THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Air China Limited, you should at once hand this circular and the form of proxy and the notice of attendance to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

(1) PROPOSED ISSUANCE OF NEW A SHARES AND NEW H SHARES UNDER SPECIFIC MANDATES AND (2) CONNECTED TRANSACTION: SUBSCRIPTION OF NEW A SHARES BY CNAHC AND SUBSCRIPTION OF NEW H SHARES BY CNACG

Financial Adviser

中信証券國際
CITIC Securities International

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

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

A letter from the Board is set out on pages 6 to 17 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 18 to 19 of this circular.

A letter from China Merchants Securities, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 20 to 35 of this circular.

15 March 2010

CONTENTS

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

"A Share Issue"	has the meaning as described under the section "Proposed Issuance of New A Shares and New H Shares under Specific Mandates and Subscription of New A Shares by CNAHC and Subscription of New H Shares by CNACG" in the "Letter from the Board" as set out in this circular
"A Share Subscription Agreement"	means in relation to and as part of the A Share Issue, the subscription agreement entered into between CNAHC and the Company on 11 March 2010, under which, CNAHC agrees to commit at least RMB1,500 million to subscribe for, and the Company agrees to issue, not more than 157,000,000 new A Shares at the subscription price of not less than RMB9.58 per A Share
"A Shares"	means the Domestic Shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are listed on the Shanghai Stock Exchange
"Articles of Association"	means the articles of association of the Company
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"China Merchants Securities"	China Merchants Securities (HK) Co., Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571)
"Class Meetings"	the Domestic Shareholders Class Meeting and the Foreign Shareholders Class Meeting to be held on 29 April 2010 to approve, inter alia, the A Share Issue, the H Share Issue, the CNAHC Subscription and the CNACG Subscription

"CNACG"	means 中國航空(集團)有限公司 (China National Aviation Corporation (Group) Limited), a company incorporated under the laws of Hong Kong, and a wholly owned subsidiary of CNAHC and a substantial shareholder of the Company, which directly holds approximately 11.42% of the Company's issued share capital as at the Latest Practicable Date and is an investment holding company whose principal business is the passenger terminal operation, cargo terminal operation, airport ground handling services, airline catering services, property investment, ticket and tourism services, logistics and other businesses through its subsidiaries
"CNACG Subscription"	the subscription by CNACG in cash for not more than 157,000,000 new H Shares at the subscription price of not less than HK$6.62 per H Share pursuant to the H Share Subscription Agreement
"CNAHC"	means 中國航空集團公司 (China National Aviation Holding Company), a wholly PRC state-owned enterprise and the controlling shareholder of the Company, which directly and indirectly holds an aggregate of approximately 51.82% of the Company's issued share capital as at the date of this announcement and whose principal business is to manage the state-owned assets of CNAHC and the equity it holds in various companies
"CNAHC Subscription"	the subscription by CNAHC in cash for not more than 157,000,000 new A Shares at the subscription price of not less than RMB9.58 per A Share with a commitment of at least RMB1,500 million subscription amount pursuant to the A Share Subscription Agreement
"Company"	means 中國國際航空股份有限公司 (Air China Limited), a joint stock limited company incorporated in the PRC with limited liability, 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, and whose principal business is the operation of scheduled airline services
"connected person"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules

"CSRC"	means the China Securities Regulatory Commission
"Directors"	the directors of the Company
"Domestic Shareholders"	means the holders of Domestic Shares
"Domestic Shareholders Class Meeting"	the class meeting for holders of Domestic Shares to be held on 29 April 2010 to approve, inter alia, the A Share Issue, the H Share Issue, the CNAHC Subscription and the CNACG Subscription
"Domestic Shares"	means the ordinary shares of RMB1.00 each issued by the Company, which are subscribed for in Renminbi or credited as fully paid up by PRC nationals
"EGM"	An extraordinary general meeting of the Company to be convened on 29 April 2010 to approve, inter alia, the A Share Issue, the H Share Issue, the CNAHC Subscription and the CNACG Subscription
"Foreign Shareholders"	means the holders of Foreign Shares
"Foreign Shareholders Class Meeting"	the Class Meeting for holders of Foreign Shares to be held on 29 April 2010 to approve, inter alia, the A Share Issue, the H Share Issue, the CNAHC Subscription and the CNACG Subscription
"Foreign Shares"	means the ordinary shares of RMB1.00 each issued by the Company, which are subscribed for in foreign currency or credited as fully paid up by foreign investors, which includes H Shares and the A Shares held by CNACG
"Group"	the Company and its subsidiaries
"H Share Issue"	has the meaning as described under the section "Proposed Issuance of New A Shares and New H Shares under Specific Mandates and Subscription of New A Shares by CNAHC and Subscription of New H Shares by CNACG" in the "Letter from the Board" as set out in this circular
"H Share Subscription Agreement"	means in relation to the H Share Issue, the subscription agreement entered into between CNACG and the Company on 11 March 2010, under which, CNACG agrees to subscribe for, and the Company agrees to issue, not more than 157,000,000 new H Shares at the subscription price of not less than HK$6.62 per share

"H Shares"	means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi and are listed on the Hong Kong Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	an independent committee of the Directors comprising of Hu Hung Lick Henry, Zhang Ke, Jia Kang and Fu Yang all of whom are independent non-executive Directors
"Independent Financial Adviser"	China Merchants Securities (HK) Co., Ltd.
"Independent Shareholders"	means the shareholders of the Company, other than CNAHC, CNACG and their respective associates
"Latest Practicable Date"	12 March 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 Hong Kong Stock Exchange
"Percentage Ratios"	the percentage ratios set out in Rule 14.07 of the Listing Rules, i.e. "assets ratio", "profits ratio", "revenue ratio", "consideration ratio" and "equity capital ratio"
"PRC" or "China"	the People's Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
"Pricing Base Day"	means the date of announcement of the resolutions of the 36th meeting of the second session of the Board, i.e. 12 March 2010
"RMB"	means Renminbi, the lawful currency of the PRC
"Shareholders"	shareholders of the Company

"Shares"	means A Shares and H Shares
"Specific Mandates"	means the specific mandates granted by the Shareholders to the Board in relation to the A Share Issue and H Share Issue as described in section " Proposed Issuance of New A Shares and New H Shares under Specific Mandates and Subscription of New A Shares by CNAHC and Subscription of New H Shares by CNACG-1. General" of this circular
"Subscriptions"	means the subscriptions of new A Shares and new H Shares pursuant to the Specific Mandates
"substantial shareholder"	has the meaning ascribed thereto under the Listing Rules
"trading day"	with respect to A Shares, means a day on which the Shanghai Stock Exchange is open for dealing or trading in securities; and with respect to H Shares, means a day on which the Hong Kong Stock Exchange is open for dealing or trading in securities
"%"	per cent.

In this circular, for the avoidance of doubt, references to "not less than" a figure and "not more than" a figure shall include the figure mentioned.

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)

Non-executive Directors:
Mr. Kong Dong
Ms. Wang Yinxiang
Mr. Wang Shixiang
Mr. Cao Jianxiong
Mr. Christopher Dale Pratt
Mr. Chen Nan Lok, Philip

Executive Directors:
Mr. Cai Jianjiang
Mr. Fan Cheng

Independent non-executive Directors:
Mr. Hu Hung Lick, Henry
Mr. Zhang Ke
Mr. Jia Kang
Mr. Fu Yang

Registered office:
9th Floor, Blue Sky Mansion
28 Tianzhu Road
Zone A Tianzhu
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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

15 March 2010

To the Shareholders

I. PROPOSED ISSUANCE OF NEW A SHARES AND NEW H SHARES UNDER SPECIFIC MANDATES AND SUBSCRIPTION OF NEW A SHARES BY CNAHC AND SUBSCRIPTION OF NEW H SHARES BY CNACG

1. General

At the Board meeting of the Company held on 11 March 2010, it was resolved that the Board will convene an extraordinary general meeting and the class meetings of the Domestic Shareholders and the Foreign Shareholders, respectively, for the grant of specific mandates to the Board to issue not more than 585,000,000 new A Shares to not more than 10 specific investors including CNAHC (the "**A Share Issue**") and issue not more than 157,000,000 new H Shares to CNACG (the "**H Share Issue**") on the terms set out in this circular.

Accordingly, on 11 March 2010, CNAHC entered into the A Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit at least RMB1,500 million to subscribe in cash for not more than 157,000,000 new A Shares at the subscription price of not less than RMB9.58 per A Share, and CNACG entered into the H Share Subscription Agreement with the Company, pursuant to which, CNACG will subscribe in cash for not more than 157,000,000 new H Shares at the subscription price of not less than HK$6.62 per H Share.

2. Structure of the A Share Issue

Class of shares to be issued and the nominal value:	A Shares with par value of RMB1.00 each
Target subscribers:	Not more than 10 qualified investors including CNAHC
Number of A Shares to be issued:	Not more than 585,000,000 A Shares, of which CNAHC will commit at least RMB1,500 million to subscribe in cash for not more than 157,000,000 new A Shares. The maximum number of new A Shares to be issued will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance.
Method of issue:	Non-public offering. The new A Shares will be issued accordingly within 6 months after the approval from CSRC on the same has been obtained. The subscription price shall be paid in cash.

Basis for determining the issue price:	The price of new A Shares shall be no less than RMB9.58 per A Share i.e. not less than 90% of the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Base Day). Based on the minimum issue price mentioned above, the issue price of the new A Shares will be determined by a book-building process. The Board and the sponsor (the lead underwriter) shall determine the final issue price. CNAHC will not participate in the book-building process for the price determination of this issuance and will subscribe for new A Shares at the same price as other subscribers. The minimum subscription price of the new A Shares will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance. RMB9.58 per A Share represents a discount of approximately 17.70% as compared to the closing price of RMB11.64 per A Share immediately prior to the suspension of trading of A Share on 26 February 2010.
Rights attached to the new A Shares:	The new A Shares to be issued pursuant to the A Share Issue will rank pari passu with the existing A Shares and H Shares in all respects
Conditions for the A Share Subscription Agreement to take effect:	The A Share Subscription Agreement will take effect on the date when all the following conditions have been satisfied: (1) the approvals having been granted by the Independent Shareholders by way of special resolutions at a general meeting and class meetings for the A Share Issue and the A Share Subscription Agreement;

(2) all necessary approvals, consents from the relevant governmental and regulatory authorities, including but not limited to the approval from CSRC, in relation to the A Share Issue and the A Share Subscription Agreement having been obtained; and

(3) the conditions for the H Share Subscription Agreement to come into effect having been satisfied or waived.

Termination of the A Share Subscription Agreement:	If, where applicable, CNAHC fails to obtain from CSRC the waiver from the obligation of making a tender offer for Shares, which is triggered by the relevant subscriptions under the Specific Mandates, in accordance with the 《上市公司收購管理辦法》 (Administrative Measures in relation to the Acquisition of the Listed Companies of the PRC) or related regulations, the A Share Subscription Agreement shall be terminated automatically.
Net Proceeds from the A Share Issue:	The net proceeds from the A Share Issue will be not more than RMB5.6 billion.
Use of proceeds:	All the proceeds raised from the A Shares Issue will be used towards the Company's working capital expenditures. As part of the proceeds, pursuant to the relevant government approvals, RMB1.5 billion was planned to be applied towards the acquisitions by the Company of minority shareholders' equity interest in Air China Cargo Co., Ltd.. As the Company has already paid for such acquisitions with its own funds, the RMB1.5 billion will be directly used towards the Company's working capital expenditures.
Lock-up Arrangement:	Pursuant to the relevant rules of CSRC, new A Shares to be subscribed for by CNAHC shall not be disposed of within 36 months from the completion date of the issuance of such new A Shares, and new A Shares to be subscribed for by the other specific investors shall not be disposed of within 12 months from the completion date of the issuance of the respective new A Shares.

Validity Period of the Specific Mandate:	The period from the passing of the special resolution granting the Specific Mandate with respect to the A Share Issue at the shareholders' general meeting and the respective class meetings until the expiration of the 12-month period following the passing of the special resolution.
Listing Application:	Application will be made by the Company to the Shanghai Stock Exchange for the granting of the listing of, and permission to deal in, all A Shares issued pursuant to the A Share Issue. Upon the expiration of the lock-up period, the new A Shares will be traded on the Shanghai Stock Exchange.
Arrangement relating to the accumulated undistributed profits of the Company prior to the A Share Issue:	The new and existing Shareholders will share the undistributed profits of the Company accumulated prior to the A Share Issue.

3. The Structure of the H Share Issue

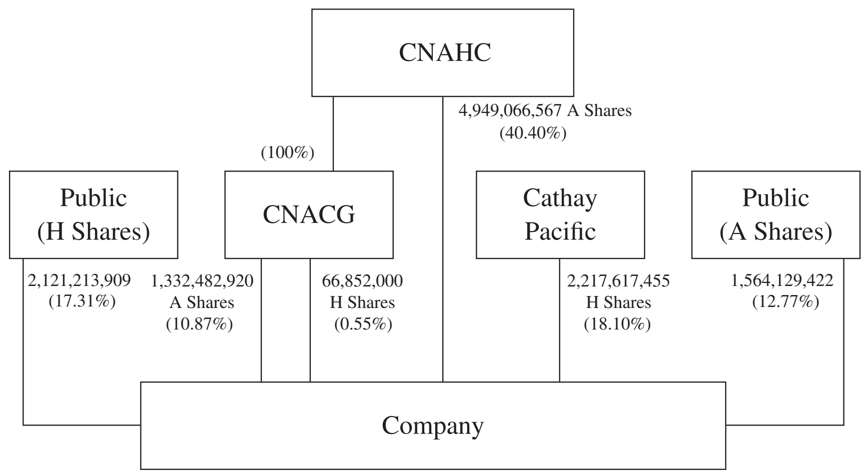
Class of shares to be issued and the nominal value:	H Shares with par value of RMB1.00 each
Target subscribers:	CNACG
Number of H Shares to be issued:	CNACG will subscribe in cash for not more than 157,000,000 new H Shares. The maximum number of new H Shares to be issued will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance.

Basis for determining the issue price:	The price of new H Shares shall be no less than HK$6.62 per H Share i.e. the average trading price of the H Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the H Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of H Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of H Shares traded in the 20 trading days preceding the Pricing Base Day). The final issue price will be determined by the Company and CNACG through arm's length negotiation. The minimum subscription price of the new H Shares will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance. HK$6.62 per H Share represents a discount of approximately 2.22% as compared to the closing price of HK$6.77 per H Share immediately prior to the suspension of trading of H Share on 26 February 2010.
Rights attached to the new H Shares:	The new H Shares to be issued pursuant to the H Share Issue will rank pari passu with the existing H Shares and A Shares in all respects.
Conditions for the H Share Subscription Agreement to take effect:	The H Share Subscription Agreement will take effect on the date when all the following conditions have been satisfied: (1) the approvals having been granted by the Independent Shareholders by way of special resolutions at a general meeting and class meetings for the H Share Issue and the H Share Subscription Agreement; (2) all necessary approvals, consents from the relevant governmental and regulatory authorities, including but not limited to the approval from CSRC, in relation to the H Share Issue and the H Shares Subscription Agreement having been obtained; and

	(3) the conditions for the A Share Subscription Agreement to come into effect having been satisfied or waived.
Termination of the H Share Subscription Agreement:	If, where applicable, CNAHC fails to obtain from CSRC the waiver from the obligation of making a tender offer for Shares, which is triggered by the relevant subscriptions under the Specific Mandates, in accordance with the 《上市公司收購管理辦法》 (Administrative Measures in relation to the Acquisition of the Listed Companies of the PRC) or related regulations, the H Share Subscription Agreement shall be terminated automatically.
Net Proceeds from the H Share Issue:	The net proceeds from the H Share Issue will be not more than HK$1.04 billion.
Use of proceeds:	All the proceeds raised from the H Share Issue will be used towards the Company's working capital expenditures.
Lock-up Arrangement:	CNACG has agreed that the new H Shares to be subscribed for by it shall not be disposed of within 12 months from the completion date of the issuance of such new H Shares.
Validity Period of the Specific Mandate:	The period from the passing of the special resolution granting the Specific Mandate with respect to the H Share Issue at the shareholders' general meeting and the respective class meetings until the expiration of the 12-month period following the passing of the special resolution.
Listing Application:	Application will be made by the Company to the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, all H Shares issued pursuant to the H Share Issue. Upon the expiration of the lock-up period, the new H Shares will be traded on the Hong Kong Stock Exchange.

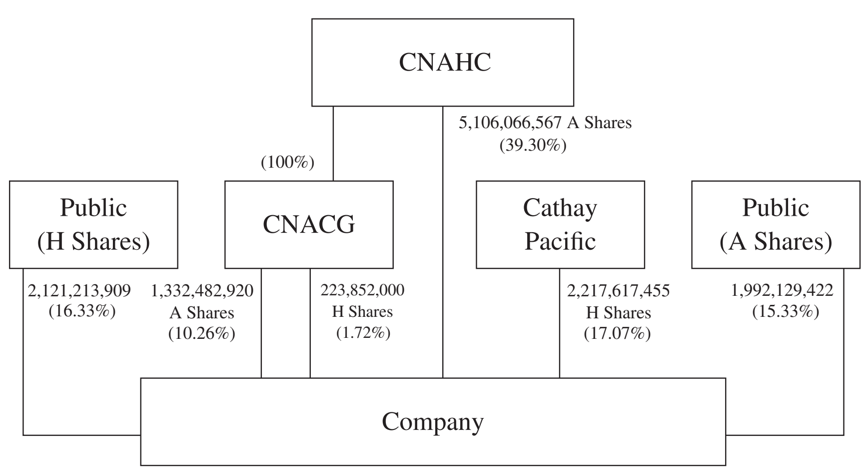
4. Shareholding structure of the Company

4.1 As at the Latest Practicable Date, the shareholding structure of the Company is as follows:



Note: The percentages shown are rounded to the nearest 2 decimal places.

4.2 Immediately following the completion of the Subscriptions, assuming that (i) CNAHC has subscribed for 157,000,000 new A Shares, the other specific investors have subscribed for an aggregate of 428,000,000 new A Shares, and CNACG has subscribed for 157,000,000 new H Shares, (ii) no other Shares has been issued after the date of this announcement until the completion of the Subscriptions, it is anticipated that the shareholding structure of the Company will be as follows:



Note: The percentages shown are rounded to the nearest 2 decimal places.

5. Conditionality between the Subscriptions

If either the A Shares Issue or the H Shares Issue is not approved by the Shareholders or CSRC or other governmental or regulatory authorities, the other will not proceed and shall be terminated automatically.

The subscription of new A Shares by CNAHC pursuant to the A Share Subscription Agreement and the subscription of new H Shares by CNACG pursuant to the H Share Subscription Agreement are inter-conditional. If one of them does not proceed to completion, the other one will not proceed to completion.

The completion of the subscription of new A Shares by each of the specific investors (excluding CNAHC) pursuant to the A Share Issue is conditional upon the completion of the subscription of new A Shares by CNAHC. However, neither the completion of the subscription of new A Shares by CNAHC pursuant to the A Share Subscription Agreement nor the subscription of new H Shares by CNACG pursuant to the H Share Subscription Agreement is conditional on the completion of the subscription of new A Shares by each of the other specific investors pursuant to the A Share Issue. The completion of the subscription of new A Shares by each of the specific investors (excluding CNAHC) is not inter-conditional upon the completion of the subscription of new A Shares by each of the other specific investors (excluding CNAHC).

6. Listing Rules Implications relating to the Subscriptions

As at the Latest Practicable Date, CNAHC directly holds 4,949,066,567 A Shares in the Company, representing 40.40% of the existing issued share capital of the Company. As at the Latest Practicable Date, CNACG holds 1,332,482,920 A Shares and 66,852,000 H Shares in the Company, representing an aggregate of 11.42% of the existing issued share capital of the Company. CNACG is a wholly owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 51.82% of the existing issued share capital of the Company.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A Shares to CNAHC pursuant to the A Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. In addition, since CNACG is a substantial shareholder of the Company and a wholly owned subsidiary of CNAHC, and hence a connected person of the Company, the issue of new H Shares to CNACG pursuant to the H Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. An Independent Board Committee comprising the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the terms of the A Share Subscription Agreement and the H Share Subscription Agreement. China Merchants Securities (HK) Co., Ltd has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

Meanwhile, the issue of new A Shares and new H Shares pursuant to the Specific Mandates will constitute a variation of class rights of the Domestic Shareholders and the Foreign Shareholders under the Articles of Association. Pursuant to the Articles of Association and Rule 19A.38 of the Listing Rules, the issue of such new A Shares and new H Shares is required to be approved by the Shareholders by way of special resolutions at a general meeting and separate class meetings of the Domestic Shareholders and the Foreign Shareholders, respectively.

Voting in the general meeting and class meetings will be taken by way of poll. CNAHC, CNACG and their respective associates will abstain from voting at the general meeting and the class meetings of the Domestic Shareholders and the Foreign Shareholders, respectively, convened for the purpose of approving the granting of the Specific Mandates.

7. Reasons for and benefit of the Issue of New Shares

In 2008, due to the global financial crisis and the slowdown of the global economy, the air transportation business worldwide experienced a severe downturn and the air transportation industry of China was hardly spared. With the gradual recovery of the global economy and the strong growth of China's economy, China's air transportation industry has led the way to get out of the downturn and shown promising signs of recovery. Amidst the revival of the global economy and the continuous growth of China's economy, domestic air transportation industry is expecting another new cycle of growth.

Thanks to the revival of the air transportation industry of China and the Company's own competitive strengths, the Company saw a significant improvement in its operations in 2009 as compared to 2008. Considering the industry's and the Company's development trend, the Company has set out plans for aircraft purchase to enhance the traffic capacity of its fleet and capitalize the development opportunities of the air transportation industry of China. The acquisition of aircraft, however, entails huge capital expenditures, and thus puts big pressure on the Company's funding effort and increases its financial risks. Therefore, the Company needs to increase its capital to optimize its financial structure and boost its core competitiveness so that it could maintain its leading position in the industry.

The proceeds from the A Share Issue and H Share Issue would increase the Company's capital funds, decrease its debt ratio, improve its financial condition so as to satisfy the funding requirement of its business development and enhance the Company's profitability and bring good returns to its Shareholders.

II. CLASS MEETINGS AND THE EGM

Special resolutions to approve, among other matters, the CNAHC Subscription, the CNACG Subscription, the A Share Issue and the H Share Issue will be proposed at the EGM.

In addition, special resolutions to approve the proposed A Share Issue, the H Share Issue, the CNAHC Subscription and the CNACG Subscription will be proposed at the Domestic Shareholders Class Meeting and the Foreign Shareholders Class Meeting. At the Foreign Shareholders Class Meeting, CNACG, being the only holder of Foreign Shares other than H Shares, has to abstain from voting in respect of the special resolutions proposed at the Foreign Shareholders Class Meeting, the special resolutions of the Foreign Shareholders Class Meeting shall be passed if it attains a two-thirds majority of the voting rights of independent holders of H Shares attending the meeting.

Pursuant to Rule 14A.54 of the Listing Rules, any connected person and any Shareholder and their associates with a material interest in the connected transactions are required to abstain from voting on the relevant resolutions at the EGM and (if applicable) the Class Meetings. At as the Latest Practicable Date, CNAHC, the controlling shareholder of the Company, and CNACG, the wholly-owned subsidiary of CNAHC, are required to abstain from voting on the special resolutions in respect of the CNAHC Subscription, the CNACG Subscription, the A Share Issue and the H Share Issue at the EGM and at the Domestic Shareholders Class Meeting and the Foreign Shareholders Class Meeting.

The Company will convene the EGM and Class Meetings at the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC at 2:00 p.m. on 29 April 2010 to consider and, if thought fit, to pass resolutions in respect of the matters described under I of this letter that shall be approved by the Shareholders or, where applicable, the Independent Shareholders. The notice of the EGM and the notice of the Foreign Shareholders Class Meeting are set out in Appendix IV and Appendix V, respectively.

Whether or not you intend to attend the EGM and/or (if applicable) the Foreign Shareholders Class Meeting, 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 and/or (if applicable) the Foreign Shareholders Class Meeting, you are required to complete and return the relevant notice of attendance to the H Share registrar of the Company on or before 9 April 2010.

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.

III. RECOMMENDATION OF THE BOARD

The Board (including the independent non-executive Directors) considers that the CNAHC Subscription, the CNACG Subscription, the A Share Issue and the H Share Issue are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Board recommends the Shareholders to vote in favour of the resolutions which will be proposed at the EGM and the Class Meetings.

IV. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 18 to 19 of this circular which contains its recommendation to the Independent Shareholders of the Company as to the voting at the EGM and the Class Meetings regarding the CNAHC Subscription and the CNACG Subscription.

Your attention is also drawn to the letter from China Merchants Securities set out on pages 20 to 35 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 CNAHC Subscription and the CNACG Subscription 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
Kong Dong
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: 00753)

Independent Board Committee:
Mr. Hu Hung Lick, Henry
Mr. Zhang Ke
Mr. Jia Kang
Mr. Fu Yang

15 March 2010

To the Independent Shareholders of the Company

Dear Sirs or Madams,

CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 15 March 2010 (the "Circular") issued to its shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 11 March 2010, CNAHC entered into the A Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit at least RMB1,500 million to subscribe in cash for not more than 157,000,000 new A Shares at the subscription price of not less than RMB9.58 per A Share (the ***CNAHC Subscription***), and CNACG entered into the H Share Subscription Agreement with the Company, pursuant to which, CNACG will subscribe in cash for not more than 157,000,000 new H Shares at the subscription price of not less than HK$6.62 per H Share (the ***CNACG Subscription***).

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the CNAHC Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under the Listing Rules. In addition, since CNACG is a substantial shareholder of the Company and a wholly owned subsidiary of CNAHC, and hence a connected person of the Company, the CNACG Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under the Listing Rules. The Circular describes such connected transactions that the Company entered into subject to the approval by the Independent Shareholders to be sought at the EGM and the Class Meetings.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the CNAHC Subscription and the CNACG Subscription are fair and reasonable so far as the Independent Shareholders are concerned. China Merchants Securities has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the CNAHC Subscription and the CNACG Subscription.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the CNAHC Subscription and the CNACG Subscription and the terms and basis upon which their terms have been determined. We have also considered the key factors taken into account by China Merchants Securities in arriving at its opinion regarding the CNAHC Subscription and the CNACG Subscription as set out in the letter from China Merchants Securities on pages 20 to 35 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of China Merchants Securities, considers that the terms of the CNAHC Subscription and the CNACG Subscription are fair and reasonable and are in the best interest of the Company and the Shareholders (including the Independent Shareholders). Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary and special resolutions set out in the notices of the EGM and the Class Meetings.

Yours faithfully,
Independent Board Committee

Mr. Hu Hung Lick, Henry	**Mr. Zhang Ke**	**Mr. Jia Kang**	**Mr. Fu Yang**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*	*Independent non-executive director*

The following is the text of a letter from China Merchants Securities for the purpose of incorporation in the Circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in respect of the Share Issues (as defined below) (including the CNAHC Subscription and CNACG Subscription).

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

48th Floor
One Exchange Square
Central
Hong Kong

15 March 2010

To: The Independent Board Committee of Air China Limited

Dear Sirs,

**CONNECTED TRANSACTION:
SUBSCRIPTION OF NEW A SHARES BY CNAHC
AND
SUBSCRIPTION OF NEW H SHARES BY CNACG**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to the issue of new Shares under the A Share Subscription Agreement and the H Share Subscription Agreement, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular dated 15 March 2010 (the "**Circular**") issued by the Company, of which this letter forms part. Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Circular.

At the Board meeting of the Company held on 11 March 2010, it was resolved that the Board will convene an extraordinary general meeting and the class meetings of the Foreign Shareholders and the Domestic Shareholders respectively, for the grant of specific mandates to the Board to issue not more than 585,000,000 new A Shares to not more than 10 specific investors including CNAHC at the subscription price of not less than RMB9.58 per A Share (the "**A Share Issue Price**") and issue not more than 157,000,000 new H Shares to CNACG at the subscription price of not less than HK$6.62 per H Share (the "**H Share Issue Price**").

Accordingly, on 11 March 2010, CNAHC entered into the A Share Subscription Agreement with the Company, pursuant to which, CNAHC will commit at least RMB1.5 billion to subscribe in cash for not more than 157,000,000 new A Shares at the A Share Issue Price. CNACG also entered into the H Share Subscription Agreement with the Company, pursuant to which, CNACG will subscribe in cash for not more than 157,000,000 new H Shares at the H Share Issue Price.

As at the Latest Practicable Date, CNAHC directly holds 4,949,066,567 A Shares, representing 40.40% of the existing issued share capital of the Company and CNACG holds

1,332,482,920 A Shares and 66,852,000 H Shares, representing an aggregate of approximately 11.42% of the existing issued share capital of the Company. CNACG is a wholly owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 51.82% of the existing issued share capital of the Company.

Since CNAHC is the controlling shareholder of the Company, and hence a connected person of the Company, the issue of new A Shares to CNAHC pursuant to the A Share Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under the chapter. In addition, since CNACG is a substantial shareholder of the Company and a wholly owned subsidiary of CNAHC, and hence a connected person of the Company, the issue of new H Shares to CNACG pursuant to the H Share Subscription Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements under that chapter. Accordingly, CNAHC, CNACG and their respective associates will abstain from voting in relation to the resolutions to approve the A Share Issue and the H Share Issue (collectively, the "**Share Issues**") (including the CNAHC Subscription and the CNACG Subscription) at the EGM.

An Independent Board Committee comprising all the Company's independent non-executive Directors, namely Mr. Hu Hung Lick, Henry, Mr. Zhang Ke, Mr. Jia Kang and Mr. Fu Yang, has been formed to consider and advise the Independent Shareholders in respect of the terms of the Share Issues (including the CNAHC Subscription and the CNACG Subscription) are on normal commercial terms, in ordinary and usual course of business of the Company, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We, China Merchants Securities (HK) Co., Ltd., have been appointed as the independent financial adviser to advise the Independent Board Committee in these respects.

BASIS OF OUR OPINION

In formulating our advice and opinion, we have relied on the accuracy of the information and representations contained in the Circular which have been considered to be complete and relevant and the information obtained from the public domain. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were true, accurate and complete in all material respects at the time when they were made and will continue to be so as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company and we have been advised by the Directors and the management of the Company that no material fact has been omitted from the information and representations provided in and referred to in the Circular. We have no reason to suspect that any material information has been withheld by the Directors or the management of the Company. We have not, however, carried out any independent verification of the information provided to us by the Directors and the management of the Company and the information obtained from the public domain, nor have we conducted any independent investigation into the affairs, the business and financial position and the future prospects of each member of the Group, CNAHC, CNACG and their respective shareholders and associates. Our opinion is based on the information and representations available to us as of the date of this letter. We have no obligation to update our advice and opinion to take into account circumstances and events occurring after the date of this letter. As a result, circumstances and events could occur prior to the approval of the Share Issues that, if known to us at the time when we had rendered our advice and opinion, would have altered our advice and opinion.

INFORMATION OF THE GROUP, CNAHC AND CNACG

The Company is a joint stock company incorporated in the PRC with limited liability and 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 the A Shares are listed on the Shanghai Stock Exchange, and its principal business is the operation of scheduled airline services.

CNAHC is the controlling shareholder of the Company which is a wholly state-owned enterprise established in the PRC and its principal activity is to manage state-owned assets of CNAHC and the equity it holds in various companies. CNACG is a company incorporated under the laws of Hong Kong, and a wholly owned subsidiary of CNAHC and a substantial shareholder of the Company, which is an investment holding company and its principal business is the passenger terminal operation, cargo terminal operation, airport ground handling services, logistics and other businesses through its subsidiaries.

Set out below is a summary of the Group's financial information prepared in accordance with the International Financial Reporting Standards for the each of the two years ended 31 December 2008:

	For the year ended 31 December	
	2008	**2007**
In RMB million	(Audited)	(Audited and restated)
Turnover	52,908	51,082
(Loss)/profit from operations	(1,908)	3,676
(Loss)/profit attributable to the equity holders of the Company	(9,256)	4,046

	As at 31 December	
	2008	**2007**
In RMB million	(Audited)	(Audited and restated)
Total assets	100,401	91,300
Total liabilities	79,945	60,548
Net assets	20,456	30,752

In 2008, the Group's total turnover was approximately RMB52,908 million, representing an increase of approximately RMB1,826 million or approximately 3.6% compared with the Group's total turnover in 2007. As the Group acquired further equity interest in the registered capital of Air China Cargo Co. Ltd. ("**Air China Cargo**") in 2008, Air China Cargo, which was previously a joint venture of the Group, became the Group's subsidiary after the acquisition and the financial results of which were therefore fully consolidated into the Group's consolidated financial statements for the year ended 31 December 2008 ("**FY2008**"). If the Group's comparative information in 2007 was restated on the basis that Air China Cargo had been consolidated into the Group's consolidated financial statements for the year ended 31 December 2007 ("**FY2007**"), the Group's total turnover in 2008 would have only increased by approximately RMB74 million compared with the Group's total turnover in 2007. Such slight increase was mainly due to the significant increase in revenue from the engineering services contributed from the Group's joint venture Aircraft Maintenance and Engineering Corporation, Beijing compared with the relevant figure in 2007.

In 2008, the Group incurred a loss from operations of approximately RMB1,908 million and the loss attributable to equity holders of the Company was approximately RMB9,256 million with a loss per Share of approximately RMB0.78. In 2007, the restated profit from operations was approximately RMB3,676 million and the profit attributable to equity holders of the Company was approximately RMB4,046 million with earnings per Share of approximately RMB0.34. The loss from operations and the loss attributable to the equity holders of the Company were mainly contributed from the significant increase in jet fuel costs and loss on derivative financial instruments.

Net assets of the Group decreased from approximately RMB30,752 million as at 31 December 2007 to approximately RMB20,457 million as at 31 December 2008, representing a decrease of approximately RMB10,295 million or approximately 33.5%. As at 31 December 2008, total assets of the Group comprised principally property, plant and equipment of approximately RMB71,821 million, interests in associates of approximately RMB6,272 million, advance payments for aircraft and related equipment of approximately RMB7,053 million and cash and cash equivalents of approximately RMB2,987 million, whereas total liabilities of the Group comprised principally total interest-bearing bank and other borrowings (current and long term portion) of approximately RMB32,674 million and obligations under finance leases of approximately RMB20,545 million (current and long term portion).

PRINCIPAL FACTORS CONSIDERED FOR THE SHARE ISSUES

In arriving at our opinion and recommendation in respect of the terms of the Share Issues, we have considered the following principal factors:

I. Reasons for the Share Issues

As advised by the Directors, due to the global financial crisis and the slowdown of the global economy, the air transportation business worldwide experienced a severe downturn and the air transportation industry of China was hardly spared in 2008. Along with the gradual recovery of the global economy and the strong growth of China's economy, China's air transportation industry has led the way to get out from the downturn and shown promising signs of recovery. Amidst the revival of the global economy and the continuous growth of China's economy, domestic air transportation industry is expecting another new cycle of growth.

We note that there is a significant improvement in the Group's operations in 2009 as compared to 2008. According to the unaudited financial statements of the Group for the nine months ended 30 September 2009 prepared in accordance with the PRC Accounting Rules and Regulations contained in the third quarterly report of 2009 of the Company (the "**Third Quarterly Report**"), the Group recorded net profit attributable to equity holders of the Company of approximately RMB3,811 million for the nine months ended 30 September 2009 compared to the loss attributable to equity holders of the Company of approximately RMB9,256 million for the FY2008.

In view of the positive development trend of the air transportation industry of the China and the Group, we understand from the Directors that the Group has set out plans for aircraft purchase to enhance the traffic capacity of its fleet and capitalize on the development opportunities of the air transportation industry of China. Notwithstanding the benefits arising from the expansion, the acquisition of aircraft, however, entails huge capital expenditures, and thus puts great pressure on the Company's funding requirements and increases its financial risks.

According to the annual report of the Company for the FY2008, we notice that the gearing ratio (calculated as total liabilities divided by total assets) of the Group was approximately 79.6% as at 31 December 2008, representing an increase of approximately 13.3% compared with approximately 66.3% as at 31 December 2007, which was primarily due to the introduction of additional aircrafts and the increase of debt financing activities. Based on the unaudited financial statements of the Group for the nine months ended 30 September 2009, we note that the gearing ratio of the Group remained high at approximately 76.4%.

Therefore, we concur with the Directors' view that the Company needs to increase its capital to optimize its financial structure and boost its core competitiveness so that it could maintain its leading position in the industry. The proceeds from the Share Issues would increase the Group's capital funds, decrease its debt ratio and improve its financial condition so as to satisfy the funding requirement of its business development, enhance the Group's profitability and bring good returns to its Shareholders. Having considered the above, we are of the view that the Share Issues are in the interests of the Company and the Shareholders as a whole.

II. Principal terms of the Share Issues

(a) The A Share Issue

As stated in the Letter from the Board, the Company agreed to issue not more than 585,000,000 new A Shares to not more than 10 specific investors including CNAHC at the A Share Issue Price, of which CNAHC will commit at least RMB1.5 billion in cash to subscribe for not more than 157,000,000 new A Shares. The maximum number of new A Shares to be issued will be adjusted accordingly if there is any ex-rights or ex-dividend arrangement from the Pricing Base Day to the date of issuance.

Details of the terms and structure of the A Share Issue including the method of issue, basis for determining the A Share Issue Price, conditions for the A Share Subscription Agreement to take effect, termination of the A Share Subscription Agreement, net proceeds from the A Share Issue, use of proceeds and lock-up arrangement are set out in the section headed "Structure of the A Share Issue" in the Letter from the Board and the sections below in this letter.

(b) The H Share Issue

As stated in the Letter from the Board, CNACG will subscribe in cash for not more than 157,000,000 new H Shares. The maximum number of new H Shares to be issued will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance.

Details of the terms and structure of the H Share Issue including the method of issue, basis for determining the H Share Issue Price, conditions for the H Share Subscription Agreement to take effect, termination of the H Share Subscription Agreement, net proceeds from the H Share Issue, use of proceeds and lock-up arrangement are set out in the section headed "Structure of the H Share Issue" in the Letter from the Board and the sections below in this letter.

(c) Conditionality between the A Share Issue and the H Share Issue

If either the A Shares Issue or the H Shares Issue is not approved by the Shareholders or CSRC or other governmental or regulatory authorities, the other will not proceed and shall be terminated automatically.

The subscription of new A Shares by CNAHC pursuant to the A Share Subscription Agreement and the subscription of new H Shares by CNACG pursuant to the H Share Subscription Agreement are inter-conditional. If one of them does not proceed to completion, the other one will not proceed to completion.

The completion of the subscription of new A Shares by each of the specific investors (excluding CNAHC) pursuant to the A Share Issue is conditional upon the completion of the subscription of new A Shares by CNAHC. However, neither the completion of the subscription of new A Shares by CNAHC pursuant to the A Share Subscription Agreement nor the subscription of new H Shares by CNACG pursuant to the H Share Subscription Agreement is conditional on the completion of the subscription of new A Shares by each of the other specific investors pursuant to the A Share Issue. The completion of the subscription of new A Shares by each of the specific investors (excluding CNAHC) is not inter-conditional upon the completion of the subscription of new A Shares by each of the other specific investors (excluding CNAHC).

III. The Share Issue prices

(a) The A Share Issue Price

As stated in the Letter from the Board, the issue price of new A Shares shall be no less than RMB9.58 per A Share i.e. not less than 90% of the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the A Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Base Day). Based on the minimum issue price mentioned above, the A Share Issue Price will be determined by a book-building process. The Board and the sponsor (the lead underwriter) shall determine the final issue price. CNAHC will not participate in the book-building process for the price determination of the A Share Issue and will subscribe for new A Shares at the same price as other subscribers. The minimum subscription price of the new A Shares will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance.

Assuming the A Share Issue Price is RMB9.58 per A Share, being the minimum A Share Issue Price, it represents:

(i) a discount of approximately 17.7% to the closing price of RMB11.64 per A Share as quoted on the Shanghai Stock Exchange on 25 February 2010, being the last trading day immediately prior to the suspension of trading in A Shares on 26 February 2010 (the "**A Share Last Trading Day**");

(ii) a discount of approximately 14.2% to the average of the closing prices of RMB11.16 per A Share as quoted on the Shanghai Stock Exchange for the five consecutive trading days up to and including the A Share Last Trading Day;

(iii) a discount of approximately 12.8% to the average of the closing prices of RMB10.99 per A Share as quoted on the Shanghai Stock Exchange for the ten consecutive trading days up to and including the A Share Last Trading Day;

(iv) a discount of approximately 10.0% (the "**A Share 20-day Discount**") to the average of the closing prices of RMB10.63 per A Share as quoted on the Shanghai Stock Exchange for the 20 consecutive trading days up to and including the A Share Last Trading Day; and

(v) a premium of approximately 381.4% over the net asset value attributable to the equity shareholders of the Company per Share of RMB1.99 (equivalent to HK$2.26) as at 30 September 2009.

In assessing the A Share Issue Price, we have attempted to select the companies that are comparable to the Company based on the criteria that those companies (i) are PRC state-controlled public aviation transportation enterprises whose A shares are listed on the stock exchanges in the PRC; and (ii) issued or proposed to issue additional new A shares during the past two years up to the Latest Practicable Date. Based on our research of the published information, we have identified four companies, being China Eastern Airlines Corporation Limited ("**CEA**") (stock code: 600115), China Southern Airlines Company Limited ("**CSA**") (stock code: 600029), Hainan Airlines Co., Ltd. (stock code: 600221) ("**Hainan Airlines**") and Shanghai Airlines Co. Ltd. ("**Shanghai Airlines**") (stock code: 600591) (collectively, the "**A Share Comparable Companies**"), and all of which meet our criteria for comparison purpose.

The following table summarises the discounts represented by the issue price of the relevant A shares to the average closing price for the last 20 consecutive trading days immediately prior to the suspension of trading in relevant A shares (the "**A Share 20-day Period**") under each of the relevant issues of new A shares:

	Last trading day immediately prior to suspension of trading in relevant A shares	**Discount**
		(%)
CEA	24 December 2008	8.5
	5 June 2009	9.9
CSA	26 November 2008	10.0
	22 February 2010	9.9
Hainan Airlines	18 May 2009	9.3
Shanghai Airlines (Delisted on 25 January 2010)	24 February 2009	7.6
The A Share Issue	25 February 2010	9.9

Source: Bloomberg and the Shanghai Stock Exchange's website

As shown in the table above, we note that the discounts represented by the issue price of A shares to the average closing price for the A Share 20-day Period ranged between approximately 7.6% to 10.0% and the A Share 20-day Discount falls within the range of those of the A Share Comparable Companies.

In addition to the above comparable analysis, as advised by the Directors, the basis in determining for the A Share Issue Price is determined in compliance with the requirement of《上市公司證券發行管理辦法》(Administrative Measures in relation to the Acquisition of the Listing Companies) and《上市公司非公開發行股票實施細則》(Detailed Implementation Rules for the Non-public Issuance of Stocks by Listed Companies) (collectively, the "**Measures**") promulgated by the CSRC, which requires the A share issue price to be not less than 90% of the average trading price of A shares during the period of 20 trading days prior to the pricing base day.

We also note from the relevant published documents of the A Share Comparable Companies in respect of the A share issues that they all adopt the same basis which had been in compliance with the requirements of the Measures for determining the relevant A share issue prices.

Given (i) the A Share 20-day Discount falls within the range of those of the A Share Comparable Companies, (ii) the A Share Issue Price is determined in compliance with requirements of the Measures and (iii) the basis in determining for the A Share Issue Price is in line with those of the A Share Comparable Companies, we have no reason to doubt the fairness and appropriateness of the basis in determining for the A Share Issue Price.

(b) The H Share Issue Price

As stated in the Letter from the Board, the issue price of new H Shares shall be no less than HK$6.62 per H Share i.e. the average trading price of the H Shares in the 20 trading days preceding the Pricing Base Day (the average trading price of the H Shares in the 20 trading days preceding the Pricing Base Day equals to the total trading amount of H Shares traded in the 20 trading days preceding the Pricing Base Day divided by the total volume of H Shares traded in the 20 trading days preceding the Pricing Base Day). The final issue price will be determined by the Company and CNACG through arm's length negotiation. The minimum subscription price of the new H Shares will be adjusted accordingly if there is any *ex-rights* or *ex-dividend* arrangement from the Pricing Base Day to the date of issuance.

Assuming the H Share Issue Price is HK$6.62 per H Share, being the minimum H Share Issue Price, it represents:

(i) a discount of approximately 2.2% (the "**H Share Last Trading Day Discount**") to the closing price of HK$6.77 per H Share as quoted on the Hong Kong Stock Exchange on 25 February 2010 (the "**H Share Last Trading Day**"), being the last trading day prior to the suspension of trading in H Shares on 26 February 2010;

(ii) a discount of approximately 2.5% to the average of the closing prices of HK$6.79 per H Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including the H Share Last Trading Day;

(iii) a discount of approximately 2.1% to the average of the closing prices of HK$6.76 per H Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including the H Share Last Trading Day;

(iv) a discount of approximately 0.6% (the "**H Share 20-day Discount**") to the average of the closing prices of HK$6.66 per H Share as quoted on the Hong Kong Stock Exchange for the last 20 consecutive trading days up to and including the H Share Last Trading Day; and

(v) a premium of approximately 192.9% over the net asset value attributable to the equity shareholders of the Company per Share of HK$2.26 (equivalent to RMB1.99) as at 30 September 2009.

In assessing the H Share Issue Price, we have attempted to select companies that are comparable to the Company based on the criteria that those companies (i) are PRC state-controlled public aviation transportation enterprises whose H shares are listed on the Hong Kong Stock Exchange; and (ii) issued or proposed to issue additional new H shares during the past two years up to the Latest Practicable Date. Based on our research of the published information, we have identified two companies, being CEA (stock code: 670) and CSA (stock code: 1055) (the "**H Share Comparable Companies**"), and both of which meet our criteria for comparison purpose.

The following table summarises the premiums or discounts represented by the issue price of the relevant H shares under each of issues of new H shares over the relevant closing prices:

	Last trading day immediately prior to suspension of trading in relevant H shares/ last trading day	**Closing price on the last trading day immediately prior to the suspension of trading in the relevant H shares/ last trading day** *Premium/(Discount)* %	**Average closing price for the last 20 consecutive full trading days immediately prior to the suspension of trading in relevant H shares (the "H Share 20-day Period")** *Premium/(Discount)* %
CEA	24 December 2008	(12.1)	14.6
	5 June 2009	(19.5)	(8.5)
CSA	26 November 2008 *(Note 1)*	21.7	2.3
	22 February 2010	(8.4)	1.5
The H Share Issue	25 February 2010	(2.2)	(0.6)

Source: Bloomberg and the Hong Kong Stock Exchange's website

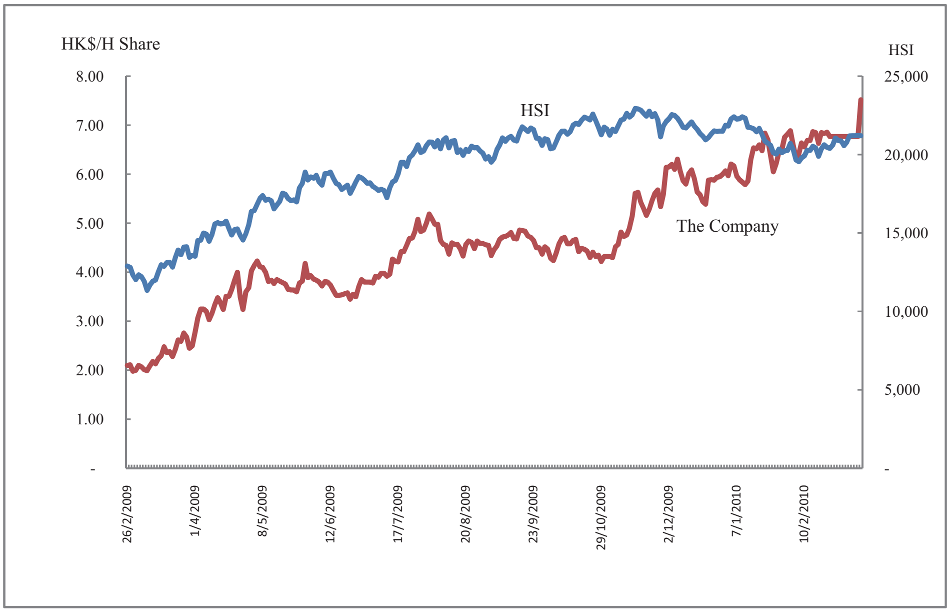
Note 1: The shares of CSA were suspended for trading with effect from 2:54 p.m. on 26 November 2008 pending the release of announcement in relation to issue of new shares.

As shown in the table above, we note that the discounts represented by the issue price of H shares to (i) the closing price on the last trading day immediately prior to the suspension of trading in the relevant H shares or last trading day ranged between a premium of approximately 21.7% and a discount of approximately 19.5% and (ii) the average closing price for the H Share 20-day Period ranged between a premium of approximately 14.6% to a discount of approximately 8.5%. Therefore, the H Share Last Trading Day Discount and the H Share 20-day Discount both fall within the range of those of the H Shares Comparable Companies.

In order to assess the fairness and reasonableness in determining the H Share Issue Price, we have also reviewed the H Share historical price performance for the period from 26 February 2009 up to the Latest Practicable Date (the "**Period**").

The chart below illustrates the historical daily closing price per H Share and the Hang Seng Index (the "**HSI**") as quoted on the Hong Kong Stock Exchange during the Period. We consider the length of the Period, which commenced about twelve months before the Latest Practicable Date, provides sufficient data for us to analyse the historical price performance of the H Shares while avoiding any possible distortion to the results of the analysis caused by short-term market volatility.

Historical price performance of the H Shares and movement of the HSI during the Period



Source: Bloomberg

Notes:

1. On 17 August 2009, trading of the H Shares has been suspended pending for the release of the announcement in relation to the discloseable transaction regarding the purchase of 12.5% shareholding in Cathay Pacific.

2. During the period from 26 February 2010 to 11 March 2010, trading of the H Shares has been suspended pending for the release of the announcement in relation to the Share Issues.

As shown in the above chart, the closing price of the H Shares showed an upward trend and fluctuated within a range between HK$1.98 and HK$7.52 during the Period. The closing prices of the H Shares were generally above HK$5 per H Share since mid November 2009 up to the Latest Practicable Date.

As confirmed by the management of the Company, the Company had not undertaken any corporate exercise during the Period which would have posed significant impact on the performance of the H Share save for the exercises or events as disclosed in the public announcements, circulars and financial reports published by the Company during the Period.

We have, therefore, compared the performance of the H Share price with that of the HSI, which in our view has broadly resembled the performance of the equity market in Hong Kong. During the Period, the Hong Kong equity market progressively gathered its momentum. As shown in the diagram above, the movement of the H Share price was largely in line with that of the HSI during the Period.

After reviewing the H Share price movement during the Period, we notice that the H Share Issue Price lies towards the upper range of the recent H Share price movement during the Period. Having considered the above factors, we consider the basis in determining for the H Share Issue Price is fair and reasonable.

IV. Lock-up arrangements

Pursuant to the relevant rules of the CSRC, new A Shares to be subscribed by CNAHC shall not be disposed of within 36 months from the completion date of the issuance of such new A Shares, and new A Shares to be subscribed for by the other specific investors shall not be disposed of within 12 months from the date of the issuance of the respective new A Shares. Despite the fact that there is no rules to govern the transfer of the H Shares to be issued to CNACG under the H Share Issue, CNACG has agreed that the new H Shares to be subscribed by it shall not be disposed of within 12 months from the completion date of the issuance of such new H Shares. The lock-up arrangements under the Share Issues therefore restrict CNAHC and CNACG from disposing their newly subscribed A Shares and H Shares in the relevant stock markets within 36 months and 12 months respectively.

In assessing the impact on the Independent Shareholders after imposing such lock-up arrangements, we have reviewed the relevant documents in respect of the A share issues and H share issues of the A Share Comparable Companies and the H Share Comparable Companies and noted that save for the recent share issue of CSA announced on 8 March 2010 (the "**CSA Share Issue**"), the lock-up arrangements under the share issues of those comparable companies had restricted the connected subscribers from disposing their newly subscribed A shares and H shares within 36 months and 12 months respectively. Regarding the CSA Share Issue, it does not impose any restriction for the connected subscriber to dispose of the H shares. In view of the lock-up arrangements of the Share Issues are in line with most of the A Share Comparable Companies and the H Share Comparable Companies, we are not aware any adverse impact arising from the aforesaid lock-up arrangements of the Share Issues on the Independent Shareholders.

V. Possible financial effects of the Share Issues

The Directors confirm that net proceeds from the A Share Issue will not be more than approximately RMB5.6 billion. All the proceeds raised from the A Share Issue will be used towards the Group's working capital expenditures. As part of the proceeds, pursuant to the relevant government approvals, RMB1.5 billion was planned to be applied towards the acquisitions by the Company of minority shareholders' equity interest in Air China Cargo. As the Company has already paid for such acquisitions with its own funds, the RMB1.5 billion will be directly used towards the Company's working capital expenditures. The net proceeds from the H Share Issue will be not more than RMB1.04 billion. All the proceeds raised from the H Share Issue will also be used towards the Group's working capital expenditures. The net proceeds of not more than approximately RMB6.64 billion that the Company to be received upon the completion of the Share Issues will have the following financial effects on the Group's financial positions:

(i) Net assets

According to the Third Quarterly Report, the Group had unaudited net assets attributable to the equity holders of the Company of approximately RMB23.61 billion, representing RMB1.99 per Share. The net assets of the Group and the net asset per Share will be enhanced by the net proceeds of not more than approximately RMB6.64 billion upon completion of the Share Issues.

(ii) Current ratio

According to the Third Quarterly Report, the unaudited current assets and current liabilities of the Group were approximately RMB9.29 billion and approximately RMB33.80 billion respectively. The current ratio, being current assets divided by current liabilities, of the Group as at 30 September 2009 was approximately 0.24. With the receipt of the net proceeds of not more than approximately RMB6.64 billion in cash, current assets of the Group would be increased accordingly and hence the current ratio would be improved upon completion of the Share Issues.

(iii) Gearing ratio

According to the Third Quarterly Report, the Group had unaudited total assets and total liabilities of approximately RMB101.96 billion and approximately RMB77.91 billion respectively. The gearing ratio, being total liabilities divided by total assets, of the Group as at 30 September 2009 was approximately 76.4%. With the receipt of the net proceeds of not more than approximately RMB6.64 billion in cash, the total assets of the Group would be increased accordingly and hence the gearing ratio would be improved upon completion of the Share Issues.

In view of the above positive financial effects to the Group, we consider that the Share Issues (including the CNAHC Subscription and the CNACG Subscription) are in the interests of the Company and the Independent Shareholders as a whole given the financial positions of the Group will be strengthened upon completion of the Share Issues.

VI. Dilution effect on shareholding

Immediately following the completion of the Share Issues, assuming that (i) CNAHC has subscribed for 157,000,000 new A Shares, the other specific investors have subscribed for an aggregate of 428,000,000 new A Shares, and CNACG has subscribed for 157,000,000 new H Shares, (ii) no other Shares has been issued after the Latest Practicable Date until the completion of the Share Issues, it is anticipated that the shareholding structure of the Company will be as follows:

		As at the Latest Practicable Date		**Upon completion of the Share Issues**	
		No. of Shares	*%*	*No. of Shares*	*%*
CNAHC	– A Shares	4,949,066,567	40.40	5,106,066,567	39.30
CNACG	– A Shares	1,332,482,920	10.87	1,332,482,920	10.25
	– H Shares	66,852,000	0.55	223,852,000	1.72
Subtotal		6,348,401,487	51.82	6,662,401,487	51.27
Cathay Pacific	– H Shares	2,217,617,455	18.10	2,217,617,455	17.07
Public	– A Shares	1,564,129,422	12.77	1,992,129,422	15.33
	– H Shares	2,121,213,909	17.31	2,121,213,909	16.33
Subtotal		5,902,960,786	48.18	6,330,960,786	48.73
Total		12,251,362,273	100.00	12,993,362,273	100.00

As illustrated in the table above, CNAHC's shareholding will decrease from approximately 40.40% to approximately 39.30% and CNACG's shareholding will increase from approximately 11.42% to approximately 11.97% respectively immediately upon completion of the Share Issues. At the same time, the shareholding of the public A Share Shareholders will be increased from approximately 12.77% to approximately 15.33% whilst the shareholding of the public H Share Shareholders will be decreased from approximately 17.31% to approximately 16.33% upon completion of the Share Issues. We note that the A Share Comparable Companies and H Share Comparable Companies issued A shares and H shares respectively pursuant to the relevant share issue exercises to raise funds. We also understand from the management of the Company that the structure of the Share Issues (including but not limited to the number of the A Shares and the H Shares to be issued) has been a commercial decision determined between the parties after arm's length negotiation taking into account the financial positions of the Group, CNAHC and CNACG. Upon receiving the net proceeds from the Share Issues by the Group, the pressure on the Group's future cashflow to finance its future expansion would be alleviated. Therefore, we are of the view that the structure of the Share Issues (including but not limited to the number of the A Shares and the H Shares to be issued) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered (i) the shareholding interest of the public H Share Shareholders will only be diluted slightly upon completion of the Share Issues and (ii) the structure of issuance of both A Shares and H Shares under the Share Issues is in line with the practice of the precedent share issue exercises of the A Share Comparable Companies and H Share Comparable Companies, we concur with the Directors' view that the dilution effect on the shareholding interest of the public H Share Shareholders arising from the Share Issues (including the CNAHC Subscription and the CNACG Subscription) is acceptable.

RECOMMENDATION

Having considered the above principal reasons and factors, we concur with the Directors' view that the Share Issues (including the CNAHC Subscription and the CNACG Subscription) are (i) on normal commercial terms which are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned; and (ii) in the ordinary and usual course of business and in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the special resolutions in respect of the Share Issues (including the CNAHC Subscription and the CNACG Subscription) to be proposed at the EGM and the Class Meetings.

Your faithfully,
For and on behalf of
China Merchants Securities (HK) Co., Ltd.

Ronald T.L. Wan	**Christine Au**
Managing Director	*Executive Director*
Investment Banking Department	*Investment Banking Department*

(I) Proposed Use of Proceeds

Net proceeds with a total amount of not more than RMB5.6 billion will be raised from the A Share non-public offering, all of which will be applied to replenish the working capital of the Company, and in which an amount of RMB1.5 billion will be used for the acquisition of minority shareholders' equity interests in Air China Cargo Co., Ltd. ("Air China Cargo") as stated in the approvals issued by the relevant ministries or commissions of the State. However, as the Company has already paid in full the consideration for the equity interests using its internal funds, the RMB1.5 billion will be used directly to replenish the Company's working capital.

1. Analysis of the Necessity for Acquisition of Minority Shareholders' Equity Interests in Air China Cargo

(1) Basic information on Air China Cargo

Air China Cargo is a Sino-foreign equity joint venture company incorporated in Beijing on 14 November 2003 by Air China International Corporation, Capital Airports Holding Company ("Capital Airports") and CITIC Pacific Limited ("CITIC Pacific"). It had a registered capital of RMB2.2 billion as of the date of establishment and owned as to 51%, 24% and 25% by Air China International Corporation, Capital Airports and CITIC Pacific, respectively. In November 2004, an agreement was entered into among the parties whereby Air China International Corporation transferred all its equity interests in Air China Cargo to the Company, whilst CITIC Pacific transferred all its equity interests therein to Fine Star Enterprises Corporation ("Fine Star"). Prior to the acquisition of the minority equity interests in Air China Cargo from CITIC Pacific and Capital Airports, Air China Cargo operated a total of 8 cargo aircraft, of which 5 were self-owned and 3 were operated by way of lease arrangement.

(2) Necessity for Acquiring Minority Equity Interests

In the past decade, China has become the world's fastest growing air cargo transportation market. As most of the routes operated by Air China Cargo is intercontinental distant routes, Air China Cargo enjoys an obvious advantage over its peers in terms of turnover of cargo transportation. Since 2006, however, profitability achieved by Air China Cargo has been on a decline. It was on the one hand due to the increasingly fierce competition in the air cargo transportation market. With the rapid growth of the domestic air cargo transportation market, a significant number of foreign carriers operating air cargo transportation entered into China market and contributed an increased operational capacity. Foreign carriers of air cargo transportation accounts for up to 80% of China's international cargo transportation market (inclusive of regional components), adding to the competition of China's market of air cargo transportation. On the other hand, as there is still room for improvement in the professional management of Air China Cargo, the further development of Air China Cargo is limited to a certain extent.

It is one of the Company's strategic focuses to strengthen its air cargo transportation business. Therefore, it will enhance the Company's management and control on Air China Cargo to strategically acquire the equity interests held by CITIC Pacific and Capital Airports in Air China Cargo and make Air China Cargo a wholly-owned subsidiary of the Company, so as to facilitate Air China Cargo to develop as a more professional and market-oriented company and thus to improve its profitability. Meanwhile, the acquisition of equity interests will also create favorable conditions for future introduction of strategic cooperation partners which have extensive experience in the market of air cargo transportation.

(3) Status of the Acquisition

On 3 January 2008, the Company entered into an agreement with CITIC Pacific and Gold Leaf Enterprises Holdings Ltd ("Gold Leaf", a wholly-owned subsidiary of CITIC Pacific) to purchase from Gold Leaf the entire issued share capital of Fine Star held by Gold Leaf in order to indirectly acquire the 25% equity interests in Air China Cargo held by Fine Star. The aggregate consideration for the transaction was RMB857,003,819. On 2 April 2009, the Company entered into an agreement with Capital Airports to purchase the 24% equity interests held by Capital Airports in Air China Cargo with a cash consideration of RMB718,004,045. To date, the Company has settled the consideration for each of the transactions in full with its internal funds.

In December 2009, China National Aviation Holding Company ("CNAHC") received from the Ministry of Finance the Notice of the Ministry of Finance Concerning the Centralized State-owned Capital Operations Budget (Funds Allocation) of China National Aviation Holding Company for the year 2009 and received from the State-owned Assets Supervision and Administration Commission of the State Council the Approval Reply to the Centralized State-owned Capital Operations Budget of China National Aviation Holding Company for the year 2009. In accordance with the aforesaid documents, the Centralized State-owned Capital Operations Budget of CNAHC in the amount of RMB1.5 billion was approved by the Ministry of Finance, which will be injected into the Company by CNAHC to facilitate the Company's acquisition of the minority equity interests in Air China Cargo. Since the Company has paid in full the consideration for each of the transactions with its internal funds, the sum of RMB1.5 billion out of the net proceeds raised through the non-public offering will be used directly to replenish the Company's working capital when available.

(4) Financial Position and Business Development

As of 31 December 2008, Air China Cargo had total assets in the amount of RMB5.12 billion, total liabilities in the amount of RMB3.184 billion and net assets in the amount of RMB1.936 billion. The operating income realized by Air China Cargo in 2008 amounted to RMB7.071 billion and the net profit for the same year was RMB26 million.

The recovery of the global economy provided an increasingly better environment for the market of air cargo transportation in the second half of the year 2009. The turnover of cargo transportation of Air China Cargo resumed to a positive growth rate in August 2009. From August to December 2009, the turnover of the cargo and mail traffic increased by 5.6%, 22.7%, 14%, 30% and 41.7% respectively on a year on year basis, demonstrating a strong trend of recovery.

On 25 February 2010, the Company entered into a Framework Agreement with Cathay Pacific Airways Limited ("Cathay Pacific"), Cathay Pacific China Cargo Holdings Limited ("Cathay Pacific China Cargo"), Fine Star and Air China Cargo for the proposed establishment of a cargo airline to be registered in the PRC and jointly owned and operated by the Company and Cathay Pacific by way of shareholding reorganization for Air China Cargo. Under the related arrangements, the registered capital of Air China Cargo shall be increased by RMB1,035,294,118, of which RMB851,621,140 shall be contributed by Cathay Pacific China Cargo and RMB238,453,919 shall be contributed by Fine Star. Upon completion of the capital increase, Air China Cargo will be owned as to 51% by the Company, 25% by Cathay Pacific China Cargo and 24% by Fine Star. Through the strategic reorganization of Air China Cargo in joint efforts with Cathay Pacific, the capital strength and size of fleet of Air China Cargo will be vastly enhanced, with the number of cargo aircraft increased to 12. With a stepped-up investment to the cargo transportation base in Shanghai, Air China Cargo will be enabled to capture the air cargo business opportunities in the important and competitive Yangtze River Delta region, and to deliver better cargo transportation services to satisfy the demand for cargo services in mainland China. In addition, the investment by Cathay Pacific will enable Air China Cargo to provide more resources to the market and improve its service capacity.

2. *Analysis on the Necessity for Replenishing the Working Capital of the Company*

(1) Strengthening the capital strength. The growth rate of demand in the aviation market went down in 2008 when the subprime mortgage crisis in the U.S. caused a worldwide economic recession and a remarkable slowdown in the economic growth of mainland China, in addition to the negative impact of the snowstorm at the beginning of the year and the subsequent massive earthquake in Wenchuan, Sichuan. Furthermore, the fair value losses arising from the fuel hedging contracts of the Company under the drastic fluctuation of international oil prices in the second half of 2008 had an adverse effect, to a certain extent, on the financial position of the Company. The gearing ratio of the Company upsurged to 79.49% as of the end of 2008 from 64.39% as of the end of 2007. In 2009, along with the continuous stable growth of China's domestic macroeconomy, the aviation market of China also demonstrated a trend of strenuous rebound, leading to a substantial rise in the Company's operating

results and an improvement in the financial structure of the Company. Considering the future capital expenditure and business expansion, however, there has arisen the need for the Company to further strengthen its financial strengths so as to lay a solid foundation for the healthy and rapid growth of the Company in future.

(2) Enhancing capability in servicing debts that fall due in the short run. The size of the Company's debt has been expanding after years of rapid growth of its business and the pressure on servicing debts in the short run has arisen. The current ratio of the Company was going down year by year from 0.38 as of the end of 2006 to 0.33 as of the end of 2007 and 0.22 as of the end of 2008. The current ratio increased in 2009 as the operation results of the Company remarkably improved. As of 30 September 2009, the Company had a current ratio of 0.24. The Company had non-current liabilities with a maturity of less than one year of RMB12.984 billion and short-term borrowings of RMB7.193 billion. The proceeds raised from the current non-public offering will further enhance the debt servicing capability of the Company and ensure a more reasonable debt structure of the Company.

(3) Alleviating the pressure on working capital resulting from the business expansion. Aviation companies have greater demand for working capital and, in order to maintain a normal operation, they need substantial amount of funds to meet the cash expenditure arising from its operating activities. Such massive expenditure consists primarily of aviation fuel costs, take-off and landing charges, en-route charges, expenses for procurement of aviation materials, aircraft maintenance, repair and overhaul costs and aircraft advance payment. In response to the improved market conditions, the Company has formulated its twelfth five-year aircraft introduction plan in order to sustain its leading competitive edge in the market in future. Under the aircraft introduction plan, the Company plans to introduce 26 and 33 aircraft, in 2010 and 2011 respectively. The Company's continuous business expansion will certainly increase the demand for working capital.

Proceeds will be applied toward replenishing the Company's internal funds and will be used, when made available, as part of the Company's daily operating expenses. Changes in industry policies, changes in macroeconomic conditions, market competition, and fluctuation in oil prices, interest rates and exchange rates, will have effect on the operation of the Company to a certain extent, and will in turn affect the effectiveness of the use of the proceeds. In this connection, the Company will actively adopt various measures to act against risks that face the Company, and improve the effectiveness of the use of the proceeds.

(II) Impact of the Non-public Offering on the Financial Position of the Company

(1) Consolidating capital strength and enhancing shareholders' equity. The amount of funds to be raised through the non-public offering of A Shares and H Share private placement will be approximately RMB6.5 billion, on the basis of approximately RMB5.6 billion to be raised through the A Share offering and approximately RMB915 million to be raised through the H Share private placement, at an exchange rate of HK$1 = RMB0.88 and on the basis of the upper limit of the net proceeds from the H Share Issue which amounts to HK$1.04 billion. As of 30 September 2009, shareholders' equity attributable to the parent company was RMB23.605 billion. Upon completion of the A Share non-public offering and the H Share private placement, the shareholders' equity attributable to the parent company will increase by approximately RMB6.5 billion.

(2) Further improving the financial position of the Company and reducing its financial risks. As projected from the financial data of the Company as of 30 September 2009, the gearing ratio of the Company will reduce by 4.58 percentage points from 76.41% to 71.83% completing upon the A Share non-public offering and the H Share private placement. The current ratio of the Company will be further increased from 0.24 to 0.41, a remarkable improvement in the Company's debt servicing capability in the short run. The non-public offering will further improve the Company's financial position and enhance the Company's risk-resistance capability, which will in turn provide a better security for the sustainable development of the Company in future.

(3) Reducing the finance costs and increasing the profitability of the Company. A substantial amount of funds is required for the normal operation of the Company so as to meet the cash expenditure arising from its operating activities. The Company generally covers the shortfall by way of short-term borrowings when the working capital is not sufficient in meeting such requirements. Upon replenishment of the working capital by way of A Share non-public offering and H Share private placement, the pressure on the Company's working capital will be alleviated to a certain extent, thereby lessening the reliance on debt financing which in turn would mean lesser finance costs. Based on the prevailing one-year loan interest rate of 5.31%, the Company will save an interest expense of approximately RMB345 million per annum after replenishing its working capital with the proceeds in the aggregate amount of approximately RMB6.5 billion raised from the A Share non-public offering and the H Share private placement.

Accordingly, upon completion of this Non-public Issuance, the Company intends to apply the aforesaid proceeds toward replenishing the internal funds for complying with relevant policies and laws and regulations of the PRC, satisfying the funding requirements of the Company for its business development, improving the financial conditions of the Company and enhancing the Company's profitability, which will be favorable for maintaining the Company's competitive advantage, sustaining the Company's healthy development, and benefiting the Shareholders as a whole.

Air China Limited

11 March 2010

According to the approval issued by the CSRC on 27 July 2006 (Zheng Jian Fa Xing Zi No.[2006] 57), the Company conducted an initial public offering of A Shares in August 2006. According to the Administrative Rules for the Issue of Securities of Listed Companies (Zheng Jian Hui Ling No. 30) and the Rules Concerning the Report on the Use of Proceeds from Previous Fundraising Activities (Zheng Jian Fa Xing Zi No. [2007] 500), the use of proceeds as at 31 December 2009 of the Company is reported as follows:

I. Amount of Proceeds from the Previous Fundraising Activities and Status of Receipt

According to the approval reply issued by China Securities Regulatory Commission on 27 July 2006 (Zheng Jian Fa Xing Zi [2006] No.57), the Company was allowed to conduct an initial public offering of A Shares ("***A Shares***") in the PRC and to apply for listing on the Shanghai Stock Exchange upon completion of issuance. The Company issued 1,639,000,000 A Shares with a par value of RMB1.00 each through the Shanghai Stock Exchange in August 2006 at an issue price of RMB2.80 per share. The gross proceeds from the issuance was RMB4,589,200,000 and the net proceeds was RMB4,513,195,722 (the "***Proceeds from Previous Fundraising Activities***") after deduction of the issuance expenses of RMB76,004,278.

According to the capital verification report issued by Beijing Tian Hua Certified Public Accountants (Tian Hua (Yan) Zi [2006] No.023-46), as at 15 August 2006, the aforesaid Proceeds from Previous Fundraising Activities of RMB4,513,195,722 was paid into the following special accounts for the Proceeds from Previous Fundraising Activities opened by the Company with the following banks: account number 0200006029000014709 with the Beijing Airport Sub-branch of the Industrial and Commercial Bank of China, account number 11001070500059261152 with the Beijing Airport Sub-branch of China Construction Bank, account number 800708012468094001 with the Beijing Airport Sub-branch of Bank of China and account number 0115014140000301 with the Pinganli Sub-branch of Minsheng Bank. As at 31 December 2009, all the funds in these accounts have been used in accordance with the plan for the use of proceeds as disclosed in the Company's Prospectus relating to the initial public offering of A shares.

II. Actual Use of Proceeds from Previous Fundraising Activities

In accordance with the plan for the use of proceeds as disclosed in the Company's Prospectus relating to the initial public offering of A shares, after deduction of the issuance expenses, the Proceeds have been used for the purchase of 20 Airbus A330-200 aircraft, 15 Boeing B787 aircraft and 10 Boeing B737-800 aircraft as well as the project relating to the expansion of existing operating support facilities at Phase III of the Beijing Capital International Airport.

As at 31 December 2009, the actual use of the Proceeds from Previous Fundraising Activities and the intended use of proceeds in the prospectus relating to the initial public offering of A Shares of the Company is as follows:

(in ten thousand RMB)

Total amount of the proceeds	451,319
Total amount of the proceeds used for other purposes	–
Total amount of one proceeds used for other purpose expressed as percentage	–
Accumulated amount of the proceeds used	451,319
Total amounts of the proceeds used in each year:	
2007	237,036
2006	214,283

Investment projects		Accumulated investment amount of the proceeds as at 31 December 2009*				
Committed investment projects	Actual investment projects	Committed investment amount prior to the offering	Committed investment amount after the offering	Actual investment amount	Difference between the actual investment amount and the committed investment amount after the Offering	The project reaches the usable condition as scheduled; or the completion progress as at 31 December 2009
Purchase of 20 Airbus A330-200 aircraft	Purchase of 20 Airbus A330-200 aircraft	Unspecified	Unspecified	310,274	N/A–	Delivered
Purchase of 15 Boeing B787 aircraft	Purchase of 15 Boeing B787 aircraft	Unspecified	Unspecified	17,971	N/A–	Pending delivery
Purchase of 10 Boeing B737-800 aircraft	Purchase of 10 Boeing B737-800 aircraft	Unspecified	Unspecified	63,281	N/A–	Delivered
The project relating to the expansion of existing operating support facilities at Phase III of the Beijing Capital International Airport	Air China's project relating to the expansion of existing operating support facilities at Phase III of the Beijing Capital International Airport	59,793	59,793	59,793	–	Completed
Total				451,319	–	

* From the date of receipt of the proceeds from the previous fundraising activities to 31 December 2009.

III. Return on the Projects Funded By The Proceeds from the Previous Fundraising Activities

As at 31 December 2009, the realized return on the projects funded by the Proceeds from the Previous Fundraising Activities is as follows:

(in ten thousand RMB)

Investment Projects	Committed Revenue (per aircraft per year)	Actual revenue in the most recent 3 years 2009	2008	2007	Accumulative Realized Revenue as at 31 December 2009 *(Note 1)*	Whether reached the committed revenue *(Note 2)*
Purchase of 20 Airbus A330-200 aircraft *(Note 3)*	32,200	670,075	542,966	372,249	1,667,232	Note 4
Purchase of 15 Boeing B787 aircraft *(Note 3)*	28,300	–	–	–	–	Note 5
Purchase of 10 Boeing B737-800 aircraft *(Note 3)*	15,200	154,686	91,323	5,592	251,601	Note 6
The project relating to the expansion of existing operating support facilities at Phase III of the Beijing Capital International Airport	N/A	N/A	N/A	–	N/A	Note 7
Total		824,761	634,289	377,841	1,918,833	

Note 1: From the date of receipt of the Proceeds from the Previous Fundraising Activities to 31 December 2009.

Note 2: Committed return refers to the income committed to be achieved by the time the aircraft is put to use for one year already as disclosed in the prospectus of the Company issued in relation to the initial public offering of A Shares. The actual return for the past three years refers to the actual income from flying during the relevant accounting year. In comparing the actual return to the committed return, the time period of receipt of the aircraft is compared proportionally to the committed return as discounted to that proportion.

Note 3: Before the funds were made available, the Company paid the aforesaid amounts with its internal funds and bank borrowings, in accordance with the actual payment schedule of each project. When the proceeds was received, the funds had been used to settle the remaining amount of the aforesaid project and to repay bank borrowings.

Note 4: As disclosed in the Prospectus relating to the initial public offering of A shares, during the period from 2006 to 2008 (i.e., prior to the introduction of B787 aircraft), since B767 aircraft started to retired in a phased manner, these aircraft would be mainly used to cope with the increase of new international air routes and to replace B767 aircraft with an annul income of RMB322,000,000 for each aircraft. For the period subsequent to 2008 (i.e., after the introduction of B787 aircraft and the complete retirement of B767 aircraft), A330 aircraft would be used more for domestic air routes and air routes around China and some of the relatively long-haul air routes will be taken over by B787 aircraft, with an annual income of RMB337,000,000 for each aircraft. However, for reasons stated in Note 2 below, due to Boeing's delay in delivery, all B787 were not delivered as originally scheduled. Therefore, A330 aircraft are still used for long-haul international air routes and not transferred to serve other air routes as expected. However, according to the Rules Concerning the Report on the Use of Proceeds from Previous Fundraising Activities as issued by the CSRC, the Company thinks that the amount of income from these aircraft in 2009 should still be measured in accordance with the amount of committed return for the period from 2006 to 2008, namely an annual return of RMB322,000,000 for each aircraft.

According to the standard mentioned above, as at 31 December 2006, six A330-200 aircraft were delivered one after another. Delivery of those aircraft started in June 2006. Based on the actual number of months lapsed after the delivery of the aircraft, the overall return on aircraft reached the amount of committed return. As at 31 December 2007, thirteen A330-200 aircraft were delivered after one after another. Delivery of new aircraft for the year 2007 started in January 2007. Based on the actual number of months lapsed after the delivery of the aircraft, the actual return has reached the amount of committed return. As at 31 December 2008, all the 20 A330-200 aircraft were delivered. Delivery of new aircraft for the year 2008 started in January 2008. Based on the actual number of months lapsed after the delivery of the aircraft, the overall return on aircraft were a little behind the amount of committed return by less than 2%, A330 aircraft are primarily used in the operation of international routes. Despite the drastic decrease in the demand for international aviation market under the impact of the global financial crisis, the Company continued to proactively respond to such change by adjusting part of the international long-haul transportation capacity to serve the domestic air routes and accordingly the ultimate overall return on aircraft was only slightly lower than the amount of committed return. As at 31 December 2009, 20 A330-200 aircraft had reached the amount of committed return.

Note 5: As disclosed in the Prospectus relating to the initial public offering of A shares, the annual income of each of these aircraft was RMB283,000,000. As at 31 December 2009, these aircraft were not delivered due to Boeing's delay in delivery.

Note 6: As disclosed in the Prospectus relating to the initial public offering of A shares, the annual income of each of these aircraft was RMB152,000,000. As at 31 December 2007, three B737-800 aircraft were delivered one after another. Delivery of those aircraft started in October 2007, and the amount of committed return had been reached based on the actual number of months lapsed after the delivery of the aircraft. As at 31 December 2008, nine B737-800 aircraft were delivered. Delivery of new aircraft for the year 2008 started in May 2008. Based on the actual number of months lapsed after the delivery of the aircraft, the overall return on aircraft had reached the amount of committed return. As at 31 December 2009, all the ten B737-800 aircraft were delivered. Delivery of new aircraft for the year 2009 took place in May 2009. Based on the actual number of months lapsed after the delivery of the aircraft, the overall return of the ten 737-800 aircraft had reached the amount of committed return.

Note 7: The project was completed in 2008. As it was only a supporting part of Phase III expansion project of Beijing International Airport and mainly consisted of the construction of ground service facilities, utilities and other facilities and the expropriation of land and removal of properties, the economic return of the project could not be calculated independently.

IV. Comparison of the actual use of the Proceeds from Previous Fundraising Activities with relevant contents of regular reports and other information disclosure documents

Below is a table comparing the actual use of the Proceeds from Previous Fundraising Activities with relevant contents of regular reports and other information disclosure documents as at 31 December 2007:

(in ten thousand RMB)

	As at 31 December 2007#		
Investment Projects	**Actual Amount Used**	**Amount disclosed in 2007 Annual Report**	**Difference**
Purchase of 20 Airbus A330-200 aircraft	310,274	310,274	–
Purchase of 15 Boeing B787 aircraft	17,971	17,971	–
Purchase of 10 Boeing B737-800 aircraft	63,281	63,281	–
The project relating to the expansion of existing operating support facilities at Phase III of the Beijing Capital International Airport	59,793	59,793	–
	451,319	451,319	–

The actual use of proceeds of the Company is not different from the relevant information disclosed in the documents for information disclosure published by the Company.

* During the reporting period subsequent to 2007, the Company has not disclosed any proceed or the Proceeds from the Previous Fundraising Activities for that period.

\# From the receipt of the proceeds to the closing date of the reporting period.

V. Conclusions

The Board of Directors believes that the Company has used the Proceeds from the Previous Fundraising Activities in accordance with the plan for use of the proceeds as disclosed in the Company's prospectus relating to the initial public offering of A shares. The Company has faithfully performed its disclosure obligation with regard to the investments made out of the Proceeds from the Previous Fundraising Activities and the related investment progress.

The Report on the Use of Proceeds from Previous Fundraising Activities has been prepared in accordance with the Rules Concerning the Report on the Use of Proceeds from Previous Fundraising Activities (Zheng Jian Fa Xing Zi No. [2007] 500) as issued by the CSRC. All directors of the Company undertake that this Report contains no false description, misleading representation or material omission and they are willing to assume joint and several legal liability for the truthfulness, accuracy and completeness of this Report.

Board of Directors of
Air China Limited

March 11, 2010

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, 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 any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notifiable to the Company and the Hong Kong 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 notifiable to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of 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 2008 (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 Latest Practicable Date 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 Airways Limited ("Cathay Pacific"), which is a substantial shareholder of the Company and wholly owns Hong Kong Dragon Airlines Limited ("Dragonair"). Mr. Kong Dong, who is the chairman and a non-executive Director of the Company, Mr. Cai Jianjiang and Mr. Fan Cheng, who are 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. SERVICE CONTRACTS

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).

4. 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 2008, being the date to which the latest published audited accounts of the Group have been made up.

5. EXPERT

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

Name	Qualification
China Merchants Securities	a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the Securities and Futures Ordinance (Cap. 571), the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in respect of the CNAHC Subscription and the CNACG Subscription.

(a) at the Latest Practicable Date, China Merchants Securities 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) China Merchants Securities has given and has 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.

6. MISCELLANEOUS

(a) The joint company secretaries of the Company are Huang Bin and Tam Shuit Mui. Ms. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of The American Institute of Certified Public Accountant (AICPA), USA.

(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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection 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 during normal business hours on any business day from the date of this circular until 30 March 2010:

(a) the A Share Subscription Agreement;

(b) the H Share Subscription Agreement;

(c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 18 to 19 of this circular;

(d) the letter from China Merchants Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 35 of this circular; and

(e) the consent letter issued by the expert referred to in this circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Air China Limited (the "Company") will be held at the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC at 2:00 p.m. on 29 April 2010 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 announcement dated 12 March 2010 issued by the Company.

Ordinary Resolutions:

1. "**THAT** the Resolution on the Company's Satisfaction of the Requirements in relation to the A Share Issue be and is hereby approved.

   In accordance with the relevant provisions of laws and regulations including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Rules Governing Issue of Securities by Listed Companies and the Implementation Rules Concerning the Non-public Issuance of Securities by Listed Companies, and after self inquiry conducted by the Company, the Company is able to satisfy the requirements in relation to the A Share Issue."

2. "**THAT** the Resolution on the Feasibility Study Report for the Use of Proceeds from the A Share Issue of the Company be and is hereby approved."

   To consider and approve the Feasibility Study Report for the Use of Proceeds from the A Share Issue of Air China Limited.

3. "**THAT** the Resolution on the Report on the Use of Proceeds from Previous Fundraising Activities of the Company be and is hereby approved."

   To consider and approve the Report on the Use of Proceeds from Previous Fundraising Activities of the Air China Limited.

Special Resolutions:

4. "**THAT** each of the following items under the Resolution Concerning the A Share Issue and the H Share Issue of the Company be and is hereby approved by the independent shareholders:

(1) Share Types and Nominal Value

The A Shares issued under the A Share Issue are the domestic-listed Renminbi denominated ordinary shares of the Company with nominal value of RMB1.00 each; the H Shares issued under the H Share Issue are the overseas-listed foreign shares of the Company with nominal value of RMB1.00 each.

(2) Method of Issue

Both the A Share Issue and the H Share Issue are conducted by way of non-public offering to specific investors.

The A Share Issue will be conducted in due course within six months upon approval by the CSRC.

(3) Target Subscriber and Subscription Method

Under the A Share Issue, new A Shares will be issued to no more than 10 specific investors including CNAHC.

In addition to CNAHC, the target subscribers are securities investment fund management companies, securities houses, trust and investment companies, financial companies, insurance institutional investors and other qualified investors. Upon the written approval of the offering, the specific target subscribers will be determined based on the bid prices offered by the targets and according to the price priority principle.

CNACG is the target subscriber under the H Share Issue.

Under both the A Share Issue and the H Share Issue, all target subscribers are required to settle the subscription in cash.

(4) Offering Size

Number of A Shares to be Issued

The A Shares to be issued under the A Share Issue will be no more than 585 million, in which CNAHC will commit at least RMB1,500 million to subscribe for not more than 157,000,000 A Shares at the final offering price. The exact offering size will be determined by the Board and the sponsor (the lead underwriter) through negotiations, subject to the level of subscriptions.

Number of H Shares to be Issued

The new H Shares to be issued under the H Share Issue will be not more than 157 million.

If any *ex-right* or *ex-dividend* events, such as entitlement distribution, reserve capitalization or share placement, occur in the period between the Pricing Base Day (as defined below) and the date of issuance, the respective maximum number of Shares to be issued under the A Share Issue and the H Share Issue will be subject to corresponding adjustment.

(5) Pricing Base Day and Issue Price

Under both the A Share Issue and the H Share Issue, the Pricing Base Day means the date on which the resolutions of the relevant board meeting were announced.

Under the A Share Issue, the issue price will not be less than RMB9.58, i.e. not less than 90% of the average trading price of the A Shares of the Company for the 20 trading days prior to the Pricing Base Day (the average trading price of the A Shares of the Company for the 20 trading days prior to the Pricing Base Day equals to the total trading amount of A Shares for the 20 trading days prior to the Pricing Base Day divided by the total trading volume of A Shares for the 20 trading days prior to the Pricing Base Day). The final issue price will be determined by the Board and the sponsor (the lead underwriter) through consultation upon receiving written approval of the issuances through negotiations on the basis of bookbuilding, i.e. subject to the bid prices offered by the targets and according to the price priority principle. CNAHC will not take part in the bidding in the bookbuilding under the A Share Issue and will make subscription at the same price as the other subscribers.

Under the H Share Issue, the issue price will not be less than HK$6.62, i.e. not less than the average trading price of the H Shares of the Company for the 20 trading days prior to the Pricing Base Day (the average trading price of the H Shares of the Company for the 20 trading days prior to the Pricing Base Day equals to the total trading amount of the H Shares for the 20 trading days prior to the Pricing Base Day divided by the total trading volume of the H Shares for the 20 trading days prior to the Pricing Base Day). The final issue price will be determined by the Company and CNACG, through arm's length negotiation.

If any *ex-right* or *ex-dividend* events, such as entitlement distribution, reserve capitalization or share placement, occur in the period between the Pricing Base Day and the date of issuance, the respective minimum issue prices under the A Share Issue and the H Share Issue will be subject to corresponding adjustment.

(6) Lock-up Period

CNAHC may not dispose of any of the A Shares it subscribed under the A Share Issue within 36 months from the completion date of the A Share Issue, while other specific investors may not dispose of the A Shares they subscribed under the A Share Issue within 12 months from the completion date of the A Share Issue.

CNACG undertakes that it will not dispose of any of the H Shares it subscribed under the H Share Issue within 12 months from the completion date of the H Share Issue.

(7) Place of Listing

Upon the expiry of the lock up period, the A Shares issued under the A Share Issue will be traded on the Shanghai Stock Exchange. The H Shares Issued under the H Share Issue will be traded on The Stock Exchange of Hong Kong Limited.

(8) Use of Proceeds

It is intended to raise a net amount of no more than RMB5.6 billion through the A Share Issue, all of which will be used to replenish the working capital of the Company. As part of the proceeds, pursuant to the relevant government approvals, RMB1.5 billion was planned to be applied towards the acquisitions by the Company of minority shareholders' equity interest in Air China Cargo Co., Ltd.. As the Company has already paid for such acquisitions with its own funds, the RMB1.5 billion will be directly used towards the Company's working capital expenditures.

The net proceeds from the H Share Issue will be not more than HK$1.04 billion and all such proceeds will be used to replenish the Company's working capital.

(9) Accumulated Profit Arrangement

Upon the completion of the A Share Issue and the H Share Issue, both the old and new shareholders of the Company will share the undistributed profits accumulated prior to the A Share Issue and the H Share Issue.

(10) Effectiveness of the Resolution Approving the A Share Issue and the H Share Issue

The resolution will be effective within 12 months from the date when it is approved at the EGM of the Company.

The A Share Issue is conditional upon the H Share Issue and vice versa. In other words, if any item of either the A Share Issue or the H Share Issue is not approved at the EGM or the class meetings of Shareholders or by the CSRC or any of the related matters is not approved by other competent government authorities, the other issue will not proceed.

In addition to approval by this general meeting, this resolution is required to be submitted as special resolution to the class meetings of Shareholders for consideration and approval and the execution is subject to the approval of CSRC. The plan approved by the CSRC shall be final."

5. "**THAT** the Resolution on the Share Subscription Agreements between the Company and Specific Subscribers be and is hereby approved by the independent shareholders.

    1. To approve the A Share Subscription Agreement to be entered into by and between the Company and CNAHC.

    2. To approve the H Share Subscription Agreement to be entered into by and between the Company and CNACG.

    In addition to approval by the EGM, this resolution is required to be submitted as special resolution to the class meetings of the Shareholders for consideration and approval and can be implemented only upon the approval of the CSRC.

6. "**THAT** the Resolution Concerning the Authorization Given to the Board for Handling All Relevant Matters Regarding the A Share Issue and the H Share Issue be and is hereby approved.

    In order to effectively complete, in an orderly manner, the A Share Issue and the H Share Issue by the Company in accordance with laws and regulations including the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China and the articles of association of the Company, the following be and are hereby approved:

    1. The Board be and is hereby authorized to handle all matters relating to the share issue, including but not limited to making specific determination on the method of issue, offering size, issue price, pricing method, target subscribers and timing of issuance of the A Share Issue and the H Share Issue etc.

    2. The Board, the chairman of the Board and persons delegated by the chairman of the Board be and are hereby authorised to determine the engagement of intermediary agencies for the A Share Issue and the H Share Issue, to handle reporting matters, to prepare, produce, amend, refine and execute all documents and information related to the A Share Issue and the H Share Issue, and to sign all such contracts, agreements and documents related to the A Share Issue and the H Share Issue.

    3. In case of any change of policies of regulatory bodies in relation to the A Share Issue and the H Share Issue, or any change of market conditions, except where voting at a general meeting is required by any relevant laws and regulations,

the articles of association of the Company or any regulatory bodies, the Board be and is hereby authorized to adjust the specific proposals for the A Share Issue and the H Share Issue.

4. The Board, the chairman of the Board and persons delegated by the chairman of the Board be and are hereby authorized to carry out fund verification procedures related to the A Share Issue and the H Share Issue.

5. the Board, the chairman of the Board and persons delegated by the chairman of the Board be and are hereby authorized to establish a dedicated account for fund raising.

6. the Board, the chairman of the Board and persons delegated by the chairman of the Board be and are hereby authorized to handle such relevant matters as share registration, share lock-up and listing and to submit relevant documents upon completion of the A Share Issue and the H Share Issue.

7. the Board, the chairman of the Board and persons delegated by the chairman of the Board be and are hereby authorized, upon completion of the A Share Issue and the H Share Issue, to amend the corresponding terms of the articles of association of the Company and carry out relevant approval procedures and to carry out registration procedures regarding the change of the registered capital of the Company.

8. The Board be and is hereby authorized to handle all relevant matters related to the A Share Issue and the H Share Issue.

9. The authorization as set forth in items No. 4 to 7 above shall be effective during the subsistence of the matters from the date of approval of the resolutions at the EGM general meeting of the Company, whilst authorization under other items shall be effective for twelve months commencing from the date of approval of the resolutions at the EGM of the Company."

By order of the Board
Air China Limited
Huang Bin **Tam Shuit Mui**
Joint Company Secretaries

Beijing, the PRC, 15 March 2010

As at the date of this notice, the directors of the Company are Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Wang Shixiang, Mr. Cao Jianxiong, Mr. Christopher Dale Pratt, Mr. Chen Nan Lok, Philip, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Hu Hung Lick, Henry, Mr. Zhang Ke*, Mr. Jia Kang* and Mr. Fu Yang*.*

* *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 30 March 2010 to 29 April 2010 (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 29 March 2010.

Shareholders of the Company whose names appear on the register of members of the Company at the close of business on 29 March 2010 are entitled to attend the EGM.

2. Notice of attendance

H-share shareholders who intend to attend the EGM should complete and lodge the accompanying notice of attendance and return it to the Company's H Share registrar on or before Friday, 9 April 2010. The notice of attendance may be delivered by hand, by post or by fax to the Company's H Share registrar. 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 returning 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/her 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 not less than 24 hours before the time specified 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.

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:

17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990

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)

NOTICE OF FOREIGN SHAREHOLDERS CLASS MEETING

NOTICE IS HEREBY GIVEN that the class meeting for holders of Foreign Shares ("**Foreign Shareholders Class Meeting**") of Air China Limited ("**Company**") will be held at The Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, the PRC at 2:50 p.m. on 29 April 2010 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 announcement of the Company dated 12 March 2010:

Special Resolutions

1. "**THAT** each of the following items under the Resolution Concerning the A Share Issue and the H Share Issue of the Company be and is hereby approved by the independent shareholders:

(1) Share Types and Nominal Value

The A Shares issued under the A Share Issue are the domestic-listed Renminbi denominated ordinary shares of the Company with nominal value of RMB1.00 each; the H Shares issued under the H Share Issue are the overseas-listed foreign shares of the Company with nominal value of RMB1.00 each.

(2) Method of Issue

Both the A Share Issue and the H Share Issue are conducted by way of non-public offering to specific investors.

The A Share Issue will be conducted in due course within six months upon approval by the CSRC.

(3) Target Subscriber and Subscription Method

Under the A Share Issue, new A Shares will be issued to no more than 10 specific investors including CNAHC.

In addition to CNAHC, the target subscribers are securities investment fund management companies, securities houses, trust and investment companies, financial companies, insurance institutional investors and other qualified investors. Upon obtaining the written approval of the offering, the specific target subscribers will be determined based on the bid prices offered by the targets and according to the price priority principle.

CNACG is the target subscriber under the H Share Issue.

Under both the A Share Issue and the H Share Issue, all target subscribers are required to settle the subscription in cash.

(4) Offering Size

Number of A Shares to be Issued

The A Shares to be issued under the A Share Issue will be no more than 585 million, in which CNAHC will commit at least RMB1,500 million to subscribe in cash for not more than 157,000,000 A Shares at the final offering price. The exact offering size will be determined by the Board and the sponsor (the lead underwriter) through negotiations, subject to the level of subscriptions.

Number of H Shares to be Issued

The new H Shares to be issued under the H Share Issue will be not more than 157 million.

If any *ex-right* or *ex-dividend* events, such as entitlement distribution, reserve capitalization or share placement, occur in the period between the Pricing Base Day (as defined below) and the date of issuance, the respective maximum number of Shares to be issued under the A Share Issue and the H Share Issue will be subject to corresponding adjustment.

(5) Pricing Base Day and Issue Price

Under both the A Share Issue and the H Share Issue, the Pricing Base Day means the date on which the resolutions of the relevant board meeting were announced.

Under the A Share Issue, the issue price will not be less than RMB9.58, i.e. not less than 90% of the average trading price of the A Shares of the Company for the 20 trading days prior to the Pricing Base Day (the average trading price of the A Shares of the Company for the 20 trading days prior to the Pricing Base Day equals to the total trading amount of A Shares for the 20 trading days prior to the Pricing

Base Day divided by the total trading volume of A Shares for the 20 trading days prior to the Pricing Base Day). The final issue price will be determined by the Board and the sponsor (the lead underwriter) through consultation upon receiving written approval of the issue on the basis of bookbuilding, i.e. subject to the bid prices offered by the targets and according to the price priority principle. CNAHC will not take part in the bidding in the bookbuilding under the A Share Issue and will make subscription at the same price as the other subscribers.

Under the H Share Issue, the issue price will not be less than HK$6.62, i.e. not less than the average trading price of the H Shares of the Company for the 20 trading days prior to the Pricing Base Day (the average trading price of the H Shares of the Company for the 20 trading days prior to the Pricing Base Day equals to the total trading amount of the H Shares for the 20 trading days prior to the Pricing Base Day divided by the total trading volume of the H Shares for the 20 trading days prior to the Pricing Base Day). The final issue price will be determined by the Company and CNACG through arm's length negotiation.

If any *ex-right* or *ex-dividend* events, such as entitlement distribution, reserve capitalization or share placement, occur in the period between the Pricing Base Day and the date of issuance, the respective minimum issue prices under the A Share Issue and the H Share Issue will be subject to corresponding adjustment.

(6) Lock-up Period

CNAHC may not dispose of any of the A Shares it subscribed under the A Share Issue within 36 months from the completion date of the A Share Issue, while other specific investors may not dispose of the A Shares they subscribed under the A Share Issue within 12 months from the completion date of the A Share Issue.

CNACG undertakes that it will not dispose of any of the H Shares it subscribed under the H Share Issue within 12 months from the completion date of the H Share Issue.

(7) Place of Listing

Upon the expiry of the lock up period, the A Shares issued under the A Share Issue will be traded on the Shanghai Stock Exchange. The H Shares issued under the H Share Issue will be traded on The Stock Exchange of Hong Kong Limited.

(8) Use of Proceeds

It is intended to raise a net amount of no more than RMB5.6 billion through the A Share Issue, all of which will be used to replenish the working capital of the Company. As part of the proceeds, pursuant to the relevant government approvals, RMB1.5 billion was planned to be applied towards the acquisitions by the Company of minority shareholders' equity interest in Air China Cargo Co., Ltd.. As the Company has already paid for such acquisitions with its own funds, the RMB1.5 billion will be directly used towards the Company's working capital expenditures.

The net proceeds from the H Share Issue will be not more than HK$1.04 billion and all such proceeds will be used to replenish the Company's working capital.

(9) Accumulated Profit Arrangement

Upon the completion of the A Share Issue and the H Share Issue, both the old and new shareholders of the Company will share the undistributed profits accumulated prior to the A Share Issue and the H Share Issue.

(10) Effectiveness of the Resolution Approving the A Share Issue and the H Share Issue

The resolution will be effective within 12 months from the date when it is approved at the EGM of the Company.

The A Share Issue is conditional upon the H Share Issue and vice versa. In other words, if any item of either the A Share Issue or the H Share Issue is not approved at the EGM and the class meetings of Shareholders or by the CSRC or any of the related matters is not approved by other competent government authorities, the other issue will not proceed.

In addition to approval by this Foreign Shareholders Class Meeting, this resolution is required to be submitted as special resolution to the general meeting of the Company and the Domestic Shareholders Class Meeting for consideration and approval and its execution is subject to the approval of CSRC. The plan approved by the CSRC shall be final."

2. "**THAT** the Resolution on the Share Subscription Agreements between the Company and Specific Subscribers be and is hereby approved by the independent shareholders.

   (1) To approve the A Share Subscription Agreement to be entered into by and between the Company and CNAHC.

   (2) To approve the H Share Subscription Agreement to be entered into between the Company and CNACG.

   In addition to approval by this Foreign Shareholders Class Meeting, the resolution is required to be submitted as special resolution to the general meeting of the Company and the Domestic Shareholders Class Meeting for consideration and approval and the execution is subject to the approval of the CSRC.

By order of the Board
Air China Limited
Huang Bin **Tam Shuit Mui**
Joint Company Secretaries

Beijing, the PRC, 15 March 2010

As at the date of this notice, the directors of the Company are Mr. Kong Dong, Ms. Wang Yinxiang, Mr. Wang Shixiang, Mr. Cao Jianxiong, Mr. Christopher Dale Pratt, Mr. Chen Nan Lok, Philip, Mr. Cai Jianjiang, Mr. Fan Cheng, Mr. Hu Hung Lick, Henry, Mr. Zhang Ke*, Mr. Jia Kang* and Mr. Fu Yang*.*

* *Independent non-executive director of the Company*

Notes:

1. The proposed H Shares Issue and the Company's proposed plan in relation to the use of proceeds from the H Shares Issue

Shareholders are reminded to read carefully the details of the proposed issue of additional H Shares as well as the relevant content of the plan proposed by the Company in relation to the use of proceeds from the issue of additional H Shares as contained in the circular of the Company in connection therewith.

2. Closure of register of members and eligibility for attending the Foreign Shareholders Class Meeting

Holders of H Shares of the Company are advised that the register of members of the Company will close from 30 March 2010 to 29 April 2010 (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 Foreign Shareholders Class Meeting, 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 29 March 2010.

Shareholders of the Company whose names appear on the register of members of the Company at the close of business on 29 March 2010 are entitled to attend the Foreign Shareholders Class Meeting.

3. Notice of attendance

H-share shareholders who intend to attend the Foreign Shareholders Class Meeting should complete and lodge the accompanying notice of attendance and return it to the Company's H Share registrar on or before Friday, 9 April 2010. The notice of attendance may be delivered by hand, by post or by fax to the Company's H Share registrar. Completion and return of the notice of attendance do not affect the right of a shareholder to attend the Foreign Shareholders Class Meeting. However, the failure to return the notice of attendance may result in an adjournment of the Foreign Shareholders Class Meeting, if the number of shares carrying the right to vote represented by the shareholders proposing to attend the Foreign Shareholders Class Meeting by returning the notice of attendance does not reach more than half of the total number of H Shares of the Company carrying the right to vote at the Foreign Shareholders Class Meeting.

4. Proxy

Every shareholder who has the right to attend and vote at the Foreign Shareholders Class Meeting is entitled to appoint one or more proxies, whether or not they are members of the Company, to attend and vote on his/her behalf at the Foreign Shareholders Class Meeting.

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 not less than 24 hours before the time specified for the holding of the Foreign Shareholders Class Meeting. 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.

5. Other businesses

(i) The Foreign Shareholders Class Meeting is expected to last for one hour and thirty minutes. 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:

17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990