issue the Confirmation Letter for the Exercise of the Stock Appreciation Rights to Party B.

3.7 Should Party B have any queries in relation to the exercise of rights conferred by this Stock Appreciation Rights Program, he/she may contact the Management Personnel Training and Remuneration Committee.

4. Restrictions

Both prior to and after the Exercise, the stock appreciation rights in Party B's possession shall not enjoy the rights enjoyed by the shareholders of Party A. In addition, the Stock Appreciation Rights granted shall not, without authorization, be transferred, sold, exchanged, mortgaged, used for providing guarantee, booked into an account or used for repaying debts.

5. Acceleration, Suspension, Termination and Invalidation

5.1 Should Party B resigns from his/her position, is dismissed, retires, becomes in capacity or is dead, Party A shall have the right to determine matters relating to the acceleration, suspension and termination of the exercise of the Stock Appreciation Rights by Party B pursuant to relevant provisions provided for in the Management Measures.

5.2 Should any of the following event occur on Party B, Party A shall have the right to terminate the Stock Appreciation Rights granted to Party B in part or in whole:

- 1 Transferring, selling, exchanging, the Stock Appreciation Rights, using the same to provide guarantee, booking the same into an account and using the same for repaying debts by Party B without authorisation;
- 2 Making use of the Stock Appreciation Rights in his/her possession for deception and extortion purposes by Party B;
- 3 Committing any acts that is in violation of the laws and is adjudicated to be liable for criminal liability;
- 4 Committing any acts that is in breach of the Articles of Association of the Company or that impairs the interests of the Company resulting in causing loss to the Company.

5.3 When Party A engages in acquisition, merging, spin-offs activities as well as reduces its registered capital, Party A shall have the right to make adjustment to Party B's Stock Appreciation Rights pursuant to the Management Measures and the resolutions passed at the shareholders' general meeting.

5.4 Should the conditions provided for in Articles 50 and 52 of the Management Measures occur, Party A shall have the rights to make adjustment to Party B's Stock Appreciation Rights pursuant to the Management Measures and the agreement reached at the shareholders' general meeting.

6. The Successor

Party B appoints _____ as Party B’s successor. Details of the successor are as follows:

Gender:

ID Card Number:

Correspondence Address:

Telephone Number:

Explanatory Note:

7. Undertaking

7.1 Party A undertakes to abide by this Agreement with respect to granting the Stock Appreciation Rights to Party B. Except when Party B violates the Management Measures and conditions provided for in this Agreement, Party A shall not cancel or adjust without reasons the Stock Appreciation Rights held by Party B. Party A also shall not suspend or terminate this Agreement before its date of expiration;

Party A undertakes to provide to Party B information about the implementation condition of this Stock Appreciation Rights Program and the measures relating to its implementation and management. Party A also undertakes to give explanation in respect of, and provide necessary assistance to, the interpretation of the Stock Appreciation Rights Program.

7.2 Party B undertakes to gain an understanding on all rules and regulations of Party A, which include but not limited to the rules and regulations in respect of the Stock Appreciation Rights. Party B shall also abide by these rules and regulations;

Party B undertakes to abide by the laws and regulations of the State relating to the Stock Appreciation Rights;

Party B undertakes that the information provided in this Agreement, the Register of the Stock Appreciation Rights, the Stock Appreciation Rights Certificate shall be true and valid, and shall bear all legal responsibilities in this respect;

Party B undertakes to assume any tax obligations arising out of the Stock Appreciation Rights.

8. The Relationship between the Agreement and Employment

The signing of this Agreement between Party A and Party B shall not constitute any undertakings of Party A in relation to the employment term, the employment conditions of and the employment relationships with Party B. The employment relationship between Party A and Party B shall be governed by the relevant clauses as agreed upon in the Employment Contract.

9. The Exemption Clause

During the course of execution of this Agreement, should there be any material change in the applicable domestic or foreign laws and regulations or policies, or should Party B breach this Agreement or the rules and regulations relating to the Stock Appreciation Rights of Party A or should the relevant situations provided for in the Management Measures occur, causing Party A to become unable to perform this Agreement, Party A shall not bear any responsibilities in this respect.

During the term of this Agreement, Party B may inform Party A of his/her intention to terminate this Agreement. However, no additional conditions shall be attached.

10. Resolution of Disputes

Should disputes arise between both Parties, matters already covered in this Agreement shall be resolved in accordance with the provisions agreed upon in this Agreement. Matters not covered in this Agreement shall be resolved with reference to the relevant rules and regulations relating to the Stock Appreciation Rights Program of the Party A. Matters not covered in both of this Agreement and the rules and regulations mentioned above shall be resolved with reference to the applicable domestic and overseas laws and regulations and the principles of fairness and reasonableness.

Both Party A and Party B shall resolve any disputes between them arisen during the course of execution of this Agreement through consultation. If consultation proves to be failed, the said dispute shall be submitted to the Peoples' Court with competent jurisdiction for adjudication.

11. Miscellaneous

- 11.1 This Agreement shall be valid for _____ years, commencing from the day when both Parties sign and seal the same.
- 11.2 This Agreement may be amended in writing after consultation by both Parties. Other forms of amendment shall not constitute the amendment of this Agreement.
- 11.3 This Agreement shall be in duplication of two copies and Party A and Party B shall each hold one copy hereof. Both copies shall have the same legal effect.
- 11.4 This Agreement shall become effective commencing from the day when both Parties sign and seal the same.

Party A: AIR CHINA LIMITED

(Seal)

Authorised Representative: (Signature)

_____ (Date)

Party B: (Signature)

ID Card Number:

_____ (Date)

AIR CHINA LIMITED

Stock Appreciation Rights Certificate

(Form or Draft)

(Cover)

AIR CHINA LIMITED

Stock Appreciation Rights Certificate

(Page 1)

Reference Number of the Stock Appreciation Rights Certificate:

Reference Number of the Agreement for the Stock Appreciation Rights:

Name of the Staff:

Name of the Successor:

Gender of the Staff:

Gender of the Successor:

ID Card Number:

ID Card Number of the Successor:

Employee Number:

Relationship with the Ancestor:

Correspondence Address:

Correspondence Address of the Successor:

Modes of Contact:

Modes of Contact of the Successor:

Company Seal:

Date of Issue:

(Page 2)

The Records of Granting of and Adjustment to
the Stock Appreciation Rights

The Exercise Price at the Time of Granting of the Stock Appreciation Rights:

The Units Exercised at the Time of Granting of the Stock Appreciation Rights:

Date	Adjustment Basis		Record of Adjustments		Reasons for Adjustment	Manager(s)
	Exercise Price	Units	Adjusted Price	Adjusted Units		

(Page 3)

Records of the
Exercise of the Stock Appreciation Rights

Date	Units Exercised	Exercise Price	Accumulated Bonus	Manager(s)	Note(s)

(Page 4)

Records of Bonus Payment

Date	Amount Paid	Manager(s)	Notes(s)

(Page 5)

Annual Audit and Notes

(Back Cover)

Important Matters

1. This Certificate serves as a valid proof of the Stock Appreciation Rights held by the Staff of the Company;
2. This Certificate shall be personal to our staff and shall not be transferred or assigned to any other person;
3. This Certificate shall be maintained properly. Should you lose this Certificate, you must report to the Company on a timely basis and apply for a replacement;
4. Officers should return this Certificate to the Management Personnel Training and Remuneration Committee when the current Stock Appreciation Rights have been exercised in full or become invalid in their entirety.

AIR CHINA LIMITED

Application Form for
Exercising the Stock Appreciation Rights

To: AIR CHINA LIMITED

As of the date hereof, a total number of _____ units of the Stock Appreciation Rights of the Company are in my possession, in which:

_____ units of the Stock Appreciation Rights were granted in the year _____ ;

_____ units of the Stock Appreciation Rights were granted in the year _____ ;

_____ units of the Stock Appreciation Rights were granted in the year _____.

Pursuant to the relevant requirements of the Company, _____ shares currently in my possession satisfy the conditions for effecting an exercise thereof. I hereby submit my application to the Company as follows:

In accordance with the Stock Appreciation Rights granted in the year _____ , I apply for a settlement of _____ units calculated at a price of _____ RMB/unit.

In accordance with the Stock Appreciation Rights granted in the year _____ , I apply for a settlement of _____ units calculated at a price of _____ RMB/unit.

In accordance with the Stock Appreciation Rights granted in the year _____ , I apply for a settlement of _____ units calculated at a price of _____ RMB/unit.

My Details:

Details of the Successor’s:

List of Documents Submitted:

Signature:

_____ (Date)

AIR CHINA LIMITED

Confirmation Letter for the Exercise of the Stock Appreciation Rights

Dear _____ ,

Your application for the exercise of the Stock Appreciation Rights during the Window Periods of the current year is as follows:

The Stock Appreciation Rights was granted on _____ (date) and the Exercise Price is _____ RMB/unit. The number of units under the current Exercise is _____ units.

The Stock Appreciation Rights was granted on _____ (date) and the Exercise Price is _____ RMB/unit. The number of units under the current Exercise is _____ units.

The Stock Appreciation Rights was granted on _____ (date) and the Exercise Price is _____ RMB/unit. The number of units under the current Exercise is _____ units.

According to your application and the confirmation issued by the Management Personnel Training and Remuneration Committee, the Company has completed the formalities corresponding to your Exercise of the Stock Appreciation Rights after the end of the current Window Period. The relevant information are as follows:

The Stock Appreciation Rights was granted on _____ (date). The Exercise Price is _____ RMB/unit. The number of units actually exercised under the current Exercise was _____ units.

The Stock Appreciation Rights was granted on _____ (date). The Exercise Price is _____ RMB/unit. The number of units actually exercised under the current Exercise was _____ units.

The Stock Appreciation Rights was granted on _____ (date). The Exercise Price is _____ RMB/unit. The number of units actually exercised under the current Exercise was _____ units.

The total price differences after the settlement under the current Exercise:

Related handling charges:

Related tax payment:

Total amount:

Upon exercising the Stock Appreciation Rights, the price differences after the settlement will be directly deposited into your personal salary account for a consecutive 12 months commencing from the said month.

For specific matters, please contact the Management Personnel Training and Remuneration Committee.

The Management Personnel Training and Remuneration Committee

_____ (Date)

AIR CHINA LIMITED

Notification of Adjustment of the
Stock Appreciation Rights Program

Dear _____ ,

Notice is hereby given that on _____ (date), the Company implemented the _____ Plan in connection with the existing shareholders. In accordance with Stock Appreciation Rights Program and the relevant rules and regulations of the Company, it is necessary to make an adjustment to the Stock Appreciation Rights that have already been granted to you but remain unexercised. Please complete the relevant formalities by presenting this Notification and the Stock Appreciation Rights Certificate to the Management Personnel Training and Remuneration Committee:

Date of Grant	Adjustment Basis		Record of Adjustments	
	Exercise Price	Units	Adjusted Price	Adjusted Units

The Management Personnel Training and Remuneration Committee

_____ (Date)

AIR CHINA LIMITED

Register of the Stock Appreciation Rights

(FOR THE YEAR 200)

(Form of Draft)

Name		Gender		ID card Number		Employee Number	
Telephone Number		Residential Address			Department		
Exercise Price				Units of the Stock Appreciation Rights			
Records of Adjustment to the Stock Appreciation Rights							
Date	Adjustment Basis		Adjusted Units		Reasons for Adjustment	Signature	Manager(s)
	Exercise Price	Units	Exercise Price	Units			
Records of the Exercise of the Stock Appreciation Rights							
Date	Exercise Price	Units Exercised	Accumulated Bonus	Notes	Signature	Manager(s)	
Records of Bonus Payment							
Date	Amount Paid		Notes	Signature		Manager(s)	
Details of the Successor							
Successor		Gender		Relationship		ID Card Number	
Correspondence Address				Contact Number			
Annual Audit and Notes							



中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 753)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Air China Limited (“Company”) will be held at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on 28 December 2006 to consider and, if thought fit, to pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the announcements of the Company dated 27 October 2006 and 13 November 2006, respectively:

Ordinary Resolutions:

1. **“THAT**, the Non-exempt Continuing Connected Transactions and their proposed annual cap for each of the three years ended 31 December 2007, 2008 and 2009 and the supplemental agreements in respect of the Company’s continuing connected transactions, which shall be approved or ratified by the Shareholders in accordance with PRC law, are hereby approved and ratified.”
2. **“THAT**, the Board form an Aviation Safety Committee comprising 3 members and Mr. Wang Shixiang serves as the chairman of this committee while Mr. Ma Xulun and Mr. Cai Jianjiang are the committee members are hereby approved.”
3. **“THAT**, all the board committees under the Board may engage both internal and external experts to provide professional support for their decision-making and the terms of such engagement shall expire upon the expiration of the current Board session, and the first list of experts of each board committee are hereby approved, and all board committees are authorized thereafter to select and replace any such experts and to decide other relevant engagement matters.”
4. **“THAT**, the Directors and Senior Management Stock Appreciation Rights Administrative Handbook is hereby approved.”
5. **“THAT**, Mr. Chen Nan Lok Philip is appointed as a non-executive Director and the term of his office shall commence upon the approval to the Proposed Amendment in respect of the number of Directors by relevant PRC authorities and shall end on the expiry of the term of the current session of the Board.”

Special Resolution:

1. “**THAT**, the Proposed Amendment including the amendments to the articles of association, made in accordance with relevant newly amended PRC laws, and the amendment that the number of Directors of the Board is increased from 12 to 13 are hereby approved.”

A circular containing the details in respect of the resolutions above will be despatched to the shareholders in accordance with the Hong Kong Listing Rules as soon as practicable.

By Order of the Board
Zheng Baoan Li Man Kit
Joint Company Secretaries

Beijing, the PRC
13 November 2006

As at the date of this notice, the Directors of the Company are Messrs Li Jiaxiang, Kong Dong, Wang Shixiang, Yao Weiting, Christopher Dale Pratt, Ma Xulun, Cai Jianjiang, Fan Cheng, Hu Hung Lick, Henry, Wu Zhipan*, Zhang Ke* and Jia Kang*.*

* Independent non-executive Director of the Company

Notes:

1. Closure of register of members and eligibility for attending the EGM

Holders of H Shares of the Company are advised that the register of members of the Company will close from 29 November 2006 to 28 December 2006 (both days inclusive), during which time no transfer of H Shares of the Company will be effected and registered. In order to qualify for attendance at the EGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, by 4:00 p.m. on 28 November 2006.

Shareholders of the Company whose names appear on the register of members of the Company at the close of business on 28 November 2006 are entitled to attend the EGM.

2. Notice of attendance

Shareholders who intend to attend the EGM should complete and lodge the accompanying notice of attendance and return it to, for holders of H Shares, the Company's H share registrar, or for holders of Domestic Shares the Company's Board Secretariat, on or before 7 December 2006. The notice of attendance may be delivered by hand, by post or by fax to the Company's H Share registrar, or to the address of the Company's Board Secretariat (as may be applicable). Completion and return of the notice of attendance do not affect the right of a shareholder to attend the EGM. However, the failure to return the notice of attendance may result in an adjournment of the EGM, if the number of shares carrying the right to vote represented by the shareholders proposing to attend the EGM by the notice of attendance does not reach more than half of the total number of shares of the Company carrying the right to vote at the EGM.

3. Proxy

Every shareholder who has the right to attend and vote at the EGM is entitled to appoint one or more proxies, whether or not they are members of the Company, to attend and vote on his behalf at the EGM.

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares or at the address of the Company's Board Secretariat for holders of Domestic Shares not less than 24 hours before the time appointed for the holding of the EGM. If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar or the address of the Company's Board Secretariat (as may be applicable).

4. Other businesses

- (i) The EGM is expected to last for two hours. Shareholders and their proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.
- (ii) The address of Computershare Hong Kong Investor Services Limited is:

46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990

- (iii) The address of the Company's Board Secretariat is:

Secretariat of the Board
Air China Limited
South Terminal
Beijing Capital International Airport
Chaoyang District
Beijing 100621
PRC
Tel No.: (86 10) 6458 0753
Fax No.: (86 10) 6458 5095
Contact Person: Mr. Zhou Wu