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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: 00753)

**DISCLOSEABLE TRANSACTION
AND
MAJOR TRANSACTION**

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“AIE”	Air China Import and Export Co., a company incorporated in the People’s Republic of China and a wholly-owned subsidiary of the Company
“Airbus Aircraft”	10 Airbus 330-series aircraft and 10 Airbus 350-series aircraft
“Airbus Company”	Airbus S. A. S., a company incorporated in Toulouse, France
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this circular
“CNAHC”	China National Aviation Holding Company, a company incorporated in the People’s Republic of China
“Company”	Air China Limited, a company incorporated in the People’s Republic of China whose H shares have a primary listing on The Stock Exchange of Hong Kong Limited and secondary listing on the Official List of the UK Listing Authority and whose A shares are listed on the Shanghai Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries and joint ventures
“Latest Practicable Date”	20 December 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“PRC”	People’s Republic of China excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Previous 2010 Airbus Aircraft Purchases”	the purchase of 20 Airbus 320-series aircraft pursuant to an aircraft purchase agreement entered into by the Company, AIE and Airbus Company on 10 February and the purchase of 10 Airbus 320-series aircraft pursuant to an aircraft purchase agreement entered into by Shenzhen Airlines, AIE and Airbus Company on 30 July 2010
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	shareholders of the Company
“Shenzhen Airlines”	Shenzhen Airlines Limited, a company incorporated and validly existing under the laws of the People’s Republic of China with limited liability and with 51% of its registered share capital owned by the Company as at the date of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

LETTER FROM THE BOARD



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: 00753)

Directors:

Non-executive Directors:

Kong Dong (*Chairman*)
Wang Yinxiang
Cao Jianxiong
Sun Yude
Christopher Dale Pratt
Ian Sai Cheung Shiu

Executive Directors:

Cai Jianjiang
Fan Cheng

Independent non-executive Directors:

Jia Kang
Fu Yang
Han Fangming
Li Shuang

Registered address:

9/F, Blue Sky Mansion
28 Tianzhu Road
Zone A
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Principal place of business

in Hong Kong:

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

22 December 2010

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND MAJOR TRANSACTION

1. INTRODUCTION

On 10 February 2010 the Company announced that the Company and AIE entered into a purchase agreement with Airbus Company, pursuant to which the Company has agreed to purchase 20 Airbus 320-series aircraft from Airbus Company. On 30 July 2010, the Company announced that Shenzhen Airlines, a subsidiary of the Company, and AIE entered into a purchase agreement with Airbus Company, pursuant to which Shenzhen Airlines has agreed to purchase 10 Airbus 320-series aircraft from Airbus Company.

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Each of the above transactions constitutes a discloseable transaction of the Company under the Listing Rules.

On 18 November 2010 the Company announced that the Company and AIE entered into a purchase agreement with Airbus Company, pursuant to which the Company has agreed to purchase 10 Airbus 330-series aircraft and 10 Airbus 350-series aircraft from Airbus Company. This purchase of 10 Airbus 330-series aircraft and 10 Airbus 350-series aircraft, aggregated with the above transactions, constitutes a major transaction of the Company under the Listing Rules.

The purpose of this circular is to set out further details of the above transactions.

2. DISCLOSEABLE TRANSACTION

(A) Purchase of 20 Airbus 320-series Aircraft

Date of the transaction:

10 February 2010

Parties to the transaction:

- (i) the Company, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;
- (ii) AIE, as the import agent for the Company; and
- (iii) Airbus Company, as the vendor, one of whose principal business activity is aircraft manufacturing.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Airbus Company and each of the ultimate beneficial owner of Airbus Company are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Aircraft to be acquired:

20 Airbus 320-series aircraft

Consideration:

The aircraft basic price comprises the airframe price, optional features prices and engine price. The aircraft basic price of the 20 Airbus 320-series aircraft in aggregate is approximately US\$1,628 million (equivalent to approximately HK\$12,649.6 million) (price quoted from open market as at 2010). The aircraft price is subject to price

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escalation by applying a formula. Airbus Company has granted to the Company significant price concessions with regard to the 20 Airbus 320-series aircraft. These will take the form of credit memoranda which may be used by the Company towards the final price payment of the 20 Airbus 320-series aircraft or may be used for the purpose of purchasing goods and services from Airbus Company. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the 20 Airbus 320-series aircraft is lower than the aircraft basic price mentioned above.

This transaction was negotiated and entered into in accordance with customary business practice. The Directors confirm that the extent of the price concessions granted to the Company in this transaction is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between the Company and Airbus Company as set out in the circular of the Company dated 29 July 2008. The Company believes that there is no material impact of the price concessions obtained in this transaction on the unit operating cost of the Company's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of the actual price, for aircraft acquisitions. Disclosure of the actual consideration will result in the loss of the significant price concessions and hence a significant negative impact on the Company's cost for this transaction and will therefore not be in the interest of the Company and the Company's shareholders as a whole. The Company has applied to the Stock Exchange for a waiver from strict compliance of Rule 14.58(4) of the Listing Rules in respect of disclosure of the actual consideration of the 20 Airbus 320-series aircraft and the Stock Exchange granted the application.

As the relevant percentage ratio under Rule 14.07 of the Listing Rules for this transaction is above 5% but less than 25%, this transaction constitutes a discloseable transaction and is therefore not subject to approval by the Company's shareholders under the Listing Rules.

Payment and delivery terms:

The aggregate consideration for the acquisition of 20 Airbus 320-series aircraft is payable by cash in instalments. The Company is expecting to take delivery of the 20 Airbus 320-series aircraft in stages from 2011 to 2014.

Source of funding:

This transaction will be funded through cash generated from the Company's business operations, commercial bank loans and other financing instruments of the Company.

Reasons for and benefits of the transaction:

This transaction will expand the fleet capacity of the Company. If not taking into account the adjustments that may be made to the fleet based on marketing condition and

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the aging of the fleet, this transaction will strengthen the fleet capacity of the Company with an increase of approximately 5% based on available tonne kilometers of the Company as at 31 December 2009. In particular, this transaction will mainly support hubs-building in Chengdu and expand the fleet capacity of the Company in southwestern China while supplementing, to an appropriate extent, the flights in eastern China. The Company expects the 20 Airbus 320-series aircraft will deliver more cost-efficient performance and provide more comfortable services to passengers.

The Directors believe that the terms of this transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(B) Shenzhen Airlines' Purchase of 10 Airbus 320-series Aircraft

Date of the transaction:

30 July 2010

Parties to the transaction:

- (i) Shenzhen Airlines, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;
- (ii) AIE, as the import agent for the Company; and
- (iii) Airbus Company, as the vendor, one of whose principal business activity is aircraft manufacturing.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Airbus Company and each of the ultimate beneficial owner of Airbus Company are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Aircraft to be acquired:

10 Airbus 320-series aircraft

Consideration:

The aircraft basic price comprises the airframe price, optional features prices and engine price. The aircraft basic price of the 10 Airbus 320-series aircraft in aggregate is approximately US\$814 million (equivalent to approximately HK\$6,324.78 million) (price quoted from open market as at 2010). The aircraft price is subject to price escalation by applying a formula. Airbus Company has granted to Shenzhen Airlines significant price concessions with regard to the 10 Airbus 320-series aircraft. These will take the form of credit memoranda which may be used by Shenzhen Airlines towards the final price

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payment of the 10 Airbus 320-series aircraft or may be used for the purpose of purchasing goods and services from Airbus Company. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the 10 Airbus 320-series aircraft is lower than the aircraft basic price mentioned above.

This transaction was negotiated and entered into in accordance with customary business practice. The Directors confirm that the extent of the price concessions granted to Shenzhen Airlines in this transaction is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between the Company and Airbus Company as set out in the announcement of the Company dated 10 February 2010. The Company believes that there is no material impact of the price concessions obtained in this transaction on the unit operating cost of the Company's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of the actual price, for aircraft acquisitions. Disclosure of the actual consideration will result in the loss of the significant price concessions and hence a significant negative impact on the Company's cost for this transaction and will therefore not be in the interest of the Company and the Company's shareholders as a whole. The Company has applied to the Stock Exchange for a waiver from strict compliance of Rule 14.58(4) of the Listing Rules in respect of disclosure of the actual consideration of the 10 Airbus 320-series aircraft and the Stock Exchange granted the application.

As this transaction and the purchase of 20 Airbus 320-series aircraft by the Company dated 10 February 2010 (the "Previous Airbus Transaction") were entered into within a 12 month period and were both with Airbus Company, pursuant to Rule 14.22 of the Listing Rules, their transaction amounts should be aggregated for the purpose of determining relevant percentage ratios under Rule 14.07 of the Listing Rules. The aggregated transaction amount is approximately US\$2,442 million (HK\$18,974 million).

As the relevant percentage ratio under Rule 14.07 of the Listing Rules for this transaction with aggregated transaction amount with the Previous Airbus Transaction is above 5% but less than 25%, this transaction constitutes a discloseable transaction and is therefore not subject to approval by the Company's shareholders under the Listing Rules.

Payment and delivery terms:

The aggregate consideration for the acquisition of 10 Airbus 320-series aircraft is payable by cash in instalments. Shenzhen Airlines is expecting to take delivery of the 10 Airbus 320-series aircraft in stages from 2012 to 2013.

Source of funding:

This transaction will be funded through cash generated from Shenzhen Airlines' business operations, commercial bank loans and other financing instruments of Shenzhen Airlines.

Reasons for and benefits of the transaction:

This transaction will expand the fleet capacity of the Group. If not taking into account the adjustments that may be made to the fleet based on marketing condition and

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the aging of the fleet, this transaction will strengthen the fleet capacity of the Group with an increase of approximately 2% based on available tonne kilometers of the Group as at 31 December 2009. In particular, this transaction will mainly expand the fleet capacity of Shenzhen Airlines in south China. The Group expects the 10 Airbus 320-series aircraft will deliver more cost-efficient performance and provide more comfortable services to passengers.

The Directors believe that the terms of this transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

3. MAJOR TRANSACTION

Purchase of 10 Airbus 330-series Aircraft and 10 Airbus 350-series Aircraft

Date of the transaction:

18 November 2010

Parties to the transaction:

- (i) the Company, as the purchaser, the principal business activity of which is air passenger, air cargo and airline-related services;
- (ii) AIE, as the import agent for the Company; and
- (iii) Airbus Company, as the vendor, one of whose principal business activity is aircraft manufacturing.

The Company confirms that, to the best of the Directors' knowledge, information and belief after all reasonable enquiry, Airbus Company and each of the ultimate beneficial owners of Airbus Company are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

Aircraft to be acquired:

Airbus Aircraft, i.e. 10 Airbus 330-series aircraft and 10 Airbus 350-series aircraft

Consideration:

The aircraft basic price comprises the airframe price, optional features prices and engine price. The aircraft basic price of the Airbus Aircraft in aggregate is approximately US\$4,490 million (equivalent to approximately HK\$34,811 million) (price quoted from open market as at January 2007 for 10 Airbus 330-series aircraft and January 2008 for 10 Airbus 350-series aircraft). The aircraft price is subject to price escalation by applying a formula. Airbus Company has granted to the Company significant price concessions with

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regard to the Airbus Aircraft. These concessions will take the form of credit memoranda which may be used by the Company towards the final price payment of the Airbus Aircraft or may be used for the purpose of purchasing goods and services from Airbus Company. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Airbus Aircraft is lower than the aircraft basic price mentioned above.

This transaction was negotiated and entered into in accordance with customary business practice. The Directors confirm that the extent of the price concessions granted to the Company in this transaction is comparable with the price concessions that the Company had obtained in the previous aircraft purchase entered into between Shenzhen Airlines and Airbus Company as set out in the announcement of the Company dated 30 July 2010. The Company believes that there is no material impact of the price concessions obtained in this transaction on the unit operating cost of the Company's fleet. It is normal business practice of the global airline industry to disclose the aircraft basic price, instead of the actual price, for aircraft acquisitions. Disclosure of the actual consideration will result in the loss of the significant price concessions and hence a significant negative impact on the Company's cost for this transaction and will therefore not be in the interest of the Company and the Company's shareholders as a whole. The Company has applied to the Stock Exchange for a waiver from strict compliance of Rule 14.58(4) of the Listing Rules in respect of disclosure of the actual consideration of the Airbus Aircraft and the Stock Exchange granted the application.

As the Previous 2010 Airbus Aircraft Purchases and this transaction were entered into within a 12 month period with Airbus Company, pursuant to Rule 14.22 of the Listing Rules, their transaction amounts should be aggregated for the purpose of determining relevant percentage ratios under Rule 14.07 of the Listing Rules. The aggregated transaction amount is approximately US\$6,932 million (HK\$53,744 million).

As each of the relevant percentage ratios under Rule 14.07 of the Listing Rules for this transaction with aggregated transaction amount with the Previous 2010 Airbus Aircraft Purchases is above 25% but less than 100%, this transaction constitutes a major transaction and is therefore subject to approval by the Company's shareholders under the Listing Rules.

Payment and delivery terms:

The aggregate consideration for the acquisition of Airbus Aircraft is payable by cash in instalments. The Company is expecting to take delivery of 10 Airbus 330-series aircraft in stages from 2013 to 2015 and 10 Airbus 350-series aircraft in stages from 2018 to 2020.

Source of funding:

This transaction will be funded through cash generated from the Company's business operations, commercial bank loans and other financing instruments of the Company.

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Reasons for and benefits of the transaction:

This transaction will expand the capacity of the Company's fleet. If not taking into account the adjustments that may be made to the fleet based on marketing condition and the aging of the fleet, this transaction will increase the fleet capacity of the Group by approximately 18.6% based on available tonne kilometers of the Group as at 31 December 2009. In particular, this transaction would optimise the fleet structure of the Company and is in line with the market requirements for the Company. The Company expects the Airbus Aircraft will deliver more cost-efficient performance and provide more comfortable services to passengers.

The Directors believe that the terms of this transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

4. FINANCIAL AND TRADING PROSPECTS

As disclosed in the 2009 annual report of the Company dated 29 April 2010, for the financial year ended 31 December 2009, air traffic revenue and other operating revenue reached RMB48,092 million and RMB3,301 million, respectively, representing a decrease of 4.84% and an increase of 39.22% over 2008. The decrease is primarily due to the overall decreased demand from international air passenger and cargo markets caused by the global economic crisis and the increase is primarily attributed to a revenue refund of RMB830 million from CAAC Infrastructure Development Fund in 2009. The Directors believe that rising aviation fuel prices and increasing competition in the airline business will present new challenges for the Group in 2010. However, the Directors view the financial and trading prospects during the current financial year of the Company ending 31 December 2010 with confidence and believe that the Group is well placed to continue to develop its business in line with its strategy. In addition, the Directors are of the view that the discloseable transaction and the major transaction are not expected to have any material impact on earnings, assets and liabilities of the Company.

5. WORKING CAPITAL

Taking into account the financial resources available to the Group, the Directors are of the opinion that the Group will have sufficient working capital for the Group's requirement for the next 12 months following the date of this circular.

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6. RECOMMENDATION AND SHAREHOLDER'S WRITTEN APPROVAL

This circular is despatched to Shareholders for information purpose only. No general meeting will be convened for approving the major transaction. As at the Latest Practicable Date, CNAHC, the controlling Shareholder, directly and indirectly (through CNACG, a wholly-owned subsidiary of CNAHC), held approximately 51.47% of the total issued share capital of the Company. Each of CNAHC and CNACG and their respective associates (as defined in the Listing Rules) does not have any interest in the major transaction other than as a shareholder of the Company (where applicable). Furthermore, as no Shareholder has a material interest in the major transaction which is different from other Shareholders, no Shareholder would be required to abstain from voting in respect of the major transaction if a general meeting were convened for approving the major transaction. The major transaction has accordingly been approved in writing by CNAHC and CNACG pursuant to Rule 14.44 of the Listing Rules.

Although no general meeting will be convened, the Board considers that each of the discloseable transactions and the major transaction were entered into on normal commercial terms and the terms of the discloseable transaction and the major transaction are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting were convened for approving the major transaction, the Board would have recommended the Shareholders to vote in favor of the major transaction.

7. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Air China Limited
Chairman
Kong Dong

Beijing

I. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2009 has been set out from page 57 in the Annual Report 2009 of the Company which was published on 29 April 2010. The Annual Report 2009 has also been posted on the Stock Exchange's website at <http://www.hkexnews.hk>. Please also see below quick link to the Annual Report 2009:

<http://www.hkexnews.hk/listedco/listconews/sehk/20100429/LTN201004291647.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2008 has been set out from page 57 in the Annual Report 2008 of the Company which was published on 23 April 2009. The Annual Report 2008 has also been posted on the Stock Exchange's website at <http://www.hkexnews.hk>. Please also see below quick link to the Annual Report 2008:

<http://www.hkexnews.hk/listedco/listconews/sehk/20090423/LTN20090423737.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2007 has been set out from page 52 in the Annual Report 2007 of the Company which was published on 10 April 2008. The Annual Report 2007 has also been posted on the Stock Exchange's website at <http://www.hkexnews.hk>. Please also see below quick link to the Annual Report 2007:

<http://www.hkexnews.hk/listedco/listconews/sehk/20080410/LTN20080410453.pdf>

The unaudited interim financial information of the Group for the six months ended 30 June 2010 has been set out from page 25 in the Interim Report 2010 of the Company which was published on 8 September 2010. The Interim Report 2010 has also been posted on the Stock Exchange's website at <http://www.hkexnews.hk>. Please also see below quick link to the Interim Report 2010:

<http://www.hkexnews.hk/listedco/listconews/sehk/20100908/LTN20100908183.pdf>

II. INDEBTEDNESS

Borrowings

The table below sets forth the Group's total outstanding indebtedness as at 31 October 2010:

	<i>Notes</i>	Total RMB (in million)
Bills payable		1
Bank loans, and other loans	<i>(1)</i>	56,844
Corporate bonds	<i>(1)</i>	9,000
Finance lease obligations	<i>(2)</i>	<u>17,940</u>
Total		<u><u>83,785</u></u>

Notes:

- (1) The Group's bank loans, other loans and corporate bonds with an aggregate carrying amount of approximately RMB27,075 million were secured by mortgages over certain of the Group's assets and/or guarantees. The pledged assets included aircraft, buildings and land use rights with an aggregate carrying amount of approximately RMB27,284 million, advance payments for aircraft of RMB2,742 million, listed shares in an associate of RMB7,181 million and bank deposits of approximately RMB617 million as at 31 October 2010. Certain guarantees were provided by banks with back-to-back counter-guarantees provided by certain major banks in China with an aggregate amount of approximately RMB1,272 million.
- (2) The Group's finance lease obligations with an aggregate carrying amount of approximately RMB17,940 million were secured by mortgages over certain of the Group's aircraft and/or guarantees. The pledged aircraft had an aggregate net book value of approximately RMB28,637 million as at 31 October 2010. The guarantees were provided by a commercial bank with back-to-back counter-guarantees provided by a major bank in China of approximately RMB301 million as at 31 October 2010.

In addition to the above, as at 31 October 2010 certain of the Group's bank deposits with an aggregate carrying amount of approximately RMB468 million were pledged against the Group's aircraft operating leases and financial derivatives.

Contingent liabilities

As at 31 October 2010, the Group had the following significant contingent liabilities:

- (i) Pursuant to the restructuring of China National Aviation Holding Company ("CNAHC", the Company's parent and ultimate holding company) for the listing of the Company's H shares on the Hong Kong Stock Exchange ("HKSE") and the London Stock Exchange ("LSE") in 2004, the Company

entered into a restructuring agreement (the “Restructuring Agreement”) with CNAHC and China National Aviation Corporation (Group) Limited (“CNACG”, a wholly-owned subsidiary of CNAHC) on 20 November 2004. According to the Restructuring Agreement, except for liabilities constituting or arising out of or relating to businesses undertaken by the Company after the restructuring, no liabilities would be assumed by the Company and the Company would not be liable, whether severally or jointly and severally, for debts and obligations incurred by CNAHC and CNACG prior to the restructuring. The Company has also undertaken to indemnify CNAHC and CNACG against any damage suffered or incurred by CNAHC and CNACG as a result of any breach by the Company of any provision of the Restructuring Agreement.

- (ii) On 15 April 2002, Flight CA129 crashed on approach to the Gimhae International Airport, South Korea. There were 129 fatalities including 121 passengers and 8 crew members aboard the crashed airplane. Investigations were conducted by both the Chinese and Korean civil aviation authorities and have yet to be concluded at the date of this circular. Certain injured passengers and family members of the deceased passengers as well as crew members have commenced proceedings in the Korean courts seeking damages against Air China International Corporation (the predecessor of the Company). The Group cannot predict the timing of the courts’ judgements or the possible outcome of the lawsuits or any possible appeal actions. Up to 31 October 2010, the Company, Air China International Corporation and the Company’s insurer had paid an aggregate amount of approximately RMB425 million in respect of passenger liability and other auxiliary costs. Included in the RMB425 million was an amount of approximately RMB415 million borne by the Company’s insurer. As part of the above-mentioned restructuring, CNAHC has agreed to indemnify the Group against any liabilities relating to the crash of Flight CA129, excluding the compensation already paid up to 30 September 2004 (being the date of incorporation of the Company). The Directors of the Company believe that the accident will not have any material adverse impact on the Group’s financial position.

- (iii) On 26 February 2007, the Federal Judiciary of the United States filed a civil summon against the Company and Air China Cargo Co., Ltd. (a subsidiary of the Company) claiming that they, together with a number of other airlines, have violated certain anti-trust regulations in respect of their air cargo operations. The status of the proceedings is still in the preliminary stage and therefore the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. Also, the Directors of the Company are of the view that there would be valid defense against this claim and consider that no provision for this claim is needed accordingly.

- (iv) On 17 November 2009, Airport City Development Co., Ltd. (“Airport City Development”) commenced proceedings involving approximately RMB224 million against the Company, Air China Cargo, Air China International Corporation and a third party, for the unlawful use of land owned by Airport City Development. The status of the proceedings is still in the preliminary stage and the Directors of the Company are of the view that it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. Also, the Directors of the Company are of the view that there would be valid defense against this claim and consider that no provision for this claim is needed accordingly.
- (v) Shenzhen Airlines Co., Ltd. (“Shenzhen Airlines”), a subsidiary of the Group has provided guarantees for certain bank and other loan facilities. As at 31 October 2010, Shenzhen Airlines has outstanding guarantees in respect of bank and other loan facilities of approximately RMB659 million.

Except as disclosed above and apart from intra-group liabilities, as at 31 October 2010, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, mortgages and charges, contingent liabilities or guarantee.

Save as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness of the Group since 31 October 2010.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors and supervisors of the Company has interests or short positions in the shares, underlying shares or debentures 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which have been taken or deemed to be taken 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 Transaction by Directors of Listed Companies.

None of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2009 (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 is concurrently the Chairman and Executive Director of Cathay Pacific. Mr. Ian Sai Cheung Shiu is a Non-executive Director of the Company and is concurrently the Non-executive Director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company and wholly owns Hong Kong Dragon Airlines Limited (“**Dragonair**”). Mr. Kong Dong, the chairman and a Non-executive Director of the Company is concurrently the Deputy Chairman and Non-executive Director of Cathay Pacific and Mr. Cai Jianjiang and Mr. Fan Cheng, both Executive Directors of the Company, are concurrently Non-executive Directors of Cathay Pacific. Cathay Pacific 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. MATERIAL CONTRACTS

The Group has entered into the following material contracts within the two years immediately preceding the date of this circular:

- (a) the sale and purchase agreement dated 2 April 2009 between the Company and Capital Airports Holding Company (“Capital Airports”) pursuant to which the Company has agreed to purchase from Capital Airports its 24% equity interest in the registered capital of Air China Cargo for a consideration of RMB718,004,045, details of which are set out in the Company’s circular dated 14 April 2009;
- (b) the agreement dated 17 August 2009 between the Company and CITIC Pacific Limited (“CITIC Pacific”) pursuant to which the Company has agreed to purchase, and CITIC Pacific has agreed to sell, 491,864,724 Cathay Pacific shares owned by CITIC Pacific for a consideration of approximately HK\$6,335 million. This transaction, details of which are set out in the Company’s announcement dated 17 August 2009, was completed on 27 November 2009;
- (c) the aircraft purchase agreement dated 10 February 2010 between the Company, AIE and Airbus Company pursuant to which the Company has agreed to purchase 20 Airbus 320-series aircraft from Airbus Company, details of which are set out in this circular;
- (d) the framework agreement and the relevant agreements dated 25 February 2010 between the Company, Cathay Pacific and other parties pursuant to which they agreed to establish a jointly owned cargo airline by way of Cathay Pacific’s acquisition of a 25% equity interest in Air China Cargo through its wholly owned subsidiary Cathay Pacific China Cargo Holdings Limited at a consideration of RMB851,621,140. In addition, pursuant to the framework agreement and the relevant agreements, Advent Fortune Limited (“AFL”) will acquire from China National Aviation Company Limited, the entire equity of Fine Star Enterprises Corporation (“Fine Star”) using a loan of approximately RMB817 million obtained from Cathay Pacific. In return, AFL will pledge its equity interest in Fine Star, a shareholder of Air China Cargo, to Cathay Pacific and Cathay Pacific’s returns on the loan will be equal to the dividend returns on the 24% effective shareholding of Fine Star in Air China Cargo. Air China has agreed to, pursuant to the framework agreement and the relevant agreements, use the capital contributions aforesaid to purchase from Cathay Pacific and Dragonair four Boeing 747-400BCF converted freighters at a consideration of RMB1,924 million. The details of the transactions contemplated under the framework agreement and the relevant agreements are set out in the Company’s circular dated 8 April 2010;

- (e) the A share subscription agreement dated 11 March 2010 between the Company and CNAHC pursuant to which CNAHC will commit at least RMB1,500 million to subscribe in cash for more than 157,000,000 new A shares and the H share subscription agreement between the Company and CNACG pursuant to which CNACG will subscribe in cash for not more than 157,000,000 new H shares, details of which are set out in the Company's circular dated 14 March 2010. This transaction was completed on 24 November 2010;
- (f) the capital increase agreement dated 21 March 2010 between the Company, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") and Shenzhen Huirun Investment Co. Ltd. ("Huirun") pursuant to which the Company and Total Logistics have agreed to make capital contribution to Shenzhen Airlines and Huirun's liquidator has waived, on behalf of Huirun, its right to subscribe for the additional registered capital and agreed that the Company and Total Logistics shall subscribe for the entire additional registered capital of Shenzhen Airlines. Pursuant to the capital increase agreement, the Company will contribute RMB682,143,750 to subscribe for an additional registered capital of Shenzhen Airlines of RMB339,375,000. This transaction, details of which are set out in the Company's announcement dated 21 March 2010. This transaction was completed on 19 April 2010;
- (g) the aircraft purchase agreement dated 25 June 2010 between the Company, AIE and Boeing Company pursuant to which the Company has agreed to purchase 20 Boeing 737-800 aircraft from Boeing Company, details of which are set out in the Company's circular dated 13 October 2010;
- (h) the aircraft purchase agreement dated 30 July 2010 between Shenzhen Airlines (a subsidiary of the Company), AIE and Airbus Company pursuant to which Shenzhen Airlines has agreed to purchase 10 Airbus 320-series aircraft from Airbus Company, details of which are set out in this circular;
- (i) the aircraft supplemental agreement dated 31 August 2010 between the Company, AIE and Boeing Company pursuant to which the Company has agreed to purchase 15 Boeing 787-9 aircraft from Boeing Company to replace the 15 Boeing 787-8 aircraft as agreed to be purchased by the Company from Boeing Company in 2005, details of which are set out in the Company's circular dated 13 October 2010;
- (j) the aircraft purchase agreement dated 10 September 2010 between the Company, AIE and Boeing Company pursuant to which the Company has agreed to purchase 4 Boeing 777-300ER aircraft from Boeing Company, details of which are set out in the Company's circular dated 13 October 2010; and
- (k) the aircraft purchase agreements dated 18 November 2010 between the Company, AIE and Airbus Company pursuant to which the Company has agreed to respectively purchase 10 Airbus 330-series aircraft and 10 Airbus 350-series aircraft from Airbus Company, details of which are set out in this circular.

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

4. LITIGATION

As at the Latest Practical Date, the litigation or claims of material importance pending or threatened against a member of the Group are as disclosed in the section titled “Contingent Liabilities” found under “II. Indebtedness” in Appendix I.

As at the Latest Practical Date, save as disclosed above, the audited Company was not involved in any significant litigation or arbitration. To the knowledge of the Company, there was no litigation or claim of material importance pending, to be initiated or initiated against the Company except as disclosed above, there was no litigation or claims of material importance pending or threatened against any member of the Group.

5. SERVICE CONTRACTS

Each of the Directors was appointed by the Company on 28 October 2010 for a term of three years. 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 2009, being the date to which the latest published audited accounts of the Group have been made up.

7. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Huang Bin and Tam Shuit Mui, Amy. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of The American Institute of Certified Public Accountants.
- (b) The registered address of the Company is at 9/F., Blue Sky Mansion, 28 Tianzhu Road, Zone A, Tianzhu Airport Industrial Zone, Shunyi District, Beijing, China. The head office of the Company is at No. 30, Tianzhu Road, Tian Zhu Airport Economic Development Zone, Shunyi District, Beijing, China.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

8. 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 5 January 2011:

- (a) the articles of association of the Company;
- (b) the Company's 2008 and 2009 annual reports;
- (c) a copy of each material contract referred in the section headed "Material Contracts" of this circular; and
- (d) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since the date of the latest published audited accounts of the Company.