THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a 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 of **Air China Limited**, you should at once hand this circular and the form of proxy and notice of attendance to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the 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) CONTINUING CONNECTED TRANSACTION: NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT; (2) DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS: FINANCIAL SERVICES AGREEMENTS

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

Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 5 to 24 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 25 to 26 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 27 to 41 of this circular.

A notice convening the EGM will be dispatched by the Company in due course. The Company will announce details of the EGM, including the date and venue as and when available in compliance with the articles of association of the Company and the Hong Kong Listing Rules.

14 September 2020

CONTENTS

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

"2004 Trademark License Agreement"	the trademark license agreement entered into between the Company and CNAHC on 1 November 2004
"Air China Financial Services Agreement"	the financial services framework agreement entered into between the Company and CNAF on 30 August 2017
"Air China New Annual Caps"	RMB15 billion, RMB15 billion and RMB15 billion, being the proposed maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Air China Financial Services Agreement for the three years ending 31 December 2021, 2022 and 2023, respectively
"Articles of Association"	the articles of association of the Company
"Board"	the board of Directors of the Company
"Cathay Dragon"	Hong Kong Dragon Airlines Limited
"Cathay Pacific"	Cathay Pacific Airways Limited
"CBIRC"	China Banking and Insurance Regulatory Commission
"CNACG"	China National Aviation Corporation (Group) Limited (中國航空(集團)有限公司), a company incorporated under the laws of Hong Kong, which is a wholly- owned subsidiary of CNAHC and a substantial shareholder of the Company as at the Latest Practicable Date
"CNAF"	China National Aviation Finance Co., Ltd. (中國航空集團財務有限責任公司), a limited liability company incorporated under the laws of the PRC
"CNAHC"	China National Aviation Holding Corporation Limited (中國航空集團有限公司)

"CNAHC Financial Services Agreement"	the financial services framework agreement entered into between CNAHC and CNAF on 30 August 2017
"CNAHC Group"	CNAHC, its subsidiaries and their associates, companies falling within the definition of commonly held entity under the Hong Kong Listing Rules, as well as any other CNAHC Member Company which, in accordance with the listing rules of the places where the shares of the Company are listed as in force and as amended from time to time, is a connected person or related party of the Company, but excluding the Group
"CNAHC Member Companies"	the member companies of the enterprise group of which CNAHC is the parent company, specific scope of the CNAHC Member Companies shall be determined in accordance with the Administrative Measures for Finance Companies of Enterprise Groups and other relevant regulations
"CNAHC New Annual Caps"	RMB6.5 billion, RMB6.5 billion and RMB6.5 billion, being the proposed maximum daily balance of Credit Services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for the three years ending 31 December 2021, 2022 and 2023, respectively
"Company"	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the 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
"Credit Services"	loan, finance lease, and other credit services
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held to seek Independent Shareholders' approval for, among other things, (i) the New Trademark License Framework Agreement and the transactions contemplated thereunder, and (ii) the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps
"Financial Services Agreements"	the Air China Financial Services Agreement and the CNAHC Financial Services Agreement
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Independent Board Committee"	a board committee comprising Mr. Wang Xiaokang, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps
"Independent Shareholders"	the independent shareholders of the Company
"Latest Practicable Date"	8 September 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"NAFMII"	National Association of Financial Market Institutional Investors
"New Trademark License Framework Agreement"	the trademark license framework agreement dated 28 August 2020 entered into between the Company and CNAHC in respect of the Trademark License Transaction
"Non-exempt Continuing Connected Transactions"	the deposit services to be provided by CNAF to the Group under the Air China Financial Services Agreement and the Credit Services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement
"PBOC"	the People's Bank of China
"Percentage Ratio"	shall have the meaning ascribed to it by the Hong Kong Listing Rules
"PRC"	the People's Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
"Proposed Annual Caps"	the Air China New Annual Caps and the CNAHC New Annual Caps

"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC
"SASAC"	The State-owned Assets Supervision and Administration Commission of the State Council
"Shanghai Listing Rules"	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
"Shareholder(s)"	holder(s) of the shares of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Trademark License Framework Agreement"	the trademark license framework agreement dated 28 October 2014 entered into between the Company and CNAHC in respect of the Trademark License Transaction
"Trademark License Transaction"	the continuing connected transaction contemplated under the Trademark License Framework Agreement/New Trademark License Framework Agreement in relation to the granting by the Company to CNAHC and its controlled companies (excluding the Group) of a non-exclusive license for the use of 83 registered trademarks of the Company

中國國際航空股份有限公司
AIR CHINA LIMITED

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

(Stock Code: 00753)

Directors:
Non-Executive Directors:
Mr. Cai Jianjiang *(Chairman)*
Mr. Feng Gang
Mr. Patrick Healy
Mr. Xue Yasong

Executive Director:
Mr. Song Zhiyong *(President)*

Independent Non-Executive Directors:
Mr. Wang Xiaokang
Mr. Duan Hongyi
Mr. Stanley Hui Hon-chung
Mr. Li Dajin

Registered Address:
Blue Sky Mansion
28 Tianzhu Road
Airport Industrial Zone
Shunyi District Beijing,
the PRC

Principal Place of Business in Hong Kong:
5th Floor, CNAC House
12 Tung Fai Road
Hong Kong International Airport
Hong Kong

14 September 2020

To the Shareholders

Dear Sirs or Madams,

(1) CONTINUING CONNECTED TRANSACTION: NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT; (2) DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS: FINANCIAL SERVICES AGREEMENTS

I. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 30 August 2017 and the circular of the Company dated 7 September 2017 in relation to the Trademark License Framework Agreement, the Air China Financial Services Agreement and the CNAHC Financial Services Agreement; and (ii) the announcement of the Company dated 28 August 2020 in relation to the New Trademark License Framework Agreement, the proposed renewal of the Air China Financial Services Agreement and the CNAHC Financial Services Agreement.

The purpose of this circular is to provide you with details regarding, among others, (i) the New Trademark License Framework Agreement; and (ii) the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps to enable you to make an informed decision on voting in respect of the relevant resolutions at the EGM.

A notice convening the EGM will be dispatched by the Company in due course. The Company will announce details of the EGM, including the date and venue as and when available in compliance with the Articles of Association and the Hong Kong Listing Rules.

II. THE NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT

1. The New Trademark License Framework Agreement

Description of the New Trademark License Framework Agreement, pricing of and reasons for the transaction

Reference is made to the announcement of the Company dated 28 August 2020.

At the time of the incorporation of the Company, CNAHC contributed certain registered trademarks to the Company at nil consideration as the Company's intangible assets. As the trademarks are related to the daily business of CNAHC and its controlled companies, the Company licensed certain trademarks to CNAHC and its controlled companies at nil consideration for their use in its ordinary course of business as a reciprocal arrangement pursuant to the 2004 Trademark License Agreement. On 1 November 2004, the Company and CNAHC entered into the 2004 Trademark License Agreement, which expired on 31 December 2014. On 28 October 2014, the Company and CNAHC entered into the Trademark License Framework Agreement, which was renewed on 30 August 2017 for a term of three years starting from 1 January 2018.

According to the Trademark License Framework Agreement, the Company granted CNAHC and its controlled companies (excluding the Group) a non-exclusive license for the use of a total of 83 registered trademarks of the Company. The granting of the non-exclusive license under the Trademark License Framework Agreement is made on a royalty-free basis at nil consideration.

As the current term of the Trademark License Framework Agreement will expire on 31 December 2020, to maintain the consistency of the business operation, the Company and CNAHC entered into the New Trademark License Framework Agreement on 28 August 2020. The New Trademark License Framework Agreement contains no material or substantial changes and only contains certain non-material changes to the terms of Trademark License Framework Agreement such as updating the name of CNAHC and the parties' correspondence addresses. Given the circumstances described in the paragraph above, the New Trademark

License Framework Agreement still adopts the same method of non-exclusive licensing of these 83 registered trademarks to CNAHC and its controlled companies at nil consideration. CNAHC and its controlled companies undertook to use such licensed trademarks subject to the terms of the non-competition agreement between CNAHC and the Company dated 20 November 2004, and to ensure the quality of the services using the licensed trademarks in order to maintain their reputation.

The term of the New Trademark License Framework Agreement shall be three years commencing from 1 January 2021 and ending on 31 December 2023, which is renewable for successive terms of three years after the expiry of the current term.

2. Parties and connected Relationship between the Parties

The Company

The Company's principal business activity is air passenger, air cargo and airline-related services. The Company's parent and ultimate holding company is CNAHC, a PRC state-owned enterprise under the supervision of the State Council. CNAHC is mainly engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance.

CNAHC

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB15,500 million. Its registered address is Rooms 101-C709, B1-9/F, Building 1, No. 30 Tianzhu Road, Shunyi District, Beijing, the PRC and its legal representative is Mr. Cai Jianjiang. CNAHC is primarily engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

3. Hong Kong Listing Rules Implications

The Trademark License Transaction under the New Trademark License Framework Agreement constitutes a continuing connected transaction of the Company under the Hong Kong Listing Rules. As the transaction is on normal commercial terms or better and on a royalty-free basis, it falls below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and therefore is fully exempt from independent shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

4. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, the Trademark License Transaction is subject to the Independent Shareholders' approval at the EGM. The Company therefore will seek approval from Independent Shareholders for the New Trademark License Framework Agreement entered into between the Company and CNAHC and the transactions contemplated thereunder.

5. Approval by the Board

At the 22nd meeting of the fifth session of the Board of the Company held on 28 August 2020, the Board approved the execution of the New Trademark License Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023. Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Feng Gang and Mr. Xue Yasong, holding positions in CNAHC, are considered to have a material interest in the Trademark License Transaction and therefore have abstained from voting on the relevant Board resolution. Save as disclosed above, none of the Directors has a material interest in the Trademark License Transaction and hence no other Director is required to abstain from voting on the relevant Board resolution.

The Board (including the independent non-executive Directors) considers that the Trademark License Transaction under the New Trademark License Framework Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group. The terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. FINANCIAL SERVICES AGREEMENTS

1. Air China Financial Services Agreement

Reference is made to the announcement of the Company dated 28 August 2020. The current term of the Air China Financial Services Agreement will expire on 31 December 2020. As the Company expects that the transactions thereunder will continue to be conducted after 31 December 2020, on 28 August 2020, the Company and CNAF proposed to renew the Air China Financial Services Agreement.

Parties

The Company and CNAF

Financial services to be provided by CNAF to the Group

Pursuant to the Air China Financial Services Agreement, CNAF has agreed to provide the Group with a range of financial services including the following:

a. deposit services;

b. Credit Services;

c. other financial services, including but not limited to:

(i) negotiable instrument and letter of credit services;

(ii) trust loan and trust investment services;

(iii) underwriting services for debt issuances;

(iv) intermediary and consulting services (including financial information services);

(v) guarantee services;

(vi) settlement services;

(vii) internet banking services;

(viii) insurance agency services;

(ix) spot exchange settlement and sale services;

(x) cross-border bilateral RMB capital pooling services; and

(xi) other businesses of CNAF upon obtaining approval from CBIRC, PBOC or SAFE, such as forward settlement and sales of foreign exchange services.

Pricing basis

Deposit services

The interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of deposits; (ii) be not lower than the interest rates offered by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Credit Services

The interest rates applicable to the Credit Services provided by CNAF to the Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; (ii) be not higher than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Other financial services

The fees charged by CNAF to the Group for providing paid services in the other financial services shall (i) be in line with the relevant standards (if any) prescribed by PBOC, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) be not higher than the fees charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the Air China Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amounts will be monitored closely to ensure that the aggregate annual fees to be paid by the Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

Other terms

Pursuant to the Air China Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities. CNAF is not allowed, during the term of the Air China Financial Services Agreement, to make use of the deposits of the Group for investments involving high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangements for such inspection after receiving notice from the Company.

The renewal of the Air China Financial Services Agreement is subject to the approval by the Independent Shareholders at the EGM. If approved by the Independent Shareholders, the term of the Air China Financial Services Agreement shall be renewed for three years commencing from 1 January 2021 and ending on 31 December 2023, which is automatically renewable for successive terms of three years after the expiry of the term subject to the fulfillment of the requirements under Hong Kong Listing Rules and the required approval procedures thereunder. Upon expiry of the Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of the Air China Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

Reasons and benefits for the transaction

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

a. in respect of transactions between the Group and CNAF, CNAF is able to provide more efficient settlement services compared with independent third party banks;

b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2004 and up to the Latest Practicable Date, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;

c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and

d. a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient.

The Directors (including the independent non-executive Directors) consider that the Air China Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures and the Air China New Annual Caps

Set forth below is a summary of the historical annual caps, the actual maximum amount and the Air China New Annual Caps for the daily balance of deposits (including accrued interests) placed or to be placed by the Group with CNAF:

	Historical Annual Caps			Actual maximum amount			Air China New Annual Caps		
Transaction	for the year ended 31 December 2018	for the year ended 31 December 2019	for the year ending 31 December 2020	for the year ended 31 December 2018	for the year ended 31 December 2019	for the period from 1 January to 30 June 2020	for the year ending 31 December 2021	for the year ending 31 December 2022	for the year ending 31 December 2023
Financial Services (daily balance of deposits)	RMB12 billion	RMB14 billion	RMB15 billion	RMB10.485 billion	RMB9.610 billion	RMB9.665 billion	RMB15 billion	RMB15 billion	RMB15 billion

As the Group strengthened its management of funds and improved the efficiency of utilization of its own funds in 2018 and 2019, the growth rate of monetary funds of the Group was lower than expected. Therefore, the daily maximum amount of monetary funds of the Group in the years 2018 and 2019 and the maximum daily balance of deposits of the Group placed with CNAF in these two years were lower than expected.

Basis for the Air China New Annual Caps

The Air China New Annual Caps are determined based on the following factors:

a. *The historical maximum amount of daily balance of deposits placed by the Group with CNAF*. Taking into consideration the historical maximum amount of the Group's daily balance of deposits placed with CNAF for the two years ended 31 December 2019 and the six months ended 30 June 2020 as shown in the table above, especially the maximum amount of the Group's daily balance of deposits placed with CNAF for the year 2018, being RMB10.485 billion (the "**Historical Maximum Amount**"), it is estimated that the amount of the Group's daily balance of deposits placed with CNAF in each of the next three years ending 31 December 2023 will be no more than RMB10.5 billion (without taking into account the factors stated in paragraph b below).

b. *Possible further increase in the balance of deposits placed by the Group with CNAF*. Direct financing is one of the main financing methods of the Company. The Company determines whether or not to conduct direct financing and the scale of financing based on the Company's capital needs and financing environment. In 2017, the Company used part of the proceeds raised from the non-public issuance of A shares to replace self-raised funds previously invested in the proceeds-funded projects. This led to an increase of approximately RMB4.7 billion in the balance of deposits placed by the Group with CNAF within a short period of time (the "**Historical Replaced Amount**"). Due to unsatisfactory financing environment in 2018 and 2019, the Company did not arrange direct financing in both years. Taking into account the Company's capital needs and current market condition, the Company may raise funds by way of direct financing in the next three years, which may lead to a temporary increase in the balance of deposits placed by the Group with CNAF. With reference to the Historical Replaced Amount, it is expected that raising funds by way of direct financing by the Company may result in an increase in the daily balance of deposits to be placed by the Group with CNAF by RMB4 billion for each of the three years ending 2023.

c. A buffer of approximately 3% is applied for each of the three years ending 31 December 2023 to cater the Group's needs from time to time.

Taking into account the aforesaid factors, it is proposed that the maximum daily balance of deposits (including accrued interests) placed by the Group with CNAF for the three years ending 31 December 2021, 2022 and 2023 shall be RMB15 billion, RMB15 billion and RMB15 billion, respectively.

2. CNAHC Financial Services Agreement

Reference is made to the announcement of the Company dated 28 August 2020. The current term of the CNAHC Financial Services Agreement will expire on 31 December 2020. As CNAF expects that the transactions thereunder will continue to be conducted after 31 December 2020, on 28 August 2020, CNAF and CNAHC proposed to renew the CNAHC Financial Services Agreement.

Parties

CNAF and CNAHC

Financial services to be provided by CNAF to CNAHC Group

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

a. deposit services;

b. Credit Services;

c. other financial services, including but not limited to:

(i) negotiable instrument and letter of credit services;

(ii) trust loan and trust investment services;

(iii) underwriting services for debt issuances;

(iv) intermediary and consulting services (including financial information services);

(v) guarantee services;

(vi) settlement services;

(vii) internet banking services;

(viii) insurance agency services;

(ix) spot exchange settlement and sale services;

(x) cross-border bilateral RMB capital pooling services; and

(xi) other businesses of CNAF upon obtaining approval from CBIRC, PBOC or SAFE, such as forward settlement and sales of foreign exchange services.

Pricing basis

Deposit services

The interest rates applicable to CNAHC Group's deposits with CNAF shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of deposits; (ii) be not higher than the interest rates offered by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Credit Services

The interest rates applicable to the Credit Services provided by CNAF to the CNAHC Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; (ii) be not lower than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Other financial services

The fees charged by CNAF to the CNAHC Group for providing paid services in the other financial services shall (i) be in line with the relevant rate standards (if any) prescribed by the PBOC, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) be not lower than the fees charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the CNAHC Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the CNAHC Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amount will be monitored closely to ensure that the aggregate annual fees to be paid by the CNAHC Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

Other terms

Pursuant to the CNAHC Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities.

The renewal of the CNAHC Financial Services Agreement is subject to the approval by the Independent Shareholders at the EGM. If approved by the Independent Shareholders, the term of the CNAHC Financial Services Agreement shall be renewed for three years commencing from 1 January 2021 and ending on 31 December 2023, which is automatically renewable for successive terms of three years after the expiry of its initial term subject to the fulfillment of the requirements under Hong Kong Listing Rules/Shanghai Listing Rules and the required approval procedures thereunder. Upon expiry of the CNAHC Financial Services Agreement, the Board will re-assess the terms and conditions of the CNAHC Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules/Shanghai Listing Rules. During the term of the CNAHC Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

Reasons and benefits for the transaction

CNAF has been providing financial services to the CNAHC Group for years. The business with the CNAHC Group contributed a steady and significant portion to CNAF's revenues in the past. Such transaction is beneficial for CNAF to make full use of its function as a financial Platform to further improve the utilization efficiency and effectiveness of funds, as well as enhance its gains on capital, which is in line with the needs of the Company's operation and development. The Directors believe that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to the CNAHC Group.

The Directors (including the independent non-executive Directors) consider that the CNAHC Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures and the CNAHC New Annual Caps

Set forth below is a summary of the historical annual caps, the actual maximum amount and the CNAHC New Annual Caps of the daily balance of Credit Services (including accrued interests) granted or to be granted by CNAF to the CNAHC Group:

Transaction	Historical Annual Caps for the year ended 31 December 2018	Historical Annual Caps for the year ended 31 December 2019	Historical Annual Caps for the year ending 31 December 2020	Actual maximum amount for the year ended 31 December 2018	Actual maximum amount for the year ended 31 December 2019	Actual maximum amount for the period from 1 January to 30 June 2020	CNAHC New Annual Caps for the year ending 31 December 2021	CNAHC New Annual Caps for the year ending 31 December 2022	CNAHC New Annual Caps for the year ending 31 December 2023
Financial Services (daily balance of Credit Services)	RMB8 billion	RMB9 billion	RMB10 billion	RMB1.445 billion	RMB1.025 billion	RMB0.540 billion	RMB6.5 billion	RMB6.5 billion	RMB6.5 billion

The low utilization rate of the historical annual caps is due to the facts that (i) CNAHC and its subsidiaries had ample liquidity in the years of 2018 and 2019, therefore their demands for loans were much lower than expected; and (ii) for those members of the CNAHC Group who had loan demands, they borrowed some of their loans from independent third-party banks rather than CNAF.

Basis for the CNAHC New Annual Caps:

The CNAHC New Annual Caps are determined based on the following factors:

a. *The historical maximum amount of daily balance of Credit Services provided by CNAF to the CNAHC Group*. The maximum amount of daily balance of Credit Services provided by CNAF to the CNAHC Group for the three years ended 31 December 2017, 2018 and 2019 was RMB3.125 billion, RMB1.445 billon and RMB1.025 billion, respectively, with an average of approximately RMB1.865 billion (the "**Average Historical Maximum Amount**"). Taking into consideration such Average Historical Maximum Amount, it is estimated that CNAF will continue to provide Credit Services to the CNAHC Group with an amount of approximately RMB1.865 billion for each of the three years ending 31 December 2023, without taking into account the factors set out in paragraph b below.

b. CNAF may further make full use of its functions as a finance company to replace CNAHC's existing needs for loans from external banks with a view to effectively improve the overall efficiency of use of funds. Taking into account the amount of one-year liquidity loans previously obtained by CNAHC from external banks, being RMB4 billion in 2019, and assuming CNAHC will maintain the same level of demand for liquidity loans in the next three years ending 31 December 2023, it is expected that CNAF may provide further Credit Services to CNAHC with an amount of RMB4 billion for each of the three years ending 31 December 2023.

c. In addition, according to the loan requirement plan of certain subsidiaries of CNAHC regarding their liquidity, it is expected that the subsidiaries of CNAHC will have addition demands for loans from CNAF with an amount of approximately RMB350 million for each of the three years ended 31 December 2023.

d. A buffer of approximately 5% is applied for each of the three years ending 31 December 2023 to cater the CNAHC Group's needs from time to time.

Taking into account the aforesaid factors, it is proposed that the maximum daily balance of Credit Services (including accrued interests) to be provided by CNAF to the CNAHC Group for the three years ending 31 December 2021, 2022 and 2023 shall be RMB6.5 billion, RMB6.5 billion and RMB6.5 billion, respectively.

3. Risk Profile and Management of CNAF

CNAF, as a non-banking financial institution providing financial services to the Group and the CNAHC Group, is subject to regulations promulgated by CBIRC from time to time. These regulations may not be the same as those regulating commercial banks. As CNAF and commercial banks have different target customers for their respective financial services, they may be subject to different risk profiles. Set out below are the major risk exposures of CNAF:

Compliance risks

According to the Measures for the Administration of Finance Companies of Enterprise Groups)《 (企業集團財務公司管理辦法)) issued by the CBIRC on 27 July 2004 (as amended on 28 December 2006), CNAF shall comply with various ratios in respect of its assets and liabilities, including the capital adequacy ratio, inter-bank borrowing balances to total capital ratio, outstanding guarantees to total capital ratio, short-term securities investment to total capital ratio, long-term investment to total capital ratio and self-owned fixed assets to total capital ratio. Since its establishment until the Latest Practicable Date, CNAF has complied with all the relevant requirements from the CBIRC in respect of the above-mentioned ratios and the applicable rules and regulations stipulated by the CBIRC.

Liquidity risks

CNAF utilises deposits received by it by lending the funds out to members of the Group and the CNAHC Group. Since the terms of the deposits and loans are often different, CNAF faces liquidity risks if any deposit becomes due and it has no immediately available fund for making payment. The nature of such risk does not differ materially from the liquidity risks faced by PRC commercial banks.

To manage its liquidity risks, CNAF strictly adheres to a 25% current ratio requirement (i.e. its current liabilities shall not exceed 25% of its current assets). The liquidity risks of CNAF are also mitigated as it could obtain financing through inter-bank loans or pledged repurchase from the inter-bank market if and when necessary. In addition, since the customers of CNAF are limited to the members of the Group and the CNAHC Group, CNAF is shielded from the risk of bank runs by individual depositors faced by commercial banks. Since its establishment until the Latest Practicable Date, CNAF had always been able to meet the repayment schedules in respect of deposits placed by its customers.

Credit risks

Like state-owned commercial banks, CNAF faces credit risks in providing its loans and other credit services to its customers. CNAF, being a member of the CNAHC Group, is in a better position to gain information on the member companies who are its customers in a more timely and comprehensive manner as opposed to other PRC commercial banks who conduct business with clients of various credit ratings and backgrounds. To control the credit risks, CNAF carefully evaluates the operation situation and financial position of the member companies within the Group and the CNAHC Group when receiving loan applications from them and only provides loans to member companies who have sound financial position and cash flow. CNAF normally requires guarantees from the shareholders of the applicant if the applicant's credit standing exposes CNAF to relatively high risks. If a loan is approved, CNAF conducts regular post-loan examination on the borrower to monitor and safeguard against the credit risks. If a borrower defaults on the loan or falls into financial difficulty in repayments, CNAF may enforce the guarantee provided by the shareholders of the borrower. Moreover, according to the relevant laws and regulations promulgated by the CBIRC and as set out in the articles of association of CNAF, in the event that CNAF falls into financial difficulty in payments, CNAHC has the obligation to take all necessary steps including injecting capital into CNAF based on its funding needs, to restore its financial position. Due to the careful management of the credit risks, CNAF has not had any non-performing loan since its establishment until the Latest Practicable Date.

Directors' view

Based on the foregoing, the Directors are of the view that the risk profile of CNAF, as a provider of financial services to the Group and the CNAHC Group, is remained not greater than that of PRC commercial banks.

4. Internal Control Measures for the Non-exempt Continuing Connected Transactions

To safeguard the interest of the Group, the Group will adopt the following internal control measures in respect of the deposit services to be provided by CNAF to the Group and the Credit Services to be provided by CNAF to the CNAHC Group, respectively.

Deposit services under the Air China Financial Services Agreement

The Company would take the following review procedure against the following assessment criteria when obtaining the deposit services from CNAF under the Air China Financial Services Agreement:

a. the designated staff of the Company and CNAF would closely monitor the deposit balance of the Group with CNAF on a daily basis to ensure that it does not exceed the Air China New Annual Caps;

b. the designated staff of the Company would update the list of the Company's subsidiaries on a regular basis to ensure the aggregate deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the Air China New Annual Caps; and

c. the designated staff of the Company would compare the rates and terms offered by CNAF and several state-owned commercial banks when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are in line with the relevant pricing basis.

Credit Services under the CNAHC Financial Services Agreement

CNAF would take the following review procedure process against the following assessment criteria when providing the Credit Services to the CNAHC Group under the CNAHC Financial Services Agreement:

a. after receiving the Credit Services application from members of the CNAHC Group, the credit department of CNAF would carry out the following works: verifying the materials submitted by the applicant, considering the credit risk and financing ability of the applicant, checking the records such as if CNAF has provided the same type of services to CNAHC Member Companies under the same condition, learning about the current level of market interest charged by state-owned commercial banks and offering quotation;

b. after securing the loan business, CNAF would issue a report to the loan review committee of CNAF, which in turn would make the final decision on the approval of the Credit Services and the determination of relevant terms of the Credit Services, including the loan interest rate;

c. if it is discovered in the various quotations for a transaction under the same conditions that the loan interest rates intended to be offered by CNAF to the CNAHC and its subsidiaries are more favorable than those provided to the Group, or more favorable than those provided by independent third parties to the CNAHC and its subsidiaries, such findings shall be reported to the loan review committee of CNAF. The loan review committee of CNAF would assess whether to adjust the price for services provided by CNAF or to amend relevant terms with reference to various factors, such as loan demand and the applicant's qualifications and credibility;

d. CNAF would complete the approval procedures of the risk management department, and grant the loan to the applicant after obtaining approval from the leader of credit department and leaders of CNAF;

e. after the grant of the loan, the credit department of CNAF will conduct regular post-loan examination on the applicant and issue examination reports; and

f. the accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for extension in writing to CNAF prior to the maturity of the loan, and may carry out relevant formalities upon obtaining approval.

Since the Group has established adequate and appropriate internal control procedures to review the Non-exempt Continuing Connected Transactions, the Directors (including the independent non-executive Directors) consider that such methods and procedures can ensure and safeguard the Non-exempt Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

5. Parties and Connected Relationship of the Parties

The Company

The Company's principal business activity is air passenger, air cargo and airline-related services. The Company's parent and ultimate holding company is CNAHC, a PRC state-owned enterprise under the supervision of the State Council. CNAHC is mainly engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance.

CNAF

CNAF is a company with limited liability incorporated in the PRC, and is a non-wholly owned subsidiary of the Group. CNAF is primarily engaged in providing financial services to CNAHC Member Companies. Since CNAHC can exercise more than 10% of the voting power at CNAF's general meeting, CNAF is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules.

CNAHC

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB15,500 million. Its registered address is Rooms 101-C709, B1-9/F, Building 1, No. 30 Tianzhu Road, Shunyi District, Beijing, the PRC and its legal representative is Mr. Cai Jianjiang. CNAHC is primarily engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

6. Hong Kong Listing Rules Implications

Air China Financial Services Agreement

Deposit services

As one or more of the applicable Percentage Ratios in respect of the Air China New Annual Caps exceed 5% but below 25%, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Credit Services

Credit services to be provided to the Group by CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions in accordance with Rule 14A.90 of the Hong Kong Listing Rules.

Other financial services

The other financial services to be provided by CNAF to the Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to CNAF for such services for each of the three years ending 31 December 2021, 2022 and 2023 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

CNAHC Financial Services Agreement

Deposit services

The deposits placed by the CNAHC Group with CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions as provided under Rule 14A.90 of the Hong Kong Listing Rules.

Credit Services

As one or more of the applicable Percentage Ratios in respect of the CNAHC New Annual Caps exceed 5% but below 25%, the Credit Services to be provided to the CNAHC Group by CNAF under the CNAHC Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Other financial services

The other financial services to be provided by CNAF to the CNAHC Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the CNAHC Group to CNAF for such services for each of the three years ending 31 December 2021, 2022 and 2023 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

Approval by the Board

At the 22nd meeting of the fifth session of the Board of the Company held on 28 August 2020, the Board approved the proposed renewal of the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Feng Gang and Mr. Xue Yasong, holding positions in CNAHC, are considered to have a material interest in the renewal of the Financial Services Agreements and therefore have abstained from voting in the relevant Board resolutions in respect of the renewal of the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Save as disclosed above, none of the Directors has a material interest in the renewal of the Financial Services Agreements and hence no other Director is required to abstain from voting on the relevant Board resolutions.

7. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, the renewal of the Financial Services Agreement shall be approved by Independent Shareholders at the EGM.

IV. EGM

The Company will convene the EGM to consider, and if thought fit, to approve, among other things, (i) the New Trademark License Framework Agreement and the transactions contemplated thereunder, and (ii) the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

A notice convening the EGM will be dispatched by the Company in due course. The Company will announce details of the EGM, including the date and venue as and when available in compliance with the Articles of Association and the Hong Kong Listing Rules.

Pursuant to the Shanghai Listing Rules, CNAHC and CNACG have a material interest in the Trademark License Transaction, and are therefore required to abstain from voting on the resolution in respect of the New Trademark License Framework Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the renewal of the Financial Services Agreements is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, CNAHC is a substantial shareholder of the Company and CNAF. Accordingly, CNAHC and CNACG, which is a wholly-owned subsidiary of CHAHC, are required to abstain from voting on the resolutions in respect of the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps at the EGM. As at the Latest Practicable Date, CNAHC and CNACG held an aggregate of 7,508,571,617 shares of the Company (representing approximately 51.70% of the issued share capital of the Company), control or are entitled to control over the voting right in respect of their shares in the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as CNAHC and CNACG, no Shareholder has a material interest in the resolutions in respect of the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps or should be required to abstain from voting on the relevant resolutions at the EGM.

V. RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the Trademark License Transaction under the New Trademark License Framework Agreement is on normal commercial terms or better. The terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders vote to approve the New Trademark License Framework Agreement and the transactions contemplated thereunder.

The Board (including the independent non-executive Directors) considers that the Air China Financial Services Agreement and the CNAHC Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders vote to approve the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 25 to 26 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps.

Your attention is also drawn to the letter from the Independent Financial Adviser as set out on pages 27 to 41 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Financial Services Agreements, the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to the additional information set out in Appendix I to this circular.

By order of the Board
Cai Jianjiang
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. Wang Xiaokang
Mr. Duan Hongyi
Mr. Stanley Hui Hon-chung
Mr. Li Dajin

14 September 2020

To the Independent Shareholders of the Company

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS: FINANCIAL SERVICES AGREEMENTS

We refer to the circular dated 14 September 2020 (the "**Circular**") issued by the Company 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 28 August 2020, the Board proposed to renew the Financial Services Agreements as set out in the Circular, and approved the Proposed Annual Caps for the three years ending 31 December 2021, 2022 and 2023. The Non-exempt Continuing Connected Transactions and the Proposed Annual Caps are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The terms and the reasons for entering into the Financial Services Agreements are summarised in the Letter from the Board set out on pages 5 to 24 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable and whether such transactions are in the interest of the Company and the Shareholders as a whole. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps, their terms and the basis upon which the terms have been determined. We have also considered the key factors taken into account by Gram Capital in arriving at its opinion regarding the renewal of the Financial Services Agreements and the Proposed Annual Caps as set out in the letter from Gram Capital on pages 27 to 41 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Gram Capital, considers the renewal of the Financial Services Agreements to be in the best interest of the Company and the Shareholders as a whole and to be fair and reasonable. The Independent Board Committee also considers the Non-exempt Continuing Connected Transactions to be carried out in the usual and ordinary course of business, on normal commercial terms and the Proposed Annual Caps to be fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions as set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee

Mr. Wang Xiaokang	**Mr. Duan Hongyi**	**Mr. Stanley Hui Hon-chung**	**Mr. Li Dajin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

14 September 2020

To: The independent board committee and the independent shareholders of
Air China Limited

Dear Sir/Madam,

DISCLOSEABLE TRANSACTIONS
AND
CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 14 September 2020 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The current term of the Air China Financial Services Agreement and the CNAHC Financial Services Agreement will expire on 31 December 2020. As the Company/CNAF expects that the transactions thereunder will continue to be conducted after 31 December 2020, on 28 August 2020, (i) the Company and CNAF proposed to renew the Air China Financial Services Agreement; and (ii) CNAF and CNAHC proposed to renew the CNAHC Financial Services Agreement.

With reference to the Board Letter, the deposit services (the "**Deposit Services**") to be provided by CNAF to the Group under the Air China Financial Services Agreement and the credit services (the "**Credit Services**") to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement constitute discloseable transactions and continuing connected transactions of the Company, and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Wang Xiaokang, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and/or the Company's management (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and/or the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and/or the Management in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors/the Management, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Non-exempt Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNAF, CNAHC and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into consideration of the following principal factors and reasons:

Information on the Company

With reference to the Board Letter, the Company's principal business activity is air passenger, air cargo and airline-related services.

Information on CNAHC

With reference to the Board Letter, CNAHC is a state-owned company incorporated in the PRC. CNAHC is primarily engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

Information on CNAF

With reference to the Board Letter, CNAF is a company with limited liability incorporated in the PRC, and is a non-wholly owned subsidiary of the Group. CNAF is primarily engaged in providing financial services to CNAHC Member Companies. Since CNAHC can exercise more than 10% of the voting power at CNAF's general meeting, CNAF is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules.

CNAF, as a non-banking financial institution providing financial services to the Group and the CNAHC Group, is subject to regulations promulgated by CBIRC from time to time. These regulations may not be the same as those regulating commercial banks. As CNAF and commercial banks have different target customers for their respective financial services, they may be subject to different risk profiles (mainly compliance risks, liquidity risks and credit risks). Details of the key risk factors are set out under the sub-section headed "3. Risk Profile and Management of CNAF" under the section head "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter. To assess the key risk factors, we conducted following analyses:

Compliance risks

As confirmed by the Management, CNAF shall comply with《企業集團財務公司管理辦法》(Administrative Measures on Finance Companies of Enterprise Groups*) (the "**Administrative Measures**") and other requirements from the PBOC and CBIRC.

We noted that the Administrative Measures set out certain compliance and risk control requirements/ measures in relation to the operation of group financing companies, including but not limited to, maintaining certain financial ratios at all times.

The table below sets out the key financial ratio requirements of the Administrative Measures and the respective financial ratios of CNAF for the three years ended 31 December 2019 as provided by the Company.

		Financial ratios of CNAF		
		For the year ended 31 December 2019	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Financial ratio	**Requirements**	*(approximate %)*	*(approximate %)*	*(approximate %)*
		Lowest during the respective period		
Capital adequacy ratio	Not less than 10%	23.70	20.98	21.49
		Highest during the respective period		
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	Nil	Nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	Nil	Nil	Nil
Long-term and short-term investment to total capital ratio	Not more than 70%	67.12	63.29	66.83
Self-owned fixed assets to total capital ratio	Not more than 20%	0.37	0.26	0.28
Non-performing loan ratio	Not more than 5%	Nil	Nil	Nil

As shown in the table above, CNAF complied with the relevant financial ratio requirements as set out in the Administrative Measures during 2017, 2018 and 2019. As also confirmed by the Management, they are not aware of any record of non-compliance with relevant laws and regulations of the PRC on CNAF during the recent three years.

Liquidity risks

CNAF recorded liquidity ratio of approximately 61.68% and 89.45% as at 31 December 2018 and 31 December 2019 respectively. According to the statistics as published by CBIRC, the PRC commercial banks recorded average liquidity ratio of approximately 58.46% for the fourth quarter in 2019. As such, CNAF had a higher liquidity ratio as compared to the average liquidity ratio of the PRC commercial banks for the fourth quarter in 2019.

Credit risks

The key indicators of credit risk are the non-performing loans ratio and the allowance of non-performing loans to total loans ratio. As advised by the Management, as at 31 December 2019, CNAF did not record any non-performing loans and the allowance of non-performing loans to total loans ratios is not applicable.

In addition, pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need. We noted from CNAF's articles of association that CNAHC undertook that CNAHC will provide funding (according to the practical situations) to CNAF to satisfy its capital needs in the event that CNAF experiences any urgent payment difficulties.

A. DEPOSIT SERVICES

Reasons for and benefits of the Deposit Services

With reference to the Board Letter, the Directors believe that it is in the best interest of the Group to enter into transactions under the Air China Financial Services Agreement with CNAF having taken into account the following factors:

a. in respect of transactions between the Group and CNAF, CNAF is able to provide more efficient settlement services as compared with independent third party banks;

b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2004 and up to the Latest Practicable Date, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;

c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and

d. a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient.

As confirmed by the Management, based on the previous cooperation with other banks, the Management considers that CNAF is more efficient in provision of deposit services as compared to others banks as CNAF has been in-corporation with the Group for over 15 years, thereby having in-depth understanding in each other's business model and working practice. The deposit services offered by CNAF, in term of deposit amounts and period, can be tailor-made to fulfil the financial needs of the Group.

Pursuant to the Air China Financial Services Agreement, the interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements prescribed by PBOC on such type of deposits; (ii) be not lower than the interest rates offered by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates offered by CNAF to other CNAHC Member Companies for the same type of services under the same conditions. In addition, it will not restrict the Group to place their monetary funds in any banks.

In light of the above reasons, in particular:

(i) the information and background of the CNAF; and

(ii) the pricing policy of the Deposit Services,

we consider the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Deposit Services

Summarised below are the major terms of the Deposit Services, details of which are set out under the sub-section headed "1. The Air China Financial Services Agreement" under the section headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter:

Date

28 August 2020

Parties

The Company and CNAF

Principal terms

Pursuant to the Air China Financial Services Agreement, CNAF has agreed to provide the Group with a range of financial services including the Deposit Services.

Pricing basis

With respect to the Deposit Services, the interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of deposit; (ii) be not lower than the interest rates offered by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates offered by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

As confirmed by the Management, the Group's cash placed in CNAF were mainly saving deposits (活期存款) during 2018 to 2020. We selected three sets of deposit records between (i) the Group and CNAF; (ii) other CNAHC Member Companies and CNAF; and (iii) the Group and a state-owned commercial bank in the same period during 2019 and 2020, respectively. According to the aforesaid deposit records, we noted that the interest rates for the saving deposits (活期存款) offered by CNAF to the Group were not lower than those (i) offered by the commercial bank to the Group; and (ii) offered by CNAF to other CNAHC Member Companies.

With reference to the Board Letter, the Group adopted certain internal control measures in respect of the Deposit Services to be provided by CNAF to the Group. Details of the measures are set out under the sub-sections headed "4. Internal Control Measures for the Non-exempt Continuing Connected Transactions" under the sectoin headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter. According to the internal control measures and our findings on deposit rates, we consider that the effective implementation of the measures will ensure the fair pricing of the Deposit Services and we do not doubt the effectiveness of the implementation of the internal procedures for the Deposit Services.

Based on the above factors, we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.

Proposed annual caps

Set out below are (i) the actual maximum amount of the Deposit Services for the three years ending 31 December 2020 with existing annual caps; and (ii) the Air China New Annual Caps for the three years ending 31 December 2023:

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the year ending 31 December 2020**
	RMB' billion	*RMB' billion*	*RMB' billion*
Maximum daily balance of deposits	10.485	9.610	9.665 *(Note)*
Existing annual caps	12	14	15
Utilisation rate (%)	87.38	68.64	64.43

	For the year ending 31 December 2021	**For the year ending 31 December 2022**	**For the year ending 31 December 2023**
	RMB' billion	*RMB' billion*	*RMB' billion*
Air China New Annual Caps	15	15	15

Note: the figure was for the six months ended 30 June 2020.

The basis for determining the Air China New Annual Caps for the three years ending 31 December 2023 are set out under sub-section headed "Basis for the Air China New Annual Caps" under the section headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter.

According to the above table, the utilisation rates of existing annual cap for two years ended 2019 and for six months ended 30 June 2020 were approximately 87.38%, 68.64% and 64.43% respectively. With reference to the Board Letter, as the Group strengthened its management of funds and improved the efficiency of utilization of its own funds in 2018 and 2019, the growth rate of monetary funds of the Group was lower than expected. Therefore, the daily maximum amount of monetary funds of the Group for the two years ended 31 December 2019 and the maximum daily balance of deposits of the Group placed with CNAF in those two years were lower than expected.

Despite that the utilisation rates of existing annual cap for FY2019 and for the six months ended 30 June 2020 were not at high level, the Management set the Air China New Annual Caps for each of the three years ending 31 December 2023 at the same amount of the existing annual cap for the year ending 31 December 2020.

To assess the fairness and reasonableness of the Air China New Annual Caps for the three years ending 31 December 2023, we conducted the following analyses:

- According to the 2020 interim results announcement, as at 30 June 2020, total amount of Group's (i) monetary fund (excluding CNAF's restricted bank deposits) amounted to approximately RMB13.4 billion; and (ii) accounts receivable amounted to approximately RMB3.8 billion. The sum of the aforesaid two items amounted to approximately RMB17.2 billion as at 30 June 2020. The sum of the aforesaid two items (which is more than the Air China New Annual Cap for each of the three years ending 31 December 2023) indicates the Group's possible demand of deposit services to be provided by commercial banks and CNAF.

- The Company provided us the calculation of Air China New Annual Caps for the three years ending 31 December 2023. According to the calculation, the Air China New Annual Caps were calculated by the sum of (i) estimated amount of the Group's daily balance of deposits placed with CNAF (based on historical maximum amount of daily balance of deposits placed by the Group with CNAF for the three years ended 31 December 2019) of RMB10.5 billion; (ii) estimated increase of daily balance of deposits to be placed by the Group with CNAF (based on possible further increase in the balance of deposits to be placed by the Group with CNAF) of RMB4 billion; and (iii) a buffer of RMB0.5 billion.

    - During the three years ended 31 December 2019, the maximum daily balance of deposits with CNAF were approximately RMB8.943 billion, RMB10.485 billion and RMB9.610 billion respectively, representing an average change rate of approximately 4.45%.

Based on (i) the maximum daily balance of deposits with CNAF during 2019 (i.e. approximately RMB9.610 billion); and (ii) the average change rate of approximately 4.45%, the estimated maximum daily balance of deposits with CNAF would reach approximately RMB10.484 billion for the year ending 31 December 2021.

In addition, based on the historical information, the maximum daily balance of deposits with CNAF during the three years ended 31 December 2019 was approximately RMB10.485 billion recorded in 2018.

The estimated amount of the Group's daily balance of deposited placed with CNAF (based on historical maximum amount of daily balance of deposits placed by the Group with CNAF) of RMB10.5 billion for the three years ending 31 December 2023 were close to the above figures (i.e. RMB10.484 billion and RMB10.485 billion respectively).

- As stated in the 2019 annual report, the Group has set the total budgeted capital expenditure for aircraft and related equipment at RMB88,898 million, of which RMB30,116 million, RMB29,473 million and RMB29,309 million have been allocated to the each of the three years ending 2020, 2021 and 2022, respectively. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or financing.

  As stated in the Board Letter, direct financing is one of the main financing methods of the Company. The Company determines whether or not to conduct direct financing and the scale of financing based on the Company's capital needs and financing environment. The Company may raise funds by way of direct financing in the next three years. It is estimated that this may lead to an increase of the Group's funds. It is expected blat raising funds by way of direct financing by the Company may result in an increase of daily balance of deposits to be placed by the Group with CNAF by RMB4 billion for each of the three years ending 31 December 2023.

  Due to unsatisfactory financing environment in 2018 and 2019, the Company did not arrange direct financing in both years. Accordingly, the Company determined the estimated increase of daily balance of deposits (i.e. RMB4 billion) for each of the three years ending 31 December 2023 mainly based on the Company's use of part of the proceeds raised from its non-public issuance of A shares in 2017 to replace self-raised funds previously invested in the proceeds-funded projects (which led to an increase of approximately RMB4.7 billion in the balance of deposits placed by the Group with CNAF).

- The Group applied a buffer of less than 5% as an assumption for the determination of the Air China New Annual Caps for each of the three years ending 31 December 2023. Having considered that the buffer was applied for unforeseeable circumstances, for instance, the unpredictable increase in the Group's actual demand on the Deposit Services, we consider the buffer to be acceptable.

- As further advised by the Management, it is difficult to accurately predict the cash level during 2021 to 2023 due to the COVID-19 in 2020, which may cause large uncertainties in market. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Air China New Annual Caps.

Having considered the above factors, we are of the view that the Air China New Annual Caps for the three years ending 31 December 2023, which are the same as the Air China New Annual Cap for the year ending 31 December 2021, are fair and reasonable.

B. THE CREDIT SERVICES

Reasons for and benefit of the Credit Services

With reference to the Board Letter, CNAF has been providing financial services to the CNAHC Group for years. The business with the CNAHC Group contributed a steady and significant portion to CNAF's revenues in the past. Such transaction is beneficial for CNAF to make full use of its function as a financial Platform to further improve the utilization efficiency and effectiveness of funds, as well as enhance its gains on capital, which is in line with the needs of the Company's operation and development. The Directors believe that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to the CNAHC Group.

As mentioned above, CNAF is primarily engaged in providing financial services to CNAHC Member Companies. As confirmed by the Management, as the Credit Services are conducted in the ordinary and usual course of business of the CNAF and may be conducted on a frequent and regular basis, it would be (i) costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Hong Kong Listing Rules, if necessary; and (ii) impracticable to seek Independent Shareholders' approval (if necessary) after receiving the Credit Services application from members of the CNAHC Group. Accordingly, the Management are of the view that the Credit Services to be continuously provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement will be beneficial to the Group and the Shareholders as a whole.

In view of the above, we concur with the Directors that the Credit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Credit Services

Summarised below are the major terms of the Credit Services, details of which are set out under the sub-section headed "2. CNAHC Financial Services Agreement" under the section headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter:

Date

28 August 2020

Parties

CNAF and CNAHC

Principal terms

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide the CNAHC Group with a range of financial services including the Credit Services.

Pricing basis

The interest rates applicable to the Credit Services provided by CNAF to the CNAHC Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; (ii) be not lower than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Upon our request, we obtained six loan agreements in total entered into between (i) the Group and CNAF; and (ii) the CNAHC Group and CNAF, with relevant approval documents during 2018 to 2020. Based on the aforesaid documents, we noted that (i) CNAF's staff conducted pre-loan investigation on loan applications to, among other things, assess the borrowers' creditworthiness; (ii) loan review committee approved the key terms of the loans; and (iii) after the approval from the loan review committee was obtained, the borrower and CNAF enter into a legally-binding loan agreement and then the loan principal was transferred to the borrower. In addition, we noted that the interest rates charged by CNAF to the members of the CNAHC Group were not lower than those charged by CNAF to the Group for loans with similar duration and granted in similar period.

With reference to the Board Letter, the Group adopted certain internal control measures in respect of the Credit Services to be provided by CNAF to the CNAHC Group. Details of the measures are set out under the sub-sections headed "4. Internal Control Measures for the Non-exempt Continuing Connected Transactions" under the section headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter. According to the internal control measures and our findings on interest rates, we consider that the effective implementation of the measures will ensure the fair pricing of the Credit Services and we do not doubt the effectiveness of the implementation of the internal procedures for the Credit Services.

Based on the above factors, we are of the view that the terms of the Credit Services are on normal commercial terms and are fair and reasonable.

Proposed annual caps

Set out below are (i) the actual maximum amount of the Credit Services for the three years ending 31 December 2020 with existing annual caps; and (ii) the CNAHC New Annual Caps for the three years ending 31 December 2023:

	For the year ended 31 December 2018 *RMB' billion*	**For the year ended 31 December 2019** *RMB' billion*	**For the year ending 31 December 2020** *RMB' billion*
Maximum daily balance of Credit Services	1.445	1.025	0.540 *(Note)*
Existing annual caps	8	9	10
Utilisation rate (%)	18.06	11.39	5.40

	For the year ending 31 December 2021 *RMB' billion*	**For the year ending 31 December 2022** *RMB' billion*	**For the year ending 31 December 2023** *RMB' billion*
CNAHC New Annual Caps	6.5	6.5	6.5

Note: the figure was for the six months ended 30 June 2020.

The basis for determining the CNAHC New Annual Caps for the three years ending 31 December 2023 are set out under sub-section headed "Basis for the CNAHC New Annual Caps" of section headed "III. FINANCIAL SERVICES AGREEMENTS" of the Board Letter.

According to the above table, the utilisation rates of existing annual cap for two years ended 2019 and for six months ended 30 June 2020 were approximately 18.06%, 11.39% and 5.40% respectively. With reference to the Board Letter, the low utilization rate of the historical annual caps is due to the facts that (i) CNAHC and its subsidiaries had ample liquidity in the years of 2018 and 2019, therefore their demands for loans were much lower than expected; and (ii) for those members of the CNAHC Group who had loan demands, they borrowed some of their loans from independent third-party banks rather than CNAF.

We understood that the existing annual caps for the three years ending 31 December 2020 were determined with reference to, among other things, (i) estimated maximum amount of daily balance of Credit Services provided by CNAF to CNAHC Group for each of the three years ending 31 December 2020 of RMB3.7 billion, RMB4.5 billion and RMB5.4 billion respectively; (ii) estimated additional borrowings of RMB4.0 billion, RMB4.2 billion and RMB4.5 billion to be obtained by the CNAHC Group from CNAF in place of banks for each of the three years ending 31

December 2020 respectively; and (iii) CNAHC Group's additional loans requirement of RMB0.3 billion, RMB0.3 billion and RMB0.1 billion for each of the three years ending 31 December 2020 respectively for the construction of auxiliary facilities of a project from CNAF. Upon our request, the Management provided breakdown of the historical maximum daily balance of Credit Services for the two years ended 31 December 2019. According to the breakdown, (i) the differences between actual maximum amount of daily balance of Credit Services provided by CNAF to CNAHC Group and its estimated maximum amount amounted to approximately RMB2.255 billion and RMB3.475 billion for each of the two years ended 31 December 2019; and (ii) the differences between actual amounts of additional borrowings obtained by the CNAHC Group from CNAF in place of banks for the two years ended 31 December 2019 and its estimated maximum amount amounted to RMB4 billion and RMB4.2 billion for each of the two years ended 31 December 2019. The sum of aforesaid differences represented over 95% of the difference between the historical maximum amount of and the existing annual caps of Credit Services for the two years ended 31 December 2019 (i.e. RMB6.555 billion for 2018 and RMB7.975 billion for 2019). Based on the aforesaid figures, we also consider that (i) demands for loans of CNAHC and its subsidiaries from CNAF were much lower than expected for the two years ended 31 December 2019; (ii) for those members of the CNAHC Group who had loan demands, they borrowed some of their loans from independent third-party banks rather than CNAF for the two years ended 31 December 2019; and (iii) the low utilisation rate of the existing annual caps for the two years ended 31 December 2019 were mainly caused by the aforesaid factors (i) and (ii).

As the utilisation rates of existing annual caps for two years ended 31 December 2019 and for six months ended 30 June 2020 were at low levels, the Management lower the CNAHC New Annual Caps for the three years ending 31 December 2023. Despite the fact that the CNAHC New Annual Caps for the three years ending 31 December 2023 are lower than the existing annual cap for the year ending 31 December 2020, the CNAHC New Annual Caps were much more than the actual maximum daily balance of the Credit Services for the two years ended 31 December 2019.

To assess the fairness and reasonableness of the CNAHC New Annual Caps for the three years ending 31 December 2023, the Management provided us the calculation for the CNAHC New Annual Caps for the three years ending 31 December 2023 upon our request.

According to the calculation, the CNAHC New Annual Caps for the three years ending 31 December 2023 were calculated by (i) the CNAHC Group's historical demand of Credit Services; (ii) the CNAHC's possible financing needs from CNAF based on their existing demand of credit services from independent third parties; (iii) the possible demand of the CNAHC Group (excluding CNAHC) for their annual liquidity needs; and (iv) a buffer of less than 5%.

In respect of the CNAHC Group's historical demand of Credit Services, the Management estimated such demand would be approximately RMB1.865 billion for each of the three years ending 31 December 2023. During the three years ended 31 December 2019, the Group recorded historical amounts under the Credit Services of approximately RMB3.125 billion, RMB1.445 billion and RMB1.025 billion, with an average of approximately RMB1.865 billion. The estimated demand of RMB1.865 billion represented the average historical amounts under the Credit Services for the three years ended 31 December 2019.

In respect of the CNAHC's possible financing needs from CNAF based on their existing demand of credit services from independent third parties, the Management estimated a maximum demand of RMB4 billion based on CNAHC's existing borrowings with independent third party(ies) (i.e. an one-year liquidity loans previously obtained by CNAHC from external banks, being RMB4 billion in 2019) and the assumption that CNAHC will maintain the same level of demand for liquidity loans during 2021 to 2023. We understood that the purpose of a group finance company is to provide financial services (including granting of loan) to members of such group. Based on the Management's understanding, the CNAHC Group may borrow from CNAF instead of external banks, provided that the pricing policy of the Credit Services was fulfilled. For our due diligence purpose, we obtained CNAHC's audited accounts for the year ended 31 December 2019 and noted that CNAHC had outstanding borrowings of more than RMB5 billion as at 31 December 2019.

In respect of the possible demand of the CNAHC Group (excluding CNAHC) for their annual liquidity needs, we noted that such amount represented approximately 5% of CNAHC New Annual Caps. As advised by the Management, the possible demand of the CNAHC Group (excluding CNAHC) was determined with reference to the liquidity financing plan of RMB350 million of CNAHC's certain subsidiaries, provided that the pricing policy of the Credit Services was fulfilled.

Furthermore, the Group has applied a buffer of less than 5% as an assumption for the determination of the CNAHC New Annual Caps for each of the three years ending 31 December 2023. Having considered that the additional buffer was applied for unforeseeable circumstances, for instance, the unpredictable increase in the CNAHC Group's actual demand on the Credit Services, we consider the buffer to be acceptable.

Having considered the above factors and that the CNAHC New Annual Caps were the same for the three years ending 31 December 2023, we are of the view that the CNAHC New Annual Caps for the three years ending 31 December 2023 to be fair and reasonable.

Hong Kong Listing Rules implications

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the maximum amounts of the Non-exempt Continuing Connected Transactions must be restricted by their respective proposed annual caps for the period concerned under the relevant agreements; (ii) the terms of the Non-exempt Continuing Connected Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Non-exempt Continuing Connected Transactions must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective proposed annual caps.

In the event that the maximum amounts of the Non-exempt Continuing Connected Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Non-exempt Continuing Connected Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and the Stock Exchange pursuant to the SFO, or were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2019 (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 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. Patrick Healy is a non-executive Director of the Company and is concurrently the chairman and an executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares in the Company as at the Latest Practicable Date, and it wholly owns Cathay Dragon. Mr. Cai Jianjiang, who is the chairman and a non-executive Director of the Company, and Mr. Song Zhiyong, who is an executive Director of the Company, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific and Cathay Dragon compete or are likely to compete either directly or indirectly with the Company in some aspects of the business of the Company as they operate airline services to certain destinations, which are also served by the Company.

Mr. Song Zhiyong is an executive Director of the Company and also a director of Air China Cargo. Air China Cargo competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates cargo airline services by cargo aircraft to certain destinations, which are also served by the bellyhold cargo of the Company.

Save as mentioned above, as at the Latest Practicable Date, none of the Directors or Supervisors of the Company and their respective close associates (as defined in the Hong Kong Listing Rules) has any competing interests which would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules as if each of them was a controlling shareholder of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company has any existing or proposed service contract with any member company of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

The followings are the particulars of Directors' and Supervisors' employment with substantial Shareholders as at the Latest Practicable Date:

Directors

Mr. Cai Jianjiang, a non-executive Director and the chairman of the Board of the Company, serves as the chairman of the board of directors and a member and the secretary of the communist party group of CNAHC. He is also a non-executive director and the deputy chairman of the board of directors of Cathay Pacific.

Mr. Song Zhiyong, the executive Director, the vice chairman of the Board and the president of the Company, serves as the director, the general manager, and a member and a deputy secretary of the communist party group of CNAHC. He is also a non-executive director of Cathay Pacific.

Mr. Feng Gang, a non-executive Director of the Company, serves as a director, a member and a deputy secretary of the communist party group of CNAHC.

Mr. Xue Yasong, the employee representative Director of the Company, serves as the employee representative director and the president of the Labour Union of CNAHC.

Mr. Patrick Healy, a non-executive Director of the Company, serves as an executive director and the chairman of the board of directors of Cathay Pacific.

Supervisor

Mr. Zhao Xiaohang, a supervisor of the Company, serves as a deputy general manager and a member of the communist party group of CNAHC. He is also the chairman of the board of directors of CNACG and a non-executive director of Cathay Pacific.

Mr. He Chaofan, a supervisor of the Company, serves as a director, the president and a member of the party committee of CNACG.

5. NO MATERIAL ADVERSE CHANGE

Other than disclosed in the 2019 annual results announcement and the 2019 annual report of the Company, the first quarter report of 2020 of the Company, the 2020 interim results announcement of the Company and the announcements of the Company in relation to the Group's monthly key operating data, the Directors confirm that as at the Latest Practicable Date, there has been no material adverse change in the Group's financial or trading position since 31 December 2019, being the date to which the latest published audited financial statements of the Group have been made up.

6. EXPERT

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

Name	Qualification
Gram Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

a. As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which have been 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 any member of the Group since 31 December 2019 (the date to which the latest published audited financial statements of the Group were made up);

b. As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group and had no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

c. Gram Capital 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.

7. MISCELLANEOUS

a. The company secretary of the Company is Mr. Zhou Feng.

b. The registered address of the Company is at Blue Sky Mansion, 28 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC. The head office of the Company is at No. 30 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC.

c. The H 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.

8. 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 Monday, 28 September 2020:

a. Air China Financial Services Agreement;

b. CNAHC Financial Services Agreement;

c. the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 25 to 26 of this circular;

d. the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 27 to 41 of this circular;

e. the consent letter issued by the expert referred to in this circular; and

f. this circular.