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

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中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

**CONNECTED TRANSACTIONS:
PROPOSED ISSUANCE OF NEW A SHARES TO CNAHC AND
ISSUANCE OF NEW H SHARES TO CNACG
UNDER SPECIFIC MANDATES**

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



BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 40 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 41 to 42 of this circular.

A letter from BaoQiao Partners, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company, is set out on pages 43 to 70 of this circular.

Notice of the EGM setting out the resolutions to be approved at the EGM, together with the relevant form of proxy, will be despatched to the Shareholders together with this circular.

9 January 2024

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DEFINITIONS

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

“Administrative Measures”	the Administrative Measures for the Issuance and Registration of Securities by Listed Companies (《上市公司證券發行註冊管理辦法》) issued by CSRC (the China Securities Regulatory Commission Decree, No. 206)
“A Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“A Shareholders”	holders of A Shares
“A Share Subscription Agreement”	the conditional subscription agreement dated 22 December 2023 entered into between the Company and CNAHC in respect of the Issuance of A Shares to Specific Investor, pursuant to which, the Company agrees to issue, and CNAHC agrees to subscribe for new A Shares in the amount of not more than RMB6.00 billion at the A Share Issue Price
“A Share Issue Price”	the issue price of the Issuance of A Shares to Specific Investor
“Articles of Association”	the articles of association of the Company
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company, which directly holds approximately 9.61% of the Company’s issued share capital as at the Latest Practicable Date
“CNAHC”	China National Aviation Holding Corporation Ltd., a wholly PRC state-owned enterprise and the controlling shareholder of the Company, which directly and indirectly holds an aggregate of approximately 50.14% of the Company’s issued share capital as at the Latest Practicable Date

DEFINITIONS

“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at 11:30 a.m. on Friday, 26 January 2024 for the Shareholders to consider and, if thought fit, approve the resolutions in respect of, among other things, the Issuance of A Shares and H Shares to Specific Investors
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“H Share(s)”	the ordinary shares issued by the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“H Shareholders”	holders of the H Shares
“H Share Subscription Agreement”	the conditional subscription agreement to be entered into between the Company and CNACG in respect of the Issuance of H Shares to Specific Investor, pursuant to which, the Company agrees to issue, and CNACG agrees to subscribe for new H Shares in the amount of not more than HK\$2.00 billion at the H Share Issue Price
“H Share Issue Price”	the issue price of the Issuance of H Shares to Specific Investor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi, all being the independent non-executive Directors of the Company

DEFINITIONS

“Independent Financial Adviser” or “BaoQiao Partners”	BaoQiao Partners Capital Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, which serves as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Issuance of A Shares and H Shares to Specific Investors
“Independent Shareholders”	the shareholders of the Company, other than CNAHC and its associates
“Latest Practicable Date”	4 January 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Issuance of A Shares to Specific Investor”	the proposed issuance of not more than 854,700,854 new A Shares to CNAHC by the Company at the A Share Issue Price with expected total proceeds (before deducting relevant issuance expenses) of not more than RMB6.00 billion
“Issuance of H Shares to Specific Investor”	the proposed issuance of not more than 392,927,308 new H Shares to CNACG by the Company at the H Share Issue Price with expected total proceeds (before deducting relevant issuance expenses) of not more than HK\$2.00 billion
“Issuance of A Shares and H Shares to Specific Investors”	the Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC of the State Council”	the State Asset Supervision and Administration Commission of the State Council of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Trading Day”	a day on which the Shanghai Stock Exchange and/or the Hong Kong Stock Exchange (as the context may require) is open for dealing or trading in securities

DEFINITIONS

“Shares”	A Shares and H Shares
“Share Subscription Agreements”	the A Share Subscription Agreement and the H Share Subscription Agreement
“Shareholders”	A Shareholders and H Shareholders
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“%”	per cent

LETTER FROM THE BOARD



中國國際航空股份有限公司 AIR CHINA LIMITED

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

(Stock Code: 00753)

Executive Directors:

Mr. Ma Chongxian (*Chairman*)

Mr. Wang Mingyuan

Non-executive Directors:

Mr. Feng Gang

Mr. Patrick Healy

Employee Representative Director:

Mr. Xiao Peng

Independent non-executive Directors:

Mr. Li Fushen

Mr. He Yun

Mr. Xu Junxin

Ms. Winnie Tam Wan-chi

Registered office:

1st Floor-9th Floor 101

Building 1

30 Tianzhu Road

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

9 January 2024

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS:
PROPOSED ISSUANCE OF NEW A SHARES TO CNAHC AND
ISSUANCE OF NEW H SHARES TO CNACG
UNDER SPECIFIC MANDATES**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 22 December 2023 in relation to, among others, the Issuance of A Shares and H Shares to Specific Investors.

LETTER FROM THE BOARD

On 22 December 2023, the Board approved: (1) the Issuance of A Shares to Specific Investor, pursuant to which the Company has entered into the A Share Subscription Agreement with CNAHC for the issuance of not more than 854,700,854 new A Shares to CNAHC at the A Share Issue Price (i.e. RMB7.02 per share) with expected gross proceeds (before deducting relevant issuance expenses) of not more than RMB6.00 billion; and (2) the Issuance of H Shares to Specific Investor, pursuant to which the Company will enter into the H Share Subscription Agreement with CNACG, for the issuance of not more than 392,927,308 new H Shares to CNACG at the H Share Issue Price (i.e. HK\$5.09 per share) with expected gross proceeds (before deducting relevant issuance expenses) of not more than HK\$2.00 billion.

The Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor are independent of each other and not a pre-requisite or condition for implementation upon each other.

The EGM will be convened by the Company for the Shareholders to consider and approve the Issuance of A Shares and H Shares to Specific Investors. In this regard, resolutions to be proposed at the EGM consist (1) the resolution in relation to the satisfaction of the Company of the requirements for the Issuance of A Shares to Specific Investor; (2) the resolution in relation to the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (3) the resolution in relation to the preliminary proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (4) the resolution in relation to the discussion and analysis report on the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (5) the resolution in relation to the feasibility analysis report on the use of proceeds from the Issuance of A Shares to Specific Investor by the Company in 2023; (6) the resolution in relation to the dilution of the Company's current return by issuing Shares to specific investors in 2023, the remedial measures and the undertakings made by the relevant entities in respect of such measures; (7) the resolution in relation to the report on use of proceeds from previous fund-raising activities of the Company; (8) the resolution in relation to the related (connected) transaction concerning the entering into of the conditional A Share Subscription Agreement with specific subscriber by the Company; (9) the resolution in relation to the proposal of the Issuance of H Shares to Specific Investor by the Company in 2023; (10) the resolution in relation to the related (connected) transaction concerning the entering into of the conditional H Share Subscription Agreement with specific subscriber by the Company; and (11) the resolution in relation to the authorization by the general meeting to the Board and its authorized person(s) to proceed with relevant matters in respect of the issuance of Shares to specific investors by the Company in their sole discretion. The above resolutions No. 1, No. 6 and No. 7 are ordinary resolutions; the remaining resolutions are special resolutions.

The purpose of this circular is to provide you with further information on the Issuance of A Shares and H Shares to Specific Investors so that you may make an informed decision on voting in respect of the relevant resolutions at the EGM.

LETTER FROM THE BOARD

II. PROPOSED ISSUANCE OF A SHARES AND H SHARES TO SPECIFIC INVESTORS

(I) Details of Issuance of A Shares and H Shares to Specific Investors

1. Issuance of A Shares to Specific Investor

Pursuant to the proposal of the Issuance of A Shares to Specific Investor, the Company has entered into the A Share Subscription Agreement with CNAHC for the issuance of not more than 854,700,854 new A Shares to CNAHC at the A Share Issue Price (i.e. RMB7.02 per share) with expected gross proceeds (before deducting relevant issuance expenses) of not more than RMB6.00 billion.

1.1 Proposal of the Issuance of A Shares to Specific Investor

Summary of the proposal of the Issuance of A Shares to Specific Investor is set out as follows:

- | | |
|---|---|
| (1) Class and par value of Shares to be issued: | A Shares with a par value of RMB1.00 each.

The new A Shares to be issued pursuant to the Issuance of A Shares to Specific Investor will rank pari passu with the existing A Shares in all respects. |
| (2) Method and time of issue: | This issuance will be undertaken by way of issuance to specific investor at an appropriate timing within the validity period upon obtaining the consent of the CSRC for registration and after the approval of Shanghai Stock Exchange. |
| (3) Subscriber and method of subscription: | The subscriber under the Issuance of A Shares to Specific Investor is CNAHC, which intends to subscribe in full in cash on a one-off basis.

As at the Latest Practicable Date, since CNAHC is a substantial shareholder of the Company, CNAHC is a connected person of the Company and the Issuance of A Shares to Specific Investor will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company shall comply with relevant regulatory rules, as well as the respective transaction approval and disclosure procedures. |

LETTER FROM THE BOARD

- (4) A Share Issue Price and pricing method:

The A Share Issue Price is RMB7.02 per share, which is determined after taking into consideration of the following factors:

The pricing benchmark date shall be the date of the announcement of the resolution of the Board meeting, which refers to the date on which the announcement of the resolution of the Board meeting of the Company convened for approving the Issuance of A Shares to Specific Investor is published in the newspaper format, being 23 December 2023.

The A Share Issue Price shall not be lower than the higher of 80% of the average trading price of A Shares in the 20 Trading Days prior to the pricing benchmark date (*Note 1*) and the Company's audited net assets per share attributable to ordinary shareholders of the parent company (*Note 2*) as at the end of the most recent period (calculation is rounded to two decimal places according to the "round up method").

Notes:

1. *The average trading price of A Shares in the 20 Trading Days prior to the pricing benchmark date = the total trading value of A Shares in the 20 Trading Days prior to the pricing benchmark date ÷ the total trading volume of A Shares in the 20 Trading Days prior to the pricing benchmark date.*
2. *The net assets per share attributable to ordinary shareholders of the parent company = total equity attributable to the shareholders of the parent company ÷ number of total issued ordinary shares of the Company.*

The above pricing principle of the A Share Issue Price was determined mainly based on the requirements of the Administrative Measures.

LETTER FROM THE BOARD

For illustrative purpose, the A Share Issue Price (i.e. RMB7.02 per share) represents:

- (i) a discount of approximately 1.13% to the closing price of A shares at the Latest Practicable Date (i.e. RMB7.10 per A Share);
- (ii) a discount of approximately 2.09% to the closing price of A Shares as at the Board meeting date (i.e. RMB7.17 per A Share);
- (iii) a discount of approximately 3.84% to the average closing price of A Shares for the last five consecutive Trading Days immediately prior to the pricing benchmark date (i.e. RMB7.30 per A Share);
- (iv) a premium of approximately 13.23% over 80% of the average trading price of A Shares in the 20 Trading Days immediately prior to the pricing benchmark date (i.e. RMB6.20 per A Share);
- (v) a premium of approximately 330.67% over the audited net assets per share attributable to ordinary shareholders of the parent company as at 31 December 2022 (i.e. RMB1.63 as prepared in accordance with the PRC Accounting Standards for Business Enterprises which is disclosed in the 2022 annual report of the Company); and
- (vi) a premium of approximately 209.25% over the unaudited net assets per share attributable to ordinary shareholders of the parent company as at 30 June 2023 (i.e. RMB2.27 as disclosed in the 2023 interim report of the Company).

LETTER FROM THE BOARD

Considering that (i) the A Share Issue Price is determined under the pricing principle in compliance with relevant regulatory requirements by the CSRC; (ii) the discount of the A Share Issue Price to the above closing prices and average trading price of A Shares is less than 10%; and (iii) the A Share Issue Price represents a premium over the net asset value per share as at the end of the most recent period; (iv) the A Share Issue Price represents a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately -0.34%; and (v) the recent trading prices of the A Shares, the Board is of the view that the A Share Issue Price is fair and reasonable.

The net price to the Company of each new A Share to be issued will be determined and disclosed in accordance with the requirements of the Listing Rules upon completion of the Issuance of A Shares to Specific Investor and determination of the relevant expenses incurred or to be incurred in relation to the Issuance of A Shares to Specific Investor.

In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the pricing benchmark date to the issuance date, the A Share Issue Price shall be adjusted accordingly.

- (5) Number of new A Shares to be issued:

The number of new A Shares to be issued under the Issuance of A Shares to Specific Investor shall be not more than 854,700,854, as calculated by dividing the gross proceeds from the Issuance of A Shares to Specific Investor (i.e. not more than RMB6.00 billion) by the A Share Issue Price and rounded down to the nearest integer.

In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities leading to changes in the A Share Issue Price during the period from the pricing benchmark date to the issuance date, the number of new A Shares to be issued under the Issuance of A Shares to

LETTER FROM THE BOARD

Specific Investor, as calculated by dividing the gross proceeds from the Issuance of A Shares to Specific Investor by the A Share Issue Price, shall be adjusted accordingly. The Company will announce such change in number of new A Shares to be issued as a result of the Issuance of A Shares to Specific Investor in a timely manner, and will continue to strictly comply with the minimum public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange (being 24.20%).

The final number of new A Shares to be issued under the Issuance of A Shares to Specific Investor shall comply with the Administrative Measures and other relevant laws and regulations, and shall be not more than 30% of the total share capital of the Company prior to the issuance (for illustration purpose only, 30% of the total share capital of the Company as of the Latest Practicable Date is 4,860,237,851 Shares), and subject to the number of Shares finally permitted by the CSRC to be registered for issue.

- (6) Lock-up arrangement: CNAHC undertakes that the new A Shares subscribed under the Issuance of A Shares to Specific Investor shall not be transferred by any means within thirty-six (36) months from the date of completion of the issuance. If the CSRC and the stock exchanges where the Company's Shares are listed provide otherwise, adjustments will be made in accordance with the relevant regulations and the actual situation of the Company. In the event that the Company issues bonus shares or converts capital reserve into share capital, etc., leading to increase in number of Shares to be subscribed by CNAHC under the Issuance of A Shares to Specific Investor, such additional Shares shall also comply with the above lock-up arrangement.
- (7) Listing venue: Upon expiration of the lock-up period, the new A Shares to be issued under the Issuance of A Shares to Specific Investor will be listed and traded on the Shanghai Stock Exchange.

LETTER FROM THE BOARD

- (8) Arrangement relating to the accumulated undistributed profits prior to the issuance: Upon completion of the Issuance of A Shares to Specific Investor, new Shareholders and existing Shareholders are entitled to the accumulated undistributed profits of the Company prior to the Issuance of A Shares to Specific Investor on a pro-rata basis according to their respective shareholdings.
- (9) Amount and use of proceeds: Gross proceeds to be raised will be not more than RMB6.00 billion (inclusive), which will be used in the following ways after deducting issuance expenses:

Unit: RMB100 million

No.	Item	Total investment	Proposed proceeds to be applied
1	Project of introducing 17 aircraft (<i>Note 1</i>)	75.71	42.00
2	Replenishing working capital (<i>Note 2</i>)	18.00	18.00
	Total:	93.71	60.00

Notes:

- The proceeds to be used for introducing 17 aircraft will be invested according to the agreement of contracts and aircraft introduction plan. The remaining investment amount of the project of introducing 17 aircraft will be settled by the Company with its own funds or through other financing channels such as bank loans. The 17 aircraft to be introduced are scheduled for delivery during the years from 2024 to 2025 and if applicable, the Company will fulfill the approval and disclosure obligations as required under the Listing Rules in a timely manner to comply with relevant requirements under the Listing Rules.*
- The proceeds to be used for replenishing working capital will be invested according to the fund need of the Company and used for payment for liquidity expenses incurred during the operation, including but not limited to fuel expenses, take-off and landing expenses, maintenance and repair expenses and the purchase of aviation materials. The above*

LETTER FROM THE BOARD

proceeds to be used for replenishing working capital is expected to be utilised within six months from the receipt of such proceeds.

Before the receipt of the proceeds, the Company will use its own funds or self-raised funds depending on the progress of the projects to be invested, and replace such funds according to relevant prescribed procedures upon receiving the proceeds.

(10) Validity period of the resolution:

It shall remain valid for twelve (12) months from the date on which relevant resolutions are considered and approved at a general meeting. If the national laws, administrative regulations, departmental rules and normative documents provide new requirements on the Issuance of A Shares to Specific Investor, the Company will adjust accordingly according to the new requirements.

1.2 A Share Subscription Agreement

Principal terms of A Share Subscription Agreement are set out as below:

- | | |
|-------------------------|---|
| (1) Parties: | 1. The Company (as the issuer); and
2. CNAHC (as the subscriber). |
| (2) Date: | 22 December 2023 |
| (3) Subscription price: | CNAHC shall subscribe for new A Shares at A Share Issue Price (i.e. RMB7.02 per share). |

In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the date of the announcement of the resolution of the Board meeting of the Company convened for approving the Issuance of A Shares to Specific Investor to the issuance

LETTER FROM THE BOARD

date, the subscription price shall be adjusted accordingly. The adjustment formula shall be as follows:

1. when only cash dividend is paid, adjusted according to the following formula:

$$P1=P0-D$$

2. when only bonus shares are issued or capital reserve is converted into share capital, adjusted according to the following formula:

$$P1=P0/(1+N)$$

3. when the above two items are carried out simultaneously, adjusted according to the following formula:

$$P1=(P0-D)/(1+N)$$

whereas P0 represents the subscription price before adjustment, N represents the number of bonus shares issued per share or number of shares converted from capital reserve into share capital, D represents dividend per share and P1 represents the adjusted subscription price.

(4) Subscription amount and payment:

The subscription amount shall be the gross proceeds to be raised from the Issuance of A Shares to Specific Investor, being not more than RMB6.00 billion. Upon fulfilment of all the conditions precedent for the A Share Subscription Agreement and receipt of the payment notice for subscription amount issued by the Company, CNAHC shall pay the subscription amount in full in cash on a one-off basis within five (5) working days from the date of receipt of the payment notice in accordance with the requirements of the payment notice.

(5) Subscription number:

The number of new A Shares to be subscribed by CNAHC shall be not more than 854,700,854.

LETTER FROM THE BOARD

The final subscription number is subject to adjustment in the manner as set forth in the above paragraph headed “(5) Number of new A Shares to be issued” under the section headed “1.1 Proposal of the Issuance of A Shares to Specific Investor” and confirmed accordingly.

(6) Conditions precedent for the A Share Subscription Agreement:

The A Share Subscription Agreement will be established upon executed and sealed by the legal representative or authorized representative of the parties and take effect when all the following conditions are met:

- (i) matters relating to the Issuance of A Shares to Specific Investor have been approved by the Board and the EGM of the Company;
- (ii) matters relating to subscribing the new A Shares to be issued under the Issuance of A Shares to Specific Investor have been approved by the internal decision-making body(ies) of CNAHC;
- (iii) matters relating to the Issuance of A Shares to Specific Investor have been approved by the body performing the duty of supervision and management of state-owned assets;
- (iv) matters relating to the Issuance of A Shares to Specific Investor have been approved by the Shanghai Stock Exchange; and
- (v) matters relating to the registration of the Issuance of A Shares to Specific Investor have been consented to by the CSRC.

The effective date of the A Share Subscription Agreement shall be the date on which all the above conditions precedent are satisfied. None of the conditions precedent is waivable.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Issuance of A Shares to Specific Investor has been considered and approved by the Board of the Company and the internal decision-making body(ies) of CNAHC. None of the other conditions under the A Share Subscription Agreement has been fulfilled.

In the event that the Issuance of A Shares to Specific Investor fails to obtain the necessary consent, approval or registration from general meeting of the Company, the regulatory department for state-owned assets or its authorized body, Shanghai Stock Exchange and CSRC according to the laws, the A Share Subscription Agreement shall be automatically terminated and both parties shall not be liable to each other for breach of contract.

(7) Others:

The arrangements relating to lock-up and accumulated undistributed profits prior to the Issuance of A Shares to Specific Investor are set out under the above section headed “1.1 Proposal of the Issuance of A Shares to Specific Investor”.

As at the Latest Practicable Date, the Issuance of A Shares to Specific Investor is subject to the approval of the body performing the functions of supervision and management of state-owned assets, consideration and approval at the EGM of the Company, review and approval of the Shanghai Stock Exchange and consent and approval of the CSRC for registration. After obtaining the consent and approval of the CSRC for registration, the Company will apply to the Shanghai Stock Exchange and Shanghai Branch of China Securities Depository and Clearing Corporation Limited for the issuance, registration and listing of the relevant new A Shares in accordance with the relevant law.

2. *Issuance of H Shares to Specific Investor*

Pursuant to the proposal of the Issuance of H Shares to Specific Investor, the Company will enter into the H Share Subscription Agreement with CNACG for the issuance of not more than 392,927,308 new H Shares to CNACG at the H Share Issue Price (i.e. HK\$5.09 per share) with expected proceeds (before deducting relevant issuance expenses) of not more than HK\$2.00 billion.

LETTER FROM THE BOARD

2.1 *Proposal of the Issuance of H Shares to Specific Investor*

Summary of the proposal of the Issuance of H Shares to Specific Investor is set out as follows:

- | | |
|---|--|
| (1) Class and par value of Shares to be issued: | H Shares with a par value of RMB1.00 each

The new H Shares to be issued pursuant to the Issuance of H Shares to Specific Investor will rank pari passu with the existing H Shares in all respects. |
| (2) Method and time of issue: | This issuance will be undertaken by way of issuance to specific investor at an appropriate timing within the validity period upon the authorization granted at the general meeting. |
| (3) Subscriber and method of subscription: | The subscriber under the Issuance of H Shares to Specific Investor is CNACG, which intends to subscribe in full in cash on a one-off basis.

As at the Latest Practicable Date, since CNAHC is a substantial shareholder of the Company and CNACG is a wholly-owned subsidiary of CNAHC, CNACG is a connected person of the Company and the Issuance of H Shares to Specific Investor will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company shall comply with relevant regulatory rules and be subject to transaction approval and disclosure procedures accordingly. |
| (4) H Share Issue Price and pricing method: | The H Share Issue Price is HK\$5.09 per share, which is determined based on the following pricing principles: |

LETTER FROM THE BOARD

The H Share Issue Price shall be the higher of the average trading price of H Shares in the 20 Trading Days prior to the date of the Board meeting of the Company convened for purpose of approving the Issuance of H Shares to Specific Investor (the “**Board meeting date**”) (*Note 1*) and the Company’s audited net assets per share attributable to ordinary shareholders of the parent company (*Note 2*) as at the end of the most recent period (calculation is rounded to two decimal places according to the “round up method”).

Notes:

1. *The average trading price of H Shares in the 20 Trading Days prior to the Board meeting date = the total trading value of H Shares in the 20 Trading Days prior to the Board meeting date ÷ the total trading volume of H Shares in the 20 Trading Days prior to the Board meeting date.*
2. *The net assets per share attributable to ordinary shareholders of the parent company = equity attributable to the shareholders of the parent company ÷ number of total issued ordinary shares of the Company (an equivalent amount in HK\$ converted at the central parity rate announced by the People’s Bank of China on the Board meeting date).*

For illustrative purpose, the H Share Issue Price (i.e. HK\$5.09 per share) represents:

- (i) a premium of approximately 8.07% over the closing price of H shares at the Latest Practicable Date (i.e. HK\$4.71 per H share);
- (ii) a premium of approximately 8.30% over the closing price of H Shares as at the Board meeting date (i.e. 22 December 2023) (i.e. HK\$4.70 per H Share);

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- (iii) a premium of approximately 5.38% over the average closing price of H Shares for the last five consecutive Trading Days prior to the Board meeting date (i.e. HK\$4.83 per H Share);
- (iv) is equivalent to the average trading price of H Shares in the 20 Trading Days prior to the Board meeting date (i.e. HK\$5.09 per H Share);
- (v) a premium of approximately 185.96% over the audited net assets per share attributable to ordinary shareholders of the parent company as at 31 December 2022 (i.e. RMB1.62, or equivalent to approximately HK\$1.78 (converted at the central parity rate announced by the People's Bank of China on the Board meeting date), which is prepared in accordance with the International Financial Reporting Standards as disclosed in the 2022 annual report of the Company); and
- (vi) a premium of approximately 103.60% over the unaudited net assets per share attributable to ordinary shareholders of the parent company as at 30 June 2023 (i.e. RMB2.27, or equivalent to approximately HK\$2.50 (converted at the central parity rate announced by the People's Bank of China on the Board meeting date), as disclosed in the 2023 interim report of the Company).

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Considering that (i) the pricing principle of H Share Issue Price is determined with reference to the prevailing market prices and net asset value per share which is similar to the recent market precedents in the same industry; (ii) the H Share Issue Price representing a premium over the net asset value per share as at the end of the most recent period and premium over the above closing prices and average trading price of H Shares; (iii) the H Share Issue Price represents a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 0.43%, being a positive figure, which means there is no value dilution to non-participating Shareholders; and (iv) the recent trading prices of the H Shares, the Board is of the view that the H Share Issue Price is fair and reasonable.

The net price to the Company of each new H Share to be issued will be determined and disclosed in accordance with the requirements of the Listing Rules upon completion of the Issuance of H Shares to Specific Investor and the determination of the relevant expenses incurred or to be incurred in relation to the Issuance of H Shares to Specific Investor.

In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the Board meeting date to the issuance date, the H Share Issue Price shall be adjusted accordingly.

- (5) Number of new H Shares to be issued:

The number of new H Shares to be issued under the Issuance of H Shares to Specific Investor shall be not more than 392,927,308, as calculated by dividing the gross proceeds from the Issuance of H Shares to Specific Investor (i.e. not more than HK\$2.00 billion) by the H Share Issue Price and rounded down to the nearest integer.

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In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities leading to changes in the H Share Issue Price during the period from the Board meeting date on which the Issuance of H Shares to Specific Investor is resolved to the issuance date, the number of new H Shares to be issued under the Issuance of H Shares to Specific Investor, as calculated by dividing the gross proceeds from the Issuance of H Shares to Specific Investor by the H Share Issue Price, shall be adjusted accordingly. The Company will announce such change in number of new H Shares to be issued as a result of the Issuance of H Shares to Specific Investor in a timely manner, and will continue to strictly comply with the minimum public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange (being 24.20%).

- (6) Lock-up arrangement: CNACG undertakes that the new H Shares subscribed under the Issuance of H Shares to Specific Investor shall not be transferred by any means within thirty-six (36) months from the date of completion of the issuance, except for, if permitted under the laws of the PRC and other applicable laws and listing rules of the places where the Company's Shares are listed, the transfer to subsidiary(ies) directly or indirectly wholly-owned or controlled by CNAHC provided that the transferee will continue to comply with the above lock-up undertaking until its expiry. If the CSRC and the stock exchanges where the Company's Shares are listed provide otherwise, adjustments will be made in accordance with the relevant regulations and the actual situation of the Company. In the event that the Company issues bonus shares or converts capital reserve into share capital, etc., leading to increase in number of Shares to be subscribed by CNACG, such additional Shares shall also comply with the above lock-up arrangement.

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- (7) Arrangement relating to the accumulated undistributed profits prior to the issuance: Upon completion of the Issuance of H Shares to Specific Investor, new Shareholders and existing Shareholders are entitled to the accumulated undistributed profits of the Company prior to the Issuance of H Shares to Specific Investor on a pro-rata basis according to their respective shareholdings.
- (8) Amount and use of proceeds: Gross proceeds of not more than HK\$2.00 billion (inclusive), after deducting issuance expenses, will be fully used to replenish the general working capital of the Company, and be invested according to the fund need of the Company and used for payment for liquidity expenses incurred during the operation, including but not limited to fuel expenses, take-off and landing expenses, maintenance and repair expenses and the purchase of aviation materials. The above proceeds to be used for replenishing working capital is expected to be utilised within six months from the receipt of such proceeds.

2.2 *H Share Subscription Agreement*

Principal terms of H Share Subscription Agreement are set out as below:

- (1) Parties: 1. The Company (as the issuer); and
2. CNACG (as the subscriber).
- (2) Subscription price: CNACG shall subscribe for new H Shares at H Share Issue Price (i.e. HK\$5.09 per share).

In the event that the Company distributes dividend, issues bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the Board meeting date to the issuance date, the subscription price shall be adjusted accordingly. The adjustment formula shall be as follows:

1. when only cash dividend is paid, adjusted according to the following formula:
 $P1=P0-D$

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2. when only bonus shares are issued or capital reserve is converted into share capital, adjusted according to the following formula:

$$P1=P0/(1+N)$$

3. when the above two items are carried out simultaneously, adjusted according to the following formula:

$$P1=(P0-D)/(1+N)$$

whereas P0 represents the subscription price before adjustment, N represents the number of bonus shares issued per share or number of shares converted from capital reserve into share capital, D represents dividend per share and P1 represents the adjusted subscription price.

(3) Subscription amount and payment:

The subscription amount shall be the gross proceeds to be raised from the Issuance of H Shares to Specific Investor, being not more than HK\$2.00 billion. Upon fulfilment of all the conditions precedent for the H Share Subscription Agreement and receipt of the payment notice for subscription amount issued by the Company, CNACG shall pay the subscription amount in full in cash on a one-off basis within five (5) working days from the date of receipt of the payment notice in accordance with the requirements of the payment notice.

(4) Subscription number:

The number of new H Shares to be subscribed by CNACG shall be not more than 392,927,308.

The final subscription number is subject to adjustment in the manner as set forth in the above paragraph headed “(5) Number of new H Shares to be issued” under the section headed “2.1 Proposal of the Issuance of H Shares to Specific Investor” and confirmed accordingly.

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- (5) Conditions precedent for the H Share Subscription Agreement:
- The H Share Subscription Agreement will be established upon executed and sealed by the legal representative or authorized representative of the parties and take effect when all the following conditions are met:
- (i) matters relating to the Issuance of H Shares to Specific Investor have been approved by the Board and the EGM of the Company;
 - (ii) matters relating to subscribing the new H Shares to be issued under the Issuance of H Shares to Specific Investor have been approved by the internal decision-making body(ies) of CNACG;
 - (iii) matters relating to the Issuance of H Shares to Specific Investor have been approved by the body performing the duty of supervision and management of state-owned assets; and
 - (iv) approval for the listing of, and permission to deal in, the new H Shares to be issued under the Issuance of H Shares to Specific Investor have been granted by the Listing Committee of the Hong Kong Stock Exchange.

The effective date of the H Share Subscription Agreement shall be the date on which all the above conditions precedent are satisfied. None of the conditions precedent is waivable.

As at the Latest Practicable Date, the Issuance of H Shares to Specific Investor has been considered and approved by the Board of the Company. None of the other conditions under the H Share Subscription Agreement has been fulfilled.

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In the event that the Issuance of H Shares to Specific Investor fails to obtain the necessary consent or approval from the general meeting of the Company, the body performing the duty of supervision and management of state-owned assets and the Hong Kong Stock Exchange according to the laws, the H Share Subscription Agreement shall be automatically terminated and both parties shall not be liable to each other for breach of contract.

- (6) Others: The arrangements relating to lock-up and accumulated undistributed profits prior to the Issuance of H Shares to Specific Investor are set out under the above section headed “2.1 Proposal of the Issuance of H Shares to Specific Investor”.

As at the Latest Practicable Date, the Issuance of H Shares to Specific Investor is subject to the approval of the body performing the functions of supervision and management of state-owned assets, consideration and approval at the general meeting of the Company and the approval of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the new H Shares to be issued, and will be filed with the CSRC upon completion of the issuance.

The Company will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the new H Shares to be issued when appropriate.

3. Dilutive Effects of the Issuance of A Shares and H Shares to Specific Investors on the Shareholding Structure of the Company

- 3.1 For illustration purpose only, set out below is the dilutive effects of the Issuance of A Shares to Specific Investor on the shareholding structure of the Company, assuming that (i) the size of proceeds raised from the Issuance of A Shares to Specific Investor is RMB6.00 billion based on the issuance of 854,700,854 new A Shares at the A Share Issue Price (i.e. RMB7.02 per share); (ii) the Issuance of H Shares to Specific Investor has not been completed; and (iii) no additional Shares will be issued by the Company after the Latest Practicable Date until the completion of the Issuance of A Shares to Specific Investor:

The above 854,700,854 new A Shares represent: (1) 7.34% and 5.28% of the Company's existing issued A Shares and total issued Shares as at the Latest Practicable Date, respectively; and (2) 6.84% and 5.01% of the Company's enlarged issued A Shares and enlarged total issued Shares upon completion of the Issuance of A Shares to Specific Investor as above, respectively.

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Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Issuance of A Shares to Specific Investor	
	Total number of Shares held	Approximate percentage of the total number of Shares in issue	Total number of Shares held	Approximate percentage of the total number of Shares in issue
1. CNAHC and its associates:	8,123,096,767	50.14%	8,977,797,621	52.64%
(i) CNAHC	6,566,761,847	40.53%	7,421,462,701	43.51%
	(A Shares)			
(ii) CNACG	1,556,334,920:	9.61%	1,556,334,920	9.13%
	(i) 1,332,482,920	8.22%	1,332,482,920	7.81%
	(A Shares)			
	(ii) 223,852,000	1.38%	223,852,000	1.31%
	(H Shares)			
2. Cathay Pacific	2,633,725,455	16.26%	2,633,725,455	15.44%
	(H Shares)			
3. Public Shareholders:	5,443,970,616	33.60%	5,443,970,616	31.92%
(i) Public A Shareholders	3,738,864,707	23.08%	3,738,864,707	21.92%
(ii) Public H Shareholders	1,705,105,909	10.52%	1,705,105,909	10.00%
Sub-Total (H Shares):	4,562,683,364	28.16%	4,562,683,364	26.75%
Sub-Total (A Shares):	11,638,109,474	71.84%	12,492,810,328	73.25%
Total:	16,200,792,838	100%	17,055,493,692	100.00%

- 3.2 For illustration purpose only, set out below is the dilutive effects of the Issuance of H Shares to Specific Investor on the shareholding structure of the Company, assuming that (i) the size of proceeds raised from the Issuance of H Shares to Specific Investor is HK\$2.00 billion based on the issuance of 392,927,308 new H Shares at the H Share Issue Price (i.e. HK\$5.09 per share); (ii) the Issuance of A Shares to Specific Investor has not been completed; and (iii) no additional Shares will be issued by the Company after the Latest Practicable Date until the completion of the Issuance of H Shares to Specific Investor:

The above 392,927,308 new H Shares represent: (1) 8.61% and 2.43% of the Company's existing issued H Shares and total issued Shares as at the Latest Practicable Date, respectively; and (2) 7.93% and 2.37% of the Company's enlarged issued H Shares and enlarged total issued Shares upon completion of the Issuance of H Shares to Specific Investor as above, respectively.

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Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Issuance of H Shares to Specific Investor	
	Total number of Shares held	Approximate percentage of the total number of Shares in issue	Total number of Shares held	Approximate percentage of the total number of Shares in issue
1. CNAHC and its associates:	8,123,096,767	50.14%	8,516,024,075	51.32%
(i) CNAHC	6,566,761,847	40.53%	6,566,761,847	39.57%
	(A Shares)			
(ii) CNACG	1,556,334,920:	9.61%	1,949,262,228	11.75%
	(i) 1,332,482,920	8.22%	1,332,482,920	8.03%
	(A Shares)			
	(ii) 223,852,000	1.38%	616,779,308	3.72%
	(H Shares)			
2. Cathay Pacific	2,633,725,455	16.26%	2,633,725,455	15.87%
	(H Shares)			
3. Public Shareholders:	5,443,970,616	33.60%	5,443,970,616	32.81%
(i) Public A Shareholders	3,738,864,707	23.08%	3,738,864,707	22.53%
(ii) Public H Shareholders	1,705,105,909	10.52%	1,705,105,909	10.28%
Sub-Total (H Shares):	4,562,683,364	28.16%	4,955,610,672	29.86%
Sub-Total (A Shares):	11,638,109,474	71.84%	11,638,109,474	70.14%
Total:	16,200,792,838	100%	16,593,720,146	100.00%

- 3.3 For illustration purpose only, set out below is the dilutive effects of the Issuance of A Shares and H Shares to Specific Investors on the shareholding structure of the Company, assuming that (i) the size of proceeds raised from the Issuance of A Shares to Specific Investor is RMB6.00 billion based on the issuance of 854,700,854 new A Shares at the A Share Issue Price (i.e. RMB7.02 per share); (ii) the size of proceeds raised from the Issuance of H Shares to Specific Investor is HK\$2.00 billion based on the issuance of 392,927,308 new H Shares at the H Share Issue Price (i.e. HK\$5.09 per share); and (iii) no additional Shares will be issued by the Company after the Latest Practicable Date until the completion of the Issuance of A Shares and H Shares to Specific Investors:

The above 854,700,854 new A Shares and 392,927,308 new H Shares represent 4.90% and 2.25% of the Company's enlarged total issued Shares upon completion of the Issuance of A Shares and H Shares to Specific Investors as above, respectively.

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Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Issuance of A Shares and H Shares to Specific Investors	
	Total number of Shares held	Approximate percentage of the total number of Shares in issue	Total number of Shares held	Approximate percentage of the total number of Shares in issue
1. CNAHC and its associates:	8,123,096,767	50.14%	9,370,724,929	53.71%
(i) CNAHC	6,566,761,847	40.53%	7,421,462,701	42.53%
	(A Shares)			
(ii) CNACG	1,556,334,920:	9.61%	1,949,262,228	11.17%
	(i) 1,332,482,920	8.22%	1,332,482,920	7.64%
	(A Shares)			
	(ii) 223,852,000	1.38%	616,779,308	3.53%
	(H Shares)			
2. Cathay Pacific	2,633,725,455	16.26%	2,633,725,455	15.09%
	(H Shares)			
3. Public Shareholders:	5,443,970,616	33.60%	5,443,970,616	31.20%
(i) Public A Shareholders	3,738,864,707	23.08%	3,738,864,707	21.43%
(ii) Public H Shareholders	1,705,105,909	10.52%	1,705,105,909	9.77%
Sub-total (H Shares):	4,562,683,364	28.16%	4,955,610,672	28.40%
Sub-total (A Shares):	11,638,109,474	71.84%	12,492,810,328	71.60%
Total:	16,200,792,838	100%	17,448,421,000	100.00%

Notes:

1. The percentages shown are rounded to the nearest 2 decimal places.
2. Upon completion of the Issuance of A Shares to Specific Investor and/or the Issuance of H Shares to Specific Investor, the Company continues to comply with the minimum public float as required by the Listing Rules and agreed by the Hong Kong Stock Exchange (being 24.20%).

4. Proposed Amendments to the Articles of Association

Upon completion of this issuance, there will be changes in the registered share capital of the Company, and accordingly, the provisions of the Articles of Association relating to the registered share capital, total number of shares, etc. of the Company will be amended to reflect such changes. The Board requests the Shareholders to authorize the Board and its authorized person(s) to make corresponding amendments to the relevant provisions in the Articles of Association in accordance with the results of the Issuance of A Shares and H Shares to Specific Investors at the EGM.

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5. *Listing Rules Implications*

The new A Shares and new H Shares under the Issuance of A Shares and H Shares to Specific Investors will be issued pursuant to the specific mandates to be sought from the Shareholders at the EGM. The Issuance of A Shares and H Shares to Specific Investors is conditional upon the approval of the relevant resolutions at the EGM.

Since CNAHC is a substantial shareholder of the Company and CNACG is a wholly-owned subsidiary of CNAHC, CNAHC and CNACG are connected persons of the Company, and each of the Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and independent shareholders' approval requirements. An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the Issuance of A Shares and H Shares to Specific Investors. BaoQiao Partners has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

Mr. Ma Chongxian, Mr. Wang Mingyuan, Mr. Feng Gang and Mr. Xiao Peng are considered to have a material interest in the Issuance of A Shares and H Shares to Specific Investors and therefore have abstained from voting on the following Board resolutions: (1) the resolution in relation to the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (2) the resolution in relation to the preliminary proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (3) the resolution in relation to the discussion and analysis report on the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (4) the resolution in relation to the feasibility analysis report on the use of proceeds from the Issuance of A Shares to Specific Investor by the Company in 2023; (5) the resolution in relation to the related (connected) transaction concerning the entering into of the conditional A Share Subscription Agreement with specific investor by the Company; (6) the resolution in relation to the proposal of the Issuance of H Shares to Specific Investor by the Company in 2023; (7) the resolution in relation to the related (connected) transaction concerning the entering into of the conditional H Share Subscription Agreement with specific investor by the Company; and (8) the resolution in relation to the authorization by the general meeting to the Board and its authorized person(s) to proceed with relevant matters in respect of this issuance of Shares to specific investors by the Company in their sole discretion.

Save as mentioned above, none of other Directors has a material interest in the Issuance of A Shares and H Shares to Specific Investors and is required to abstain from voting on the relevant Board resolutions.

6. *Reasons for and Benefit of the Issuance of A Shares and H Shares to Specific Investors*

After taking into consideration of the following factors, the Board considers that it is fair and reasonable and in the interests of the Company and Shareholders as a whole to raise funds by the Issuance of A Shares and H Shares to Specific Investors and that such funds are

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needed for and will be appropriately utilized for financing its aircraft introduction project and supplementing its working capital for its daily operation in the near future to facilitate the Company's business development.

(I) Enhance fleet strength, consolidate competitive advantages and accelerate the realization of the Company's strategic planning

As a backbone central enterprise and the only national flag carrier in China, the Company bears the historical responsibility of building a national airline company model and implementing the "strategy of building China into a strong civil aviation powerhouse". As of 30 September 2023, the Company operated a total of 899 aircraft. With continuously optimized fleet structure, extensive international route and a balanced domestic and international network layout, the most valuable customer base and the strongest brand influence, it has become a first-class air transport enterprise in the world. A reasonable fleet size and fleet age structure is a key prerequisite for the Company to further optimize the layout of its domestic and overseas route network in the future, and is also an important safeguard for the Company to fully implement the concept of safe development and provide more comfortable and reliable air travel for domestic and overseas passengers. Through the Issuance of A Shares and H Shares to Specific Investors, the Company intends to further optimize its fleet structure, rationally expand the fleet size, strengthen its security assurance capabilities, enhance the competitive advantage of its principal air transport business, and accelerate the realization of the Company's strategic planning.

(II) Replenish working capital, implement safety production responsibilities, and meet the Company's capital requirement for business development

The Company always takes safety as its primary political responsibility and top priority, fully implements the concept of safe development, strictly implements safety production responsibilities, continues to strengthen the construction of "four systems", namely safety management, flight training, aircraft maintenance and operation management, and continues to strengthen the process control of safety production and key risk control based on the characteristics of production and operation. With the gradual recovery of the demand for air passenger transportation, the Company's investment in transport capacity and operation scale will be expanded accordingly, and sufficient capital supply is a strong support for the Company to ensure aviation security. Replenishing working capital through the Issuance of A Shares and H Shares to Specific Investors will help the Company to continuously strengthen the risk prevention and control of flight operation, strengthen the security assessment of key routes, enhance the security guarantee capabilities, ensure safe operation, and consolidate safety work foundation.

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(III) Improve capital structure, strengthen financial soundness and enhance the Company's comprehensive risk resistance capability

As the civil aviation industry is capital-intensive, the capital structure of the Company is under severe pressure due to force majeure factors. As at the end of the year of 2020, 2021 and 2022 and September 2023, the gearing ratio of the Company was 70.50%, 77.93%, 92.69% and 88.78%, respectively, which remained at a relatively high level. The high debt ratio has become a severe challenge for the Company on the road to create a world-class enterprise and a weakness in dealing with potential risks. The raising of funds to purchase aircraft through the Issuance of A Shares and H Shares to Specific Investors is more conducive to the Company to control the scale of interest-bearing liabilities, thereby reasonably controlling financial expenses, improving profitability, strengthening financial soundness and enhancing the Company's comprehensive risk resistance capability. The Issuance of A Shares and H Shares to Specific Investors will partially replenish the liquidity of the Company and also enhance the capital strength of the Company so as to meet the capital needs of the business development of the Company and facilitate the healthy and sustainable development of the Company.

(IV) Boost market confidence and promote the high-quality development of the Company through full subscription by controlling shareholder

The Issuance of A Shares and H Shares to Specific Investors to be fully subscribed by the controlling shareholder CNAHC and its wholly-owned subsidiary, CNACG, as the respective sole subscriber, will further increase their shareholding in the Company and undertake to set a 36-month lock-up period, promoting the high-quality development of the Company, demonstrating their strong confidence in the future development of the Company and recognition of the value of the Company, which is conducive to boosting market confidence and safeguarding the interests of the small and medium-sized Shareholders of the Company.

Before deciding to conduct the Issuance of A Shares and H Shares to Specific Investors, the Company has considered the feasibility of alternative fund-raising methods including debt financing and other forms of equity financing such as public issuance of shares, placing of new shares and convertible bonds, rights issue and open offer. However, considering (i) that debt financing will incur additional interest burden on the Group; (ii) the feasibility of the public issuance of A Shares based on the relevant regulatory requirements (in particular, pursuant to Rule 9 of the Administrative Measures for the Issuance and Registration of Securities by Listed Companies (《上市公司證券發行註冊管理辦法》) (CSRC Decree No. 206), company listed on main board of a stock exchange must meet certain requirement before conducting a rights issue or public issuance of shares. These requirements include (i) having made a profit in the last three years; and (ii) for public issuance of share, having at least 6% of weighted average return on net assets over the last three years, whereas the Company reported net losses for the last three years and the weighted average return on net assets of the Company was (16.86)%, (23.95)% and (90.86)% for each of the year ended 31 December 2020, 2021 and 2022); and (iii) that equity financing for H Shares such as placing of new shares and

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convertible bonds, rights issue or open offer, are less favorable as they may require a relatively large discount on issue price to the prevailing market price and incur higher transaction costs and/or longer time. Therefore, the Company did not pursue such alternatives.

The Directors (including the independent non-executive Directors) are of the opinion that although the Issuance of A Shares and H Shares to Specific Investors is not in the ordinary and usual course of business of the Group, the terms of the Share Subscription Agreements to be entered into by the Company pursuant to the proposal of the Issuance of A Shares and H Shares to Specific Investors are fair and reasonable and in the interests of the Company and Shareholders as a whole.

7. *Fund-Raising Activities in the Past Twelve Months*

In January 2023, the Company issued a total of 1,675,977,653 A Shares at a price of RMB8.95 per share to 22 investors including CNAHC, raising gross proceeds of RMB14,999,999,994.35 and net proceeds of RMB14,993,016,587.32. The above proceeds were intended to be used for purchasing 22 aircraft and replenishing the working capital of the Company. As at the Latest Practicable Date, the above net proceeds have been used up as planned. For details, please refer to the announcements dated 2 August 2022, 20 September 2022, 14 November 2022, 8 December 2022 and 17 January 2023 and the circular dated 24 August 2022 of the Company respectively.

Save as disclosed above, the Company has not conducted any equity fund-raising activities during the twelve months immediately before the Latest Practicable Date.

8. *General Information of the Parties*

The Company

The Company is principally engaged in providing air passenger, air cargo and related services.

CNAHC and CNACG

CNAHC directly holds 40.53% of the Company's shares and holds 9.61% of the Company's shares through its wholly-owned subsidiary CNACG, and is a controlling shareholder of the Company. As at the Latest Practicable Date, the SASAC of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses. CNACG is an investment holding company whose principal business is passenger terminal operation, cargo terminal operation, airport ground handling services, airline catering services, property investment, ticket and tourism services, logistics and other businesses through its subsidiaries.

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(II) Resolutions to be Proposed at the EGM

The resolutions with regard to the Issuance of A Shares and H Shares to Specific Investors to be proposed at the EGM are set out below:

1. *Resolution in Relation to the Satisfaction of the Company of the Requirements for the Issuance of A Shares to Specific Investor*

In accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures, and the Opinions on the Application of the Relevant Provisions of Articles 9, 10, 11, 13, 40, 57 and 60 of the "Administrative Measures for the Issuance of Securities by Listed Companies" – No. 18 Opinions on the Application of the Laws on Securities and Futures and other relevant laws, regulations and normative documents, having conducted verification of the actual circumstances of the Company and the relevant matters, the Board is of the opinion that the Company satisfies the conditions of the Issuance of A Shares to Specific Investor, and approved the Company to apply the Issuance of A Shares to Specific Investor.

The above resolution will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

2. *Resolution in Relation to the Proposal of the Issuance of A Shares to Specific Investor by the Company in 2023*

For details of the proposal of the Issuance of A Shares to Specific Investor, please refer to the section headed "(I) Details of Issuance of A Shares and H Shares to Specific Investors – 1.1 Proposal of the Issuance of A Shares to Specific Investor" as set out above.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM.

3. *Resolution in Relation to the Preliminary Proposal of the Issuance of A Shares to Specific Investor by the Company in 2023*

For details of the preliminary proposal of the Issuance of A Shares to Specific Investor, please refer to the overseas regulatory announcement of the Company dated 22 December 2023.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM.

LETTER FROM THE BOARD

4. *Resolution in Relation to the Discussion and Analysis Report on the Proposal of the Issuance of A Shares to Specific Investor by the Company in 2023*

For the discussion and analysis report of the Issuance of A Shares to Specific Investor, please refer to the overseas regulatory announcement of the Company dated 22 December 2023.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM.

5. *Resolution in Relation to the Feasibility Analysis Report on the Use of Proceeds from the Issuance of A Shares to Specific Investor by the Company in 2023*

For the Feasibility Analysis Report on the Use of Proceeds of Issuance of A Shares to Specific Investor in 2023 by the Company, please refer to the "Feasibility Analysis Report on the Use of Proceeds from the Issuance of A Shares to Specific Investor in 2023" contained in Appendix I to this circular.

The above resolution will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

6. *Resolution in Relation to the Dilution of the Company's Current Return by Issuing Shares to Specific Investors in 2023, the Remedial Measures and the Undertakings Made by the Relevant Entities in Respect of Such Measures*

For the details in relation to the dilution of the Company's current return by issuing Shares to specific investors in 2023, the remedial measures and the undertakings made by the relevant entities in respect of such measures, please refer to Appendix III to this circular.

To further explain,

Weighted average return on net assets (%) = $P / (E0 + NP \div 2 + E_i \times M_i \div M0)$

whereas:

P represents the net profit attributable to Shareholders of the listed Company before / after deducting non-recurring profits and losses;

NP represents the net profit attributable to Shareholders of the listed Company before the Issuance of A Shares and H Shares to Specific Investors;

E0 represents the owners' equity attributable to the listed Company as at 31 December 2023;

LETTER FROM THE BOARD

E_i represents the new net assets attributable to Shareholders of the listed Company, such as the proceeds raised from the Issuance of A Shares and H Shares to Specific Investors, during the period;

M₀ represents the number of months of the period; and

M_i represents the number of months from the month after addition of new net assets to the end of the period.

For illustrative purpose,

1. The weighted average return on net assets (%) before the Issuance of A Shares and H Shares to Specific Investors of 23.90% equals to dividing (i) the net profit attributable to Shareholders of the listed Company before deducting non-recurring profits and losses of RMB6,408,576,000 by (ii) the sum of (a) owners' equity attributable to the listed Company as at 31 December 2023 of RMB23,609,134,000 and (b) half of net profit attributable to Shareholders of the listed Company before the Issuance of A Shares and H Shares to Specific Investors of RMB6,408,576,000 (i.e. $23.90\% = 6,408,576,000 / (23,609,134,000 + 6,408,576,000 \div 2)$).
2. The weighted average return on net assets (%) after the Issuance of A Shares and H Shares to Specific Investors of 20.86% equals to dividing (i) the net profit attributable to Shareholders of the listed Company before deducting non-recurring profits and losses of RMB6,408,576,000 by (ii) the sum of (a) owners' equity attributable to the listed Company as at 31 December 2023 of RMB23,609,134,000 and (b) half of net profit attributable to Shareholders of the listed Company before the Issuance of A Shares and H Shares to Specific Investors of RMB6,408,576,000 and (c) maximum amount of proceeds of RMB6 billion and HK\$2 billion (equivalent to RMB1.82 billion (converted at the rate of HK\$1 = RMB0.91) times six months divided by twelve months) (i.e. $20.86\% = 6,408,576,000 / (23,609,134,000 + 6,408,576,000 \div 2 + (6,000,000,000 + 1,820,000,000) \times 6 \div 12)$).

The above resolution will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

7. *Resolution in Relation to the Report on Use of Proceeds from Previous Fund-raising Activities of the Company*

For the Report on Use of Proceeds from Previous Fund-raising Activities of the Company, please refer to Appendix II to this circular.

The above resolution will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

LETTER FROM THE BOARD

8. *Resolution in Relation to the Related (Connected) Transaction Concerning the Entering into of the Conditional A Share Subscription Agreement with Specific Subscriber by the Company*

For the details of the resolution, please refer to the section headed “(I). Details of Issuance of A Shares and H Shares to Specific Investors – 1.2 A Share Subscription Agreement” as set out above.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM.

9. *Resolution in Relation to the Proposal of the Issuance of H Shares to Specific Investor by the Company in 2023*

For details of the proposal of the Issuance of H Shares to Specific Investor, please refer to the section headed “(I). Details of Issuance of A Shares and H Shares to Specific Investors – 2.1 Proposal of the Issuance of H Shares to Specific Investor” as set out above.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM.

10. *Resolution in Relation to the Related (Connected) Transaction Concerning the Entering into of the Conditional H Share Subscription Agreement with Specific Subscriber by the Company*

For the details of the resolution, please refer to the section headed “(I). Details of Issuance of A Shares and H Shares to Specific Investors – 2.2 H Share Subscription Agreement” as set out above.

The above resolution will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM.

11. *Resolution in Relation to the Authorization by the General Meeting to the Board and its Authorized Person(s) to Proceed with Relevant Matters in Respect of the Issuance of Shares to Specific Investors by the Company in Their Sole Discretion*

For the smooth implementation of the Issuance of A Shares and H Shares to Specific Investors, it is proposed to the EGM to authorize the Board and its authorized persons to, in their sole discretion, proceed with the matters related to the Issuance of A Shares and H Shares to Specific Investors, including but not limited to:

- (i) to authorize the Board to handle all matters relating to the proposal of the Issuance of A Shares and H Shares to Specific Investors, including but not limited to, the specific decision on the timing of issuance, start and end dates of the issuance and number of issuance of the Issuance of A Shares and H Shares to Specific Investors, etc.;

LETTER FROM THE BOARD

- (ii) to authorize the Board to handle all matters in relation to the application for the approval of and registration with domestic and overseas authorities for the Issuance of A Shares and H Shares to Specific Investors, formulate, prepare, amend, improve and execute all documentary materials relating to the Issuance of A Shares and H Shares to Specific Investors, approve and handle the information disclosure relating to the Issuance of A Shares and H Shares to Specific Investors (including but not limited to announcement, circular and other disclosure documents);
- (iii) to authorize the Board to adjust the specific arrangements for the projects to be funded with the raised proceeds within the scope of the approval of the general meeting;
- (iv) in case of any new requirements of issuance of shares to specific investors by the laws, regulations and securities regulatory departments and any changes of market conditions, to authorize the Board to adjust the proposal of Issuance of A Shares and H Shares to Specific Investors and the application of the raised proceeds and continue to handle the Issuance of A Shares and H Shares to Specific Investors in accordance with the national regulations and the requirements of governmental departments and securities regulatory departments (including the review feedbacks to the application of the Issuance of A Shares and H Shares to Specific Investors), the market conditions and the actual operation conditions of the Company, except for those subject to re-consideration and approval of the general meeting in accordance with the relevant laws and regulations and the Articles of Association;
- (v) to authorize the Board to open a special deposit account for the raised proceeds and proceed with the capital verification procedures related to the Issuance of A Shares and H Shares to Specific Investors;
- (vi) to authorize the Board to execute, submit, report and perform the material contracts during the Issuance of A Shares and H Shares to Specific Investors and the implementation of the investment projects funded by the raised proceeds, including but not limited to the subscription agreement, supplemental agreements to the subscription agreement and all other documents to be executed for the completion of the transactions thereunder, the sponsor agreement, the proceed supervision agreement and the intermediaries' engagement agreement, etc.;
- (vii) to authorize the Board to handle matters on the share registration, lock-up and listing and submission of relevant documents upon the completion of the Issuance of A Shares and H Shares to Specific Investors;

LETTER FROM THE BOARD

- (viii) to authorize the Board to amend the relevant articles in relation to registered capital, total share capital and others in the Articles of Association upon the completion and the results of the Issuance of A Shares and H Shares to Specific Investors, and carry out relevant registration procedures of the change of registered capital and Articles of Association of the Company, including but not limited the registration of change in registered industrial and commercial item, without the need to convene a general meeting;
- (ix) to authorize the Board to handle all other matters in relation to the Issuance of A Shares and H Shares to Specific Investors.

To agree that the Board, after obtaining the aforesaid authorisations from the general meeting, directly delegates the authority to the chairman or vice-chairman of the Board of the Company and his authorized person(s) to proceed with the aforesaid matters, i.e. the chairman or vice-chairman of the Board of the Company will be granted the aforesaid authority from the Board immediately upon the consideration and approval of this resolution at the general meeting without convening a separate board meeting; and the chairman or vice-chairman of the Board may delegate the authority to others separately.

The above authorization shall remain valid for twelve (12) months from the date on which this resolution is approved by the Shareholders at the EGM.

The above resolution will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

III. EGM

The Company will convene the EGM at 11:30 a.m. on Friday, 26 January 2024 at Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC to consider and, if thought fit, approve the resolutions in respect of, among other things, the Issuance of A Shares and H Shares to Specific Investors.

CNAHC and CNACG have material interests in the Issuance of A Shares and H Shares to Specific Investors. As at the Latest Practicable Date, CNAHC directly holds 6,566,761,847 A Shares in the Company, representing 40.53% of the existing issued share capital of the Company; CNACG holds 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing 8.22% and 1.38% of the existing issued share capital of the Company, respectively. CNACG is a wholly-owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 50.14% of the existing issued share capital of the Company. CNAHC and its associates (including CNACG) shall therefore abstain from voting on the following resolutions approving the Issuance of A Shares and H Shares to Specific Investors at the EGM: (1) the resolution in relation to the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (2) the resolution in relation to the preliminary proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (3) the resolution in relation to the discussion and analysis report on the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023; (4) the resolution in relation to the feasibility analysis report on the use of proceeds from the Issuance of A Shares to Specific Investor by the Company in 2023; (5) the resolution in relation to the related (connected) transaction

LETTER FROM THE BOARD

concerning the entering into of the conditional A Share Subscription Agreement with specific subscriber by the Company; (6) the resolution in relation to the proposal of the Issuance of H Shares to Specific Investor by the Company in 2023; (7) the resolution in relation to the related (connected) transaction concerning the entering into of the conditional H Share Subscription Agreement with specific subscriber by the Company; and (8) the resolution in relation to the authorization by the general meeting to the Board and its authorized person(s) to proceed with relevant matters in respect of this issuance of Shares to specific investors by the Company in their sole discretion.

Other than CNAHC and its associates, no Shareholders are required to abstain from voting on the resolutions at the EGM on matters relating to the Issuance of A Shares and H Shares to Specific Investors.

The notice of the EGM together with form of proxy were enclosed in this circular. The relevant notice and form of proxy are also published on the relevant website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the form(s) of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM or any adjourned meeting and voting in person if you so wish.

The H Share register of members of the Company will be temporarily closed from Wednesday, 24 January 2024 to Friday, 26 January 2024 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Any holders of H Shares, whose names appear on the Company's register of members at the close of business on Tuesday, 23 January 2024, are entitled to attend and vote at the EGM after completing the registration procedures for attending such meeting.

IV. RECOMMENDATION OF THE BOARD

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

V. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out in this circular which contains its recommendation to the Independent Shareholders of the Company regarding the Issuance of A Shares and H Shares to Specific Investors.

Your attention is also drawn to the letter from BaoQiao Partners as set out in this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Issuance of A Shares and H Shares to Specific Investors 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 the appendices to this circular.

LETTER FROM THE BOARD

The Company advises its Shareholders and potential investors to note that each of the Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor is subject to certain conditions being satisfied, and therefore the Issuance of A Shares to Specific Investor and/or the Issuance of H Shares to Specific Investor may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Air China Limited
Huang Bin Huen Ho Yin
Joint Company Secretaries

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. Li Fushen

Mr. He Yun

Mr. Xu Junxin

Ms. Winnie Tam Wan-chi

9 January 2024

To the Independent Shareholders of the Company

Dear Sirs or Madams,

**CONNECTED TRANSACTIONS:
PROPOSED ISSUANCE OF NEW A SHARES TO CNAHC AND
ISSUANCE OF NEW H SHARES TO CNACG
UNDER SPECIFIC MANDATES**

We refer to the circular of the Company dated 9 January 2024 (the “**Circular**”) 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 22 December 2023, the Board approved: (1) the Issuance of A Shares to Specific Investor, pursuant to which the Company has entered into the A Share Subscription Agreement with CNAHC for the issuance of not more than 854,700,854 new A Shares to CNAHC at the A Share Issue Price (i.e. RMB7.02 per share) with expected gross proceeds (before deducting relevant issuance expenses) of not more than RMB6.00 billion; and (2) the Issuance of H Shares to Specific Investor, pursuant to which the Company will enter into the H Share Subscription Agreement with CNACG, for the issuance of not more than 392,927,308 new H Shares to CNACG at the H Share Issue Price (i.e. HK\$5.09 per share) with expected gross proceeds (before deducting relevant issuance expenses) of not more than HK\$2.00 billion.

The Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor are independent of each other and not a pre-requisite or condition for implementation upon each other.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As disclosed in the Circular, since CNAHC is a substantial shareholder of the Company and CNACG is a wholly-owned subsidiary of CNAHC, CNAHC and CNACG are connected persons of the Company and each of the Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the respective announcement, reporting and independent shareholders' approval requirements. An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on whether the terms of the Share Subscription Agreements are fair and reasonable for the Independent Shareholders, whether the Issuance of A Shares and H Shares to Specific Investors are in the interests of the Company and its Shareholders as a whole, and how the Independent Shareholders should vote in respect of the resolution(s) to approve the Share Subscription Agreements and the transactions contemplated thereunder at the EGM. BaoQiao Partners has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Issuance of A Shares and H Shares to Specific Investors, the terms of the Share Subscription Agreements and the basis for determining such terms. We have also considered the key factors taken into account by BaoQiao Partners in arriving at its opinion regarding the Issuance of A Shares and H Shares to Specific Investors as set out in the letter from BaoQiao Partners in the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of BaoQiao Partners, considers that although the Issuance of A Shares and H Shares to Specific Investors are not entered into in the ordinary and usual course of business of the Group, the terms and conditions of the Share Subscription Agreements are fair and reasonable, and the connected transactions contemplated thereunder are on normal commercial terms or better and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant resolutions set out in the notice of the EGM respectively.

Yours faithfully,

Independent Board Committee

Mr. Li Fushen	Mr. He Yun	Mr. Xu Junxin	Ms. Winnie Tam Wan-chi
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive director</i>	<i>non-executive director</i>	<i>non-executive director</i>	<i>non-executive director</i>

LETTER FROM BAOQIAO PARTNERS

The following is the full text of a letter of advice from BaoQiao Partners Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Issuance of A Shares and H Shares to Specific Investor which has been prepared for the purpose of inclusion in this Circular.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 2803-2805, 28/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

9 January 2024

To the Independent Board Committee and the Independent Shareholders of Air China Limited

Dear Sir or Madam,

CONNECTED TRANSACTIONS: PROPOSED ISSUANCE OF NEW A SHARES TO CNAHC AND ISSUANCE OF NEW H SHARES TO CNACG UNDER SPECIFIC MANDATES

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 proposed Issuance of A Shares and H Shares to Specific Investor, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 9 January 2024 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.

On 22 December 2023, the Board approved: (1) the Issuance of A Shares to Specific Investor, pursuant to which the Company has entered into the A Share Subscription Agreement with CNAHC for the issue of no more than 854,700,854 new A Shares to CNAHC at the A Share Issue Price (i.e. RMB7.02 per share) with expected gross proceeds (before deducting relevant issuance expenses) of no more than RMB6.00 billion; and (2) the Issuance of H Shares to Specific Investor, pursuant to which the Company will enter into the H Share Subscription Agreement with CNACG, for the issue of no more than 392,927,308 new H Shares to CNACG at the H Share Issue Price (i.e. HK\$5.09 per share) with expected gross proceeds (before deducting relevant issuance expenses) of no more than HK\$2.00 billion. The Issuance of A Shares to Specific Investor and the Issuance of H Shares to Specific Investor are independent of each other and not a pre-requisite or condition for implementation upon each other.

LETTER FROM BAOQIAO PARTNERS

With reference to Letter from the Board, since CNAHC is a substantial Shareholder and CNACG is a wholly-owned subsidiary of CNAHC, both CNAHC and CNACG are connected persons of the Company and each of the Issuance of A Shares to Specific Investor and Issuance of H Shares to Specific Investor constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and the independent shareholders' approval requirements.

The Independent Board Committee comprising Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi has been established to advise the Independent Shareholders on (i) whether the terms of the Share Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the connected transactions contemplated thereunder are on normal commercial terms or better; (iii) whether the Issuance of A Shares and H Shares to Specific Investor is in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Share Subscription Agreements and the transactions contemplated thereunder. We, BaoQiao Partners Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, BaoQiao Partners was appointed as the independent financial adviser by the Company (i) to advise of the Board in respect of the opinion pursuant to Rule 14A.52 of the Listing Rules, as set out in the announcement and circular of the Company dated 30 March 2023 and 3 May 2023 respectively; and (ii) to advise the independent board committee and independent shareholders of the Company in respect of the disclosable transaction and continuing connected transactions of the Company and the proposed revision of annual cap and entering into financial service agreements, as set out in the circular of the Company dated 3 May 2023.

As at the Latest Practicable Date, we do not have any relationship with, or have any interest in the Company, CNAHC, CNACG and their respective associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules.

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 reviewed, among others, the Share Subscription Agreements, the interim reports of the Company for the six months ended 30 June 2023 (the "**2023 Interim Report**") and 30 June 2022 (the "**2022 Interim Report**"), the annual report (the "**2022 Annual Report**") of the Company for the year ended 31 December 2022 and the information set out in the Circular. 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

LETTER FROM BAOQIAO PARTNERS

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.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Group in the Circular and, 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 facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNAHC, CNACG, 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 Issuance of A Shares and H Shares to Specific Investor. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any A Shares or H Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the Share Subscription Agreements, and this letter, except for its inclusion in the Circular and for publication on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.airchina.com.cn) as required under the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Share Subscription Agreements, we have taken into consideration the following principal factors and reasons:

1. Background information on the Company, CNAHC and CNACG

Information on the Company

The Company is principally engaged in providing air passenger, air cargo and related services.

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2022 (“FY2022”) and 31 December 2021 (“FY2021”) prepared in accordance with International Financial Reporting Standards (“IFRS”) as extracted from the 2022 Annual Report and the unaudited consolidated financial information of the

LETTER FROM BAOQIAO PARTNERS

Group for the six months ended 30 June 2023 (“**HY2023**”) and 30 June 2022 (“**HY2022**”) prepared in accordance with IFRS as extracted from the 2023 Interim Report and 2022 Interim Report:

	HY2023 Unaudited <i>RMB'million</i>	HY2022 Unaudited <i>RMB'million</i>	FY2022 Audited <i>RMB'million</i>	FY2021 Audited <i>RMB'million</i>
Revenue				
Airline operations				
– Air traffic revenue	56,879	21,983	48,381	69,430
Other operations	2,734	1,970	4,517	5,102
	59,613	23,953	52,898	74,532
Loss for the year attributable to equity holders of the Company				
	(3,447)	(19,437)	(38,617)	(16,635)
As at				
	30 June 2023 Unaudited <i>RMB'million</i>	30 June 2022 Unaudited <i>RMB'million</i>	31 December 2022 Audited <i>RMB'million</i>	31 December 2021 Audited <i>RMB'million</i>
Total assets	344,487	299,296	294,979	298,381
Total liabilities	311,593	254,695	273,451	232,550
Net current liabilities	(69,072)	(55,584)	(70,237)	(61,223)
Net assets attributable to equity owners of the Company	34,915	42,889	23,577	61,369

Financial performance of the Group

FY2022 vs FY2021

For FY2022, the Group recorded revenue of RMB52,898 million, representing a decrease of 29.03% as compared to that for FY2021. Among the Group’s revenue, air traffic revenue, which comprised (i) air passenger revenue; and (ii) air cargo and mail revenue, in aggregate accounted for over 90% of the Group’s total revenue for both years, was RMB48,381 million for FY2022, representing a decrease of RMB21,049 million or 30.32% as compared to that for FY2021.

For FY2022, the Group recorded air passenger revenue of RMB38,296 million, representing a year-on-year decrease of 34.33%, due primarily to the decrease in (i) capacity, measured in available seat kilometres (ASKs), by 36.89%; and (ii) passenger load factor by 5.90 percentage points, as compared with previous year. The Group’s air cargo and mail revenue was RMB10,085 million for FY2022, representing a decrease of RMB1,029 million or

LETTER FROM BAOQIAO PARTNERS

9.26% as compared with last year. The decrease in air cargo and mail revenue for FY2022 was mainly due to the decrease in capacity, measured in available freight tonne kilometres, by 22.62% as compared with that of FY2021.

The Company recorded an increase in loss attributable to equity shareholders of the Company from RMB16,635 million for FY2021 to RMB38,617 million for FY2022, due mainly to the combined effect of the decline in the Group's revenue as well as the unproportionate increase in jet fuel costs and employee compensation costs (both being the two major operating expense), by 9.95% and 4.57% respectively in FY2022, as a result of the increase in jet fuel prices and the resumption of contribution to the Group annuity's scheme respectively in 2022.

HY2023 vs HY2022

For HY2023, the Group recorded revenue of RMB59,613 million as compared to RMB23,953 million for HY2022. Air traffic revenue (which comprised air passenger revenue and air cargo and mail revenue) remained as the principal source of income of the Group for HY2023 and the Group recorded air traffic revenue of approximately RMB56,879 million and approximately RMB21,983 million for HY2023 and HY2022 respectively.

For HY2023, the Group recorded air passenger revenue of approximately RMB55,470 million, representing a year-on-year increase of 267.26%, due primarily to the increase in capacity, measured in available seat kilometres (ASKs) by 190.86%. The Group's air cargo and mail revenue, however, decreased by 79.51% from RMB6,880 million for HY2022 to RMB1,410 million for HY2023, due to the overall decrease in capacity (measured in available freight tonne kilometres), cargo and mail load factor and yield per revenue freight tonne kilometres, by 20.91%, 14.07 percentage points and 60.40% respectively in HY2023 as compared with HY2022.

In line with the increase in revenue for HY2023, the Company reported a decrease in loss attributable to equity shareholders of the Company from approximately RMB19,437 million for HY2022 to approximately RMB3,447 million for HY2023.

Financial position of the Group

As at 30 June 2023 and 31 December 2022, the major assets of the Group include (i) right-of-use assets primarily consisting of aircrafts and engines under finance leases and operating leases of the Group which amounted to approximately RMB130,552 million and RMB125,819 million respectively; (ii) property, plant and equipment primarily consisting of self-owned aircrafts and flight equipment, buildings and construction in progress of the Group which amounted to approximately RMB110,178 million and RMB99,574 million respectively; (iii) cash and cash equivalents amounted to approximately RMB25,970 million and RMB10,608 million respectively. The carrying value of right-of-use assets, property, plant and equipment, and cash and cash equivalents together accounted for 77.42% and 80.00% of the total assets of the Group as at 30 June 2023 and 31 December 2022 respectively.

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As at 30 June 2023 and 31 December 2022, the Group recorded net current liabilities of approximately RMB69,072 million and RMB70,237 million with current ratio of 0.39 times and 0.24 times respectively. The gearing ratio, calculated as total borrowings divided by total equity of the Group improved from 631% as at 31 December 2022 to 448% as at 30 June 2023, but it still represented a significant increase when compared with 142% as at 31 December 2021. Such increase was mainly due to the increase in interest-bearing bank borrowings from approximately RMB68,089 million as at 31 December 2021 to approximately RMB114,603 million as at 31 December 2022 and further to RMB132,396 million as at 30 June 2023, (among which RMB37,165 million were due within one year from 30 June 2023).

The net asset value (NAV) attributable to equity shareholders of the Company prepared in accordance with IFRS and China Accounting Standards for Business Enterprises (“CAS”) was approximately RMB23,577 million and RMB23,609 million respectively as at 31 December 2022 and RMB34,915 million and RMB34,943 million respectively as at 30 June 2023. Based on the information provided by the Company and as disclosed in the Letter from the Board, the NAV per Share (including the A Shares and the H Shares) under IFRS (the “**IFRS NAV per Share**”) was approximately RMB1.62 as at 31 December 2022 and CAS (the “**CAS NAV per Share**”) was approximately RMB1.63 as at 31 December 2022 and RMB2.27 as at 30 June 2023.

Information on CNAHC and CNACG

With reference to the Letter from the Board, CNAHC directly holds 6,566,761,847 A Shares, representing 40.53% of the existing Company’s issued shares; CNACG holds 1,332,482,920 A Shares and 223,852,000 H Shares in the Company, representing 8.22% and 1.38% of the existing issued share capital of the Company, respectively. CNACG is a wholly-owned subsidiary of CNAHC. CNAHC, by itself and through CNACG, owns in aggregate 50.14% of the existing issued share capital of the Company. As at the Latest Practicable Date, the SASAC is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses. CNACG is an investment holding company whose principal business is passenger terminal operation, cargo terminal operation, airport ground handling services, airline catering services, property investment, ticket and tourism services, logistics and other businesses through its subsidiaries.

2. Reasons for and benefits of the Issuance of A Shares and H Shares to Specific Investor and use of proceeds

As set out in the Letter from the Board, the Company, as a backbone central enterprise and the only national flag carrier in China, the Company bears the historical responsibility of building a national airline company model and implementing the “Strategy of building China into a strong civil aviation powerhouse”. Through the Issuance of A Shares and H Shares to Specific Investor, the Company intends to optimise its fleet structure and the age structure of the aircraft, enhance fleet strength and the level of aviation capacity in order to enhance the competitive advantage of its principal air transport business, and accelerate the realization of the Company’s strategic planning. At

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the same time, as mentioned in the paragraph headed “Background information on the Company, CNAHC and CNACG” in this letter, the Group has low liquidity and high gearing, the availability of the raised funds will help the Group to replenish its working capital, improve the Group’s capital structure and its financial and liquidity position so as to alleviate the pressure brought by the capital and liquidity demand from the daily operation of the Group, strengthen the Company’s financial soundness and enhance its comprehensive risk resistance capability. Last but not the least, the subscription by CNAHC, the controlling Shareholder reflects its confidence of and commitment to support the Group’s business and this will further give the market confidence as to the Group’s prospects.

Details of the reasons for and benefits of the Issuance of A Shares and H Shares to Specific Investor are set out under section headed “6. Reasons for and Benefit of the Issuance of A Shares and H Shares to Specific Investor” in the Letter from the Board.

Use of proceeds

As set out in the Letter from the Board, the maximum amount of gross proceeds to be raised from (i) the Issuance of A Shares to Specific Investor will be no more than RMB6.00 billion; and (ii) the Issuance of H Share to Specific Investor will be no more than HK\$2.00 billion (equivalent to approximately RMB1.82 billion).

The gross proceeds of no more than RMB6.0 billion from the Issuance of A Shares to Specific Investor would be utilised as to (i) RMB4.2 billion for the project of introducing 17 aircrafts (“**Aircraft Introduction Project**”) (after deducting relevant issuance expenses); and (ii) RMB1.8 billion for replenishing liquid capital of the Group. The proceeds from the Issuance of H Share to Specific Investor of no more than HK\$2.00 billion (equivalent to approximately RMB1.82 billion) would be fully utilised for replenishing liquid capital of the Group (after deducting relevant issuance expenses).

In order to ensure a smooth implementation of the fund-raising investment, and to protect the interest of all shareholders of the Company, before the receipt of the proceeds from the Share Subscription Agreements, the Company will firstly use its own funds or self-raised funds as required based on the actual progress of the projects to be invested. The Company will replace such funds according to relevant prescribed procedures upon receiving the proceeds. Any shortfall of proceeds shall be made up by the Company with internal resources or self-raised funds such as bank borrowings.

Aircraft Introduction Project

Based on the 《二零二三年度向特定對象發行A股募集資金使用可行性研究報告》 (Feasibility Analysis Report on the Use of Proceeds of the Issue of A Shares to Specific Subscribers in 2023*) (“**2023 Feasibility Analysis Report**”), the Company intends to purchase six (6) C919 aircraft and eleven (11) ARJ21 aircraft, a total of seventeen (17) aircraft with estimated total investment of approximately RMB7.57 billion with reference to the catalogue price of Commercial Aircraft Corporation of China, Ltd. The 17 aircraft to be introduced are

* For identification purpose only

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scheduled for delivery during the years from 2024 to 2025 and as disclosed in the Letter from the Board, the Company will fulfill the approval and disclosure obligations required under the Listing Rules in a timely manner to comply with relevant requirements of the Listing Rule.

As advised by the Management, the Company intends to apply RMB4.2 billion from the proceeds from the Issuance of A Share to Specific Investor and pay the remaining amount of the Aircraft Introduction Project by the Company's own funds or through other financing channels such as bank loans.

We note from the 2023 Feasibility Analysis Report, the air passenger transportation market has shown a favourable trend of recovery since 2023. According to 中國民航2023年11月份主要生產指標統計 (Statistical Bulletin on Key Production Indicators) in November 2023 (the "CAAC Bulletin") published by the Civil Aviation Administration of China ("CAAC"), the transport turnover of the PRC's civil aviation market increased by 95.5% to 108.00 billion tonnes and the passenger volume increased by 144.1% to 568.70 million year-on-year. In addition, in line with the increasing in market demand in 2023, the Company reported a substantial increase in air traffic revenue and reduction in loss for HY2023 as mentioned in the paragraph headed "Background information on the Company, CNAHC and CNACG" in this letter.

Based on our discussion with the Management, the Aircraft Introduction Project is conducive to maintaining reserve for the transportation capacity of the Company in advance to better respond to future aviation market demand and industry competition. According to the "14th Five-Year Plan for Civil Aviation Development", by 2025, the development goals of China's civil aviation industry's total transportation turnover and passenger transportation volume are 175 billion ton-kilometers and 930 million passengers respectively, with an average annual growth rate of 17.0 % and 17.2% respectively from 2020 to 2025.

In addition, the Aircraft Introduction Project will serve as an effective capacity supplement to the existing aircraft, which is in line with the development needs of the Company's medium- and long-term fleet planning. With reference to the 2023 Interim Report, during the first half of 2023, the Group introduced a total of 10 aircraft, including four (4) A350 aircraft, two (2) A320 series aircraft, one B737 aircraft and three (3) ARJ21-700 aircraft, and phased out two (2) B737 aircraft. As at 30 June 2023, the Group had a total of 902 aircraft including business jets, with an average age of 9.05 years, of which the Company operated a fleet of 493 aircraft in total, with an average age of 8.93 years. In addition, based on the 2023 Interim Report, the Company plans to introduce a total of 100 aircraft and phase out a total of 32 aircraft in years 2023 and 2024. Based on our discussion with the Management, with the introduction of 17 aircraft, the Company is able to further reduce the average fleet age and keep its fleet age structure young. The newly introduced aircrafts could modernise the aircraft fleet and optimise of fleet structure, thus enhancing the core competitiveness of the Company.

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Replenishing Working Capital

Apart from the introduction of the new aircraft, the remaining proceeds from the Issuance of A Shares to Specific Investor of approximately RMB1.8 billion and the proceeds from the Issuance of H Shares to Specific Investor of approximately HK\$2.0 billion (equivalent to approximately RMB1.82 billion) will be used to supplement the Group's working capital.

As we note from the 2023 Interim Report, as at 30 June 2023, the Group reported net current liabilities of RMB69,072 million and cash and bank balances of RMB25,970 million as at 30 June 2023. As disclosed in the Letter from the Board, the remaining proceeds from the Issuance of A Shares to Specific Investor and the proceeds from the Issuance of H Shares to Specific Investor will be used for payment for liquidity expenses incurred during the operation, including but not limited to fuel expenses, take-off and landing expenses, maintenance and repair expenses, and the purchase of aviation materials. The proceeds to be used for supplementing the working capital as above is expected to be utilised within 6 months from the receipt of such proceeds, thereby improving the working capital position of the Group.

Having considered the above, we concur with the Company's view that the Company is in need to recapitalise its equity and the proposed Issuance of A Shares and H Shares to Specific Investor provides the Company the preferable measure to improve its financial and liquidity position, to facilitate the business development of the Group in order to strengthen the Company's core competitiveness and promote the sustained growth of the Company's principal business.

Other fund-raising methods available to the Company

As advised by the Company, other than the Issuance of A Shares and H Shares to Specific Investor, the Company has considered the feasibility of other fundraising methods such as debt financing from banks or money lenders and other forms of equity financing to raise sufficient funding to finance its aircraft introduction plan and supplement its working capital.

For debt financing from banks or money lenders, as disclosed in the Letter from the Board, the Company considered that it will incur additional interest expenses and leverage on the Group, which would negatively affects the gearing and the liquidity position of the Group.

As for equity financing for A Shares, the Company advised us that they have considered public issuance of Shares. Pursuant to Rule 9 of the Measures for Administrative and Registration of the Issue of Securities by Listed Companies (《上市公司證券發行註冊管理辦法》) (CSRC Order No. 206), company listed on main board of a stock exchange must meet certain requirement before conducting a rights issue or public issuance of shares. These requirements include (i) having made a profit in the last three years; and (ii) for public issuance of share, having at least 6% of weighted average return on net assets over the last three years. We noted that the Company reported net losses for the last three years and the weighted average return on net assets of the Company was (16.86)%, (23.95)% and (90.86)%

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for each of the year ended 31 December 2020, 2021 and 2022. As such, the public issuance of A Shares was not adopted by the Company. Based on our discussion with the Company, no similar requirement has been imposed on H Shares.

In respect of equity financing for H Shares, the Company has considered other equity fund raising methods such as placing of new shares, rights issue or open offer. However, the Company considered that it may require a relatively large discount on issue price to the prevailing market price of the Shares given the recent market volatility and poor market conditions. In addition, placing of new shares will incur higher costs than the Issuance of H Shares to Specific Investor as the Company will need to pay commissions to the placing agent. As such, the Board did not pursue securities placing as it was considered to be less favourable to the Shareholders taking into account the additional costs and unfavourable pricing. The Board was also of the view that a rights issue or open offer will incur more transaction costs including but not limited to the additional costs and time spent in the preparation of the listing documents. Since such corporate exercises will be relatively more time consuming (approximately an additional 30 to 60 days), it may result in the Company being subject to the adverse effects of the current volatile market, thereby increasing the uncertainty it faces in raising funds in time and may affect the overall business plan of the Group.

Having considered the above, the Company considered that the Issuance of A Shares and H Shares to Specific Investor is an appropriate fundraising method for the Group. Based on the foregoing, after considering (i) the existing gearing and financial position of the Group; (ii) the regulatory requirements in relation to public issuance of A Shares; and (iii) other less favourable fundraising alternatives as compared to the Issuance of A Shares and H Shares to Specific Investor, we concur with the Company that the Issuance of A Shares and H Shares to Specific Investor is a more desirable fundraising approach for the Group to finance its business development and to improve its financial and liquidity position.

3. Issuance of A Shares to Specific Investor

Pursuant to the proposal of the Issuance of A Shares to Specific Investor, the Company has entered into the A Share Subscription Agreement with CNAHC for the issue of no more than 854,700,854 new A Shares to CNAHC at the A Share Issue Price with expected gross proceeds (before deducting relevant issuance expenses) of no more than RMB6.00 billion.

(a) Principal terms of the A Share Subscription Agreement

The principal terms and conditions of the A Share Subscription Agreement are summarised below. Please refer to the “Letter from the Board” set out in the Circular for further details.

Date

22 December 2023

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Parties

- (1) The Company, as the issuer; and
- (2) CNAHC, as the subscriber

Number of A Shares to be subscribed for

The number of A Shares to be subscribed by CNAHC under the A Share Subscription Agreement shall be not more than 854,700,854, as calculated by dividing the gross proceeds from the Issuance of A Shares to Specific Investor (i.e. not more than RMB6.00 billion) by the A Share Issue Price and rounded down to the nearest integer. The final number of A Shares to be issued under the Issuance of A Shares to Specific Investor shall comply with the Administrative Measures and other relevant laws and regulations, and shall be not more than 30% of the total share capital of the Company prior to the issuance (for illustration purpose only, 30% of the total share capital of the Company as of the Latest Practicable Date is 4,860,237,851 Shares), and subject to the number of Shares finally permitted by the CSRC to be registered for issue.

As disclosed in the Letter from the Board, the maximum new A Shares to be issued (i.e. 854,700,854 new A Shares), represents (1) 7.34% and 5.28% of the Company's (a) existing issued A Shares; and (b) total issued Shares as at the Latest Practicable Date, respectively; and (2) the 6.84% and 5.01% of the Company's (a) enlarged issued A Shares; and (b) enlarged total issued Shares upon completion of the Issuance of A Shares to Specific Investor, respectively.

A Share Issue Price and basis of determination

The A Share Issue Price is RMB7.02 per share, which is determined based on the following principles:

The pricing benchmark date ("**A Share Pricing Benchmark Date**") shall be the date on which the announcement of the resolution of the Board meeting of the Company convened for approving the Issuance of A Shares to Specific Investor as published in the newspaper format, being 23 December 2023.

The A Share Issue Price shall not be lower than the higher of 80% of the average trading price of A Shares in the 20 Trading Days prior to the A Share Pricing Benchmark Date ^(Note 1) and the Company's audited net assets per share attributable to ordinary shareholders of the parent company ^(Note 2) as at the end of the most recent period (i.e. 31 December 2022) (calculation is rounded to two decimal places according to the "round up method").

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Notes:

1. The average trading price of A Shares in the 20 Trading Days prior to the A Share Pricing Benchmark Date = the total trading value of A Shares in the 20 Trading Days prior to the A Share Pricing Benchmark Date ÷ the total trading volume of A Shares in the 20 Trading Days prior to the A Share Pricing Benchmark Date.
2. The net assets per share attributable to ordinary shareholders of the parent company = total equity attributable to the shareholders of the parent company ÷ number of total issued ordinary shares of the Company.

The above pricing principle of the A Share Issue Price was determined mainly based on the requirements of the Administrative Measures.

The net price to the Company of each new A Share to be issued will be determined and disclosed in accordance with the requirements of Listing Rules upon completion of the Issuance of A Shares to Specific Investor and the determination of the relevant expenses incurred or to be incurred in relation to the Issuance of A Shares to Specific Investor.

In the event that the Company distributes dividends, issue bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period from the A Share Pricing Benchmark Date to the issuance date, the A Share Issue Price shall be adjusted accordingly. The adjustment formula shall be as follows:

1. when only cash dividend is paid, adjusted according to the following formula: $P1=P0-D$
2. when only bonus shares are issued or capital reserve is converted into share capital, adjusted according to the following formula: $P1=P0/(1+N)$
3. when the above two items are carried out at the same time simultaneously, adjusted according to the following formula: $P1=(P0-D)/(1+N)$

whereas P0 represents the subscription price before adjustment, N represents the number of bonus shares issued per share or number of shares converted from capital reserve into share capital, D represents dividend per share and P1 represents the adjusted subscription price.

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Conditions precedent to the A Share Subscription Agreement

The A Share Subscription Agreement will be established upon executed and sealed by the legal representative or authorized representative of the parties and take effect when all the following conditions are met:

- (i) matters relating to the Issuance of A Shares to Specific Investor have been approved by Board and the EGM of the Company;
- (ii) matters relating to the Issuance of A Shares to Specific Investor have been approved by internal decision making body(ies) of CNAHC;
- (iii) matters relating to the Issuance of A Shares to Specific Investor have been approved by the body performing the duty of supervision and management of state-owned assets;
- (iv) matters relating to the Issuance of A Shares to Specific Investor have been approved by the Shanghai Stock Exchange; and
- (v) matters relating to the registration of the Issuance of A Shares to Specific Investor have been consented by the CSRC.

The effective date of the A Share Subscription Agreement shall be the date when all the above conditions are satisfied. None of the conditions precedent is waivable.

As disclosed in the Letter from the Board, the Issuance of A Shares to Specific Investor has been considered and approved by the Board and the internal decision-making bodies of CNAHC as at the Latest Practicable Date. None of the other conditions under the A Share Subscription Agreement has been fulfilled.

In the event that the Issuance of A Shares to Specific Investor fails to obtain the necessary consent, approval or registration from the general meeting of the Company, the regulatory body for state-owned assets or its authorized body, Shanghai Stock Exchange and CSRC according to the laws, the A Share Subscription Agreement shall be automatically terminated and both parties shall not be liable to each other for breach of contract.

Lock-up Arrangement

CNAHC undertakes that the new A Shares subscribed under the Issuance of A Shares to Specific Investor shall not be transferred by any means within thirty-six (36) months from the date of completion of the issuance. If the CSRC and the stock exchange where the Company's Shares are listed provided otherwise, adjustments will be made in accordance with the relevant regulations and the actual situation of the Company. In the event that the Company issues bonus shares or converts capital reserve

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into share capital, etc., leading to increase in number of Shares to be subscribed by CNAHC under the Issuance of A Shares to Specific Investor, such additional Shares shall also comply with the above lock-up arrangement.

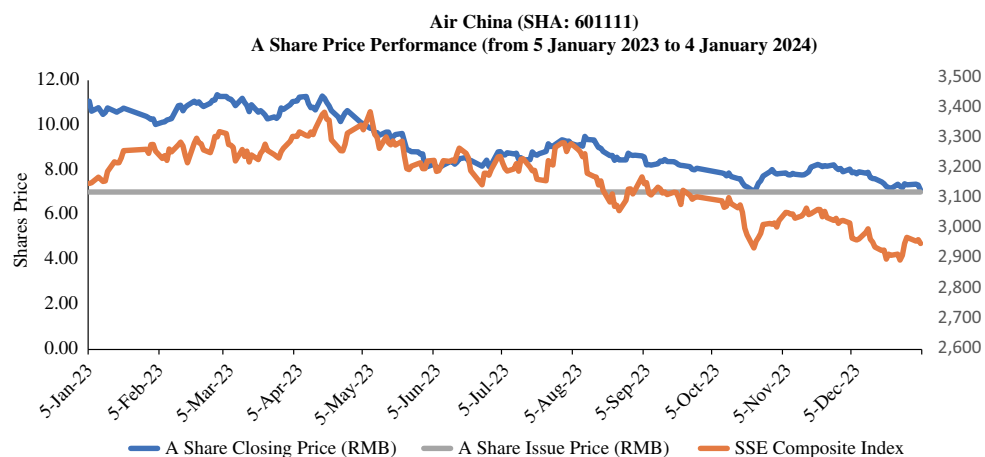
(b) Analysis of the principal terms of the A Share Subscription Agreement

In order to assess the fairness and reasonableness of the principal terms of the A Shares Subscription Agreement, we have performed the following analysis:

Review of historical A Share closing prices

We have analysed the historical closing price of the A Shares during the period commencing from 5 January 2023 up to the Latest Practicable Date (the “**Historical Price Period**”), being a period covering one year prior to the Latest Practicable Date which we consider a reasonable and sufficient period to provide a general and fair overview of the recent trend of the closing price of the A Shares free from the influence of, if any, short term market volatility when assessing the issue price of the A Share.

The following share price chart of the Company illustrates the daily closing price of the A Shares as quoted on the Shanghai Stock Exchange including a comparison with the Shanghai Stock Exchange Composite Index (the “**SSE Composite Index**”) during the Historical Price Period against the A Share Issue Price:



Source: Website of the Stock Exchange (<http://www.hkex.com.hk/>) and Shanghai Stock Exchange (<http://www.sse.com.cn/>)

The A Shares were traded within a range between RMB7.05 per A Share and RMB11.36 per A Share during the Historical Price Period with an average closing price of RMB9.11 per A Share. The lowest closing price of the A Shares was RMB7.05 per A Share recorded on 23 October 2023 and the highest closing price of the A Shares of RMB11.36 per A Share was recorded on 2 March 2023.

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The closing price of the A Shares generally showed fluctuation within a range from RMB10.03 per A Share to RMB11.36 per A Share during the period from 5 January 2023 to early May 2023 before entering into a general downward trend until the Latest Practicable Date. The downward trend is generally in line with the closing price of the SSE Composite Index during the same period showing overall bearish market sentiment. We have discussed with the Company regarding the such decreasing trend and were advised that other than the overall bearish market sentiments, the Company is not aware of any particular reason that may lead to the decreasing trend over the A Shares.

Under the pricing principles of the Issuance of A Shares to Specific Investor (the “**A Share Pricing Principles**”), the price benchmark date of the Issuance of A Shares to Specific Investor shall be the date of the announcement of the resolution of the Board meeting convened for approving the Issuance of A Shares to Specific Investor (i.e A Share Pricing Benchmark Date). For the purpose of our analysis, the issue price would be at least RMB6.20 per A Share (the “**A Share Floor Issue Price**”), being the 80% of the average trading price of the A Shares in the 20 trading days prior to the Board Resolution Date and the A Share Issue Price of RMB7.02 per A Share represents a premium of 13.23% over the A Share Floor Issue Price.

The A Share Issue Price of RMB7.02 per A Share represents:

- (i) a discount of approximately 2.09% to the closing price of the A Shares of RMB7.17 per A Share on the Board meeting date (i.e. the last trading day prior to A Share Pricing Benchmark Date);
- (ii) a discount of approximately 3.84% to the average closing price of approximately RMB7.30 per A Share for the last five consecutive trading days immediately prior to the A Share Pricing Benchmark Date;
- (iii) a discount of approximately 6.65% to the average closing price of approximately RMB7.52 per A Share for the last ten consecutive trading days immediately prior to the A Share Pricing Benchmark Date;
- (iv) a discount of approximately 1.13% to the closing price of approximately RMB7.10 per A Share as at the Latest Practicable Date;
- (v) a premium of approximately 330.67% over the CAS NAV per Share of approximately RMB1.63 as at 31 December 2022; and
- (vi) a premium of approximately 209.25% over the CAS NAV per Share of approximately RMB2.27 as at 30 June 2023.

We noted that the A Share Issue Price is lower than the average closing price of RMB9.15 per A Share but close to the lowest closing price of RMB7.05 per A Share during the Historical Price Period. Having considered that (i) the A Share Pricing

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Principles were determined in compliance with the regulatory requirements in relation to changes in state-owned shares of listed companies set forth by the CSRC; (ii), the A Share Issue Price is higher than the A Share Floor Issue Price and the discount to the prevailing closing prices of A Shares limited to less than 10%; and (iii) the A Share Issue Price representing a premium over the net assets value per Share, and (iv) the declining trend of the trading prices of A Shares and the bearish market sentiment on overall A Share stock market, we consider the A Share Pricing Principles are acceptable. Investors should also consider our analysis below to assess the fairness and reasonableness of the issue price.

Comparison with comparable issuance

Pursuant to the Measures for Administration and Registration of the Issue of Securities by Listed Companies (《上市公司證券發行註冊管理辦法》) (the “**Administrative Measures**”) issued by CSRC on 17 February 2023, in which, among others, (i) the issue price of A shares under issuance of A shares to Specific Investor shall be not less than 80% of the average trading price of the company’s shares during the 20 trading days preceding the pricing benchmark date; and (ii) the pricing benchmark date shall be the first day of issuance period (the “**Pricing Criteria**”).

As disclosed in the Letter from the Board, the A Share Issue Price shall be not less than the higher of (i) 80% of the average trading price of the A Shares as quoted on the Shanghai Stock Exchange in the 20 trading days immediately prior to the A Share Pricing Benchmark Date; and (ii) the Company’s audited net assets per share attributable to ordinary shareholders of the parent company as at the end of the most recent period (i.e. 31 December 2022) and the lock-up period for CNAHC is 36 months. Accordingly, we consider that such basis of determination of the A Share Subscription Price and such lock-up period are in compliance with the Administrative Measures.

To further assess the fairness and reasonableness of the principal terms of the A Shares Subscription Agreement, we have compared the terms of the Issuance of A Shares to Specific Investor against those of similar issuance of A shares to specific targets (the “**Transaction Comparable(s)**”) proposed by companies listed on both (i) the Hong Kong Stock Exchange and (ii) either the Shenzhen Stock Exchange or Shanghai Stock Exchange from 1 January 2023 up to the Latest Practicable Date. We consider comparison of the terms of the Transaction Comparables and that of the A Share Subscription Agreement (in particular the pricing mechanism and the lock up period) to be fair and representative. To the best of our knowledge, we have identified seven Transaction Comparables, which represent an exhaustive list under the above selection criteria and we consider the sample size is sufficient to reflect the recent market practices. Summarised below are our relevant findings:

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No.	Company Name (Stock code)	Announcement Date	Issue Price	Premium/(discount) to the average trading price in 20 (60 or 120, if applicable) trading days preceding the pricing benchmark date	Basis for the determination of issue price	Additional basis for A Shares issue price (other than the Pricing Criteria)	Subscriber	Lock-up period
1	Shenzhen Expressway Corporation Limited (548.HK) (600548.SH)	14-Jul-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	no more than 35 specific investors	The shares which will be subscribed by (i) an entity controlled by the de facto controller of the listed issuer shall not be transferred for an 18- month period; and (ii) other investors shall not be transferred for a 6-month period.
2	Qingdao Port International Co., Ltd. (6198.HK) (601298.SH)	30-Jun-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day, 60-day or 120-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	no more than 35 specific investors	The shares which will be subscribed by investors shall not be transferred for a 36- month period.
3	China Southern Airlines Company Limited (1055.HK) (600029.SH)	31-May-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	CSAH, the controlling shareholder of China Southern Airlines Company Limited	The shares which will be subscribed by investors shall not be transferred for a 36- month period.

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No.	Company Name (Stock code)	Announcement Date	Issue Price	Premium/(discount) to the average trading price in 20 (60 or 120, if applicable) trading days preceding the pricing benchmark date	Basis for the determination of issue price	Additional basis for A Shares issue price (other than the Pricing Criteria)	Subscriber	Lock-up period
4	Anhui Expressway Company Limited (995.HK) (600012.SH)	17-Apr-23	Not Specified	N/A Note (2)	Not less than 80% of the 20-day, 60-day or 120-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	no more than 35 specific investors	The shares which will be subscribed by investors shall not be transferred for a 6- month period.
5	Dongfang Electric Corporation Limited (1072.HK) (600875.SH)	4-Apr-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	no more than 35 specific investors	The shares which will be subscribed by investors shall not be transferred for a 18- month period.
6	China Energy Engineering Corporation Limited (3996.HK) (601868.SH)	15-Feb-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	Not lower than the company's latest audited net asset value per share attributable to equity shareholders	no more than 35 specific investors	The shares which will be subscribed by investors shall not be transferred for a 6- month period.
7	China Vanke Co., Ltd. (2202.HK) (000002.SZ)	13-Feb-23	Not Specified	N/A Note (1)	Not less than 80% of the 20-day average trading price of the A-shares immediately preceding the price benchmark date (i.e. the first day of the issuance period)	N/A	no more than 35 specific investors	The shares which will be subscribed by investors shall not be transferred for a 6- month period.

Source: Website of the Stock Exchange (<http://www.hkex.com.hk/>)

Notes

- As at Latest Practicable Date, the above issuance of A-Share has not yet completed and no issue price was determined.
- The proposed issuance was lapsed on 9 November 2023.

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Based on our review, we noted that the basis for issue price for the Transaction Comparables follows the Administrative Measures, which requires that the issue price to be not less than 80% of the average trading price of the A shares during the 20 trading days preceding the pricing benchmark date. In addition to the Pricing Criteria, we noticed that two out of seven Transaction Comparables adopted a longer reference period to up to 60-day and 120- day of average trading price of A Shares than the 20-day period as required under the Administrative Measures. Further, the pricing mechanism of six out of seven Transaction Comparables included additional pricing basis, being the latest audited net asset value per share attributable to shareholders of the company, representing the minimum issue price in the event that the market price of A shares trades below their net asset value per share. As such, we considered the A Shares Pricing Principle (i.e. the A Share Issue Price shall not be lower than the higher of 80% of the average trading price of A Shares in the 20 Trading Days prior to the A Share Pricing Benchmark Date and the Company's audited net assets per share attributable to ordinary shareholders of the parent company as at the end of the most recent period) is no less favourable to the Company than those of the Transaction Comparables.

In respect of the lock-up period of the Transaction Comparables, Transaction Comparables No. 1 and No. 3 involved subscription by connected person(s) and the relevant lock up periods for No.1 and No. 3 were 18 months and 36 months respectively. Other Transaction Comparables normally applied 6 months, 18 months or 36 months lock up periods for independent subscribers.

The A Shares to be subscribed by CNAHC under the Issuance of A Share to Specific Investor shall be subject to a lockup period (the "CNAHC Lock-up Period") of 36 months from the date of completion of the issuance of the A Shares. The CNAHC Lock-up Period is fulfilled and longer than the lock-up period regulatory requirement of the 18-month lock-up period for connected subscribers. Therefore, we are of the view the CNAHC Lockup Period is no less favourable to the Company than those of the Transaction Comparables which involve subscriptions by connected person(s). In addition, it represents CNAHC's faith in the future development of the Group and its long-term commitment in the Group.

Based on the above, we consider that the terms of the A Share Subscription Agreement are on normal commercial terms or better and fair and reasonable so far as the Independent Shareholders are concerned.

4. Issuance of H Shares to Specific Investor

Pursuant to the proposal of Issuance of H Shares to Specific Investor, the Company will enter into the H Share Subscription Agreement with CNACG for the issue of no more than 392,927,308 new H Shares to CNACG at the H Share Issue Price with expected proceeds (before deducting relevant issuance expenses) of no more than HK\$2.00 billion.

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(a) *Principal terms of the H Share Subscription Agreement*

The principal terms and conditions of the H Share Subscription Agreement are summarised below. Please refer to the “Letter from the Board” set out in the Circular for further details.

Parties

- (1) The Company, as the issuer; and
- (2) CNACG, as the subscriber

Number of H Shares to be subscribed for

The number of new H Shares to be subscribed by CNACG shall be not more than 392,927,308, as calculated by dividing the gross proceeds from the Issuance of H Shares to Specific Investor (i.e. not more than HK\$2.00 billion) by the H Share Issue Price and rounded down to the nearest integer.

The maximum new H Shares to be issued (i.e. 392,927,308 new H Shares), represents (1) 8.61% and 2.43% of the Company’s (a) existing issued H Shares; and (b) total issued Shares as at the Latest Practicable Date, respectively; and (2) 7.93% and 2.37% of the Company’s (a) enlarged issued H Shares; and (b) enlarged total issued Shares upon completion of the Issuance of H Shares to Specific Investor, respectively.

H Share Issue Price and basis of determination

The H Share Issue Price is HK\$5.09 per share, which is determined based on the following pricing principles:

The H Share Issue Price shall be the higher of the average trading price of H Shares in the 20 Trading Days prior to the date of the Board meeting of the Company convened for purpose of approving the Issuance of H Shares to Specific Investors (the “**Board meeting date**”) ^(Note 1) and the Company’s audited net assets per share attributable to ordinary shareholders of the parent company ^(Note 2) as at the end of the most recent period (i.e. 31 December 2022) (calculation is rounded to two decimal places according to the “**round up method**”).

Notes:

1. The average trading price of H Shares in the 20 Trading Days prior to the Board meeting date = the total trading value of H Shares in the 20 Trading Days prior to the Board meeting date ÷ the total trading volume of H Shares in the 20 Trading Days prior to the Board meeting date.

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2. The net assets per share attributable to ordinary shareholders of the parent company = equity attributable to the shareholders of the parent company ÷ number of total issued ordinary shares of the Company (an equivalent amount in HK\$ converted at the central parity rate announced by the People's Bank of China on the Board meeting date).

The net price to the Company of each new H Share to be issued will be determined and disclosed in accordance with the requirements of the Listing Rules upon completion of the Issuance of H Shares to Specific Investor and the determination of the relevant expenses incurred or to be incurred in relation to the Issuance of H Shares to Specific Investor.

In the event that the Company distributes dividends, issue bonus shares, converts capital reserve into share capital or carries out any other ex-right or ex- dividend activities during the period from the Board meeting date to the issuance date, the H Share Issue Price shall be adjusted accordingly. The adjustment formula shall be as follows:

1. when only cash dividend is paid, adjusted according to the following formula: $P1=P0-D$
2. when only bonus shares are issued or capital reserve is converted into share capital, adjusted according to the following formula: $P1=P0/(1+N)$
3. when the above two items are carried out simultaneously, adjusted according to the following formula: $P1=(P0-D)/(1+N)$

whereas P0 represents the subscription price before adjustment, N represents the number of bonus shares issued per share or number of shares converted from capital reserve into share capital, D represents dividend per share and P1 represents the adjusted subscription price.

Conditions precedent to the H Share Subscription Agreement

The H Share Subscription Agreement will be established upon executed and sealed by the legal representative or authorized representative of the parties and take effect when all the following conditions are met:

- (i) matters relating to the Issuance of H Shares to Specific Investor have been approved by Board and the EGM of the Company;
- (ii) matters relating to the Issuance of H Shares to Specific Investor have been approved by internal decision-making body(ies) of CNACG;
- (iii) matters relating to the Issuance of H Shares to Specific Investor have been approved by the body performing the duty of supervision and management of state-owned assets; and

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- (iv) approval for the listing of, and permission to deal in, the new H Shares to be issued under the Issuance of H Shares to Specific Investor have been granted by the Listing Committee of the Hong Kong Stock Exchange.

The effective date of the H Share Subscription Agreement shall be the date when all the above conditions precedent are satisfied. None of the conditions precedent is waivable.

As disclosed in the Letter from the Board, the Issuance of H Shares to Specific Investor has been considered and approved by the Board as at the Latest Practicable Date. None of the other conditions under the H Share Subscription Agreement has been fulfilled.

In the event that the Issuance of H Shares to Specific Investor fails to obtain the necessary consent or approval from the general meeting of the Company, the body performing the duty of supervision and management of state-owned assets and Hong Kong Stock Exchange according to the laws, the H Share Subscription Agreement shall be automatically terminated and both parties shall not be liable to each other for breach of contract.

Lock-up Arrangement

CNACG undertakes that the new H Shares subscribed under the Issuance of H Shares to Specific Investor shall not be transferred by any means within thirty-six (36) months from the date of completion of the Issuance of H Shares to Specific Investor, except for, if permitted under the laws of the PRC and other applicable laws and listing rules of the places where the Company's Shares are listed, the transfer to any subsidiary(ies) directly or indirectly wholly-owned or controlled by CNAHC provided that the transferee will continue to comply with the above lock-up undertaking until its expiry. If the CSRC and the stock exchanges where the Company's shares are listed provide otherwise, adjustments will be made in accordance with the relevant regulations and the actual situation of the Company. In the event that the Company issues bonus shares or converts capital reserve into share capital, etc., leading to increase in number of Shares to be subscribed by CNACG, such additional Shares shall also comply with the above lock-up arrangement.

(b) Analysis of the principal terms of the H Share Subscription Agreement

In order to assess the fairness and reasonableness of the principal terms of the H Share Subscription Agreement, we have performed the following analysis:

Review of the historical H Share closing prices

We have analysed the historical closing prices of the H Share during the Historical Price Period, being a period covering one year prior to the Latest Practicable Date which we consider a reasonable and sufficient period to provide a general and fair

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overview of the recent trend of the closing price of the H Shares free from the influence of, if any, short term market volatility when assessing the issue price of the H Shares. The following share price chart of the Company illustrates the daily closing price of the H Shares as quoted on Stock Exchange during the Historical Price Period including a comparison with the Hang Seng Index (the “**Hang Seng Index**”) during the Historical Price Period against the H Share Issue Price of HK\$5.09 per H Share:



Source: Website of the Stock Exchange (<http://www.hkex.com.hk/>)

During the Historical Price Period, the H Shares were traded within the range of HK\$4.70 per H Share and HK\$7.74 per H Share, with an average closing price of approximately HK\$6.12 per H Share. The highest closing price of HK\$7.74 per H Share was recorded on 3 March 2023 and the lowest closing price of approximately HK\$4.70 per H Share was recorded on 20 December 2023 and 22 December 2023.

Overall, the closing price per H Share generally experienced a decreasing price trend over the Historical Price Period, which was largely in line with the Hang Seng Index. We have discussed with the Company regarding the such decreasing trend and were advised that other than the overall bearish market sentiments, the Company is not aware of any particular reason that may lead to the decreasing trend over the H Shares.

Under the pricing principles of the Issuance of H Shares to Specific Investor (the “**H Share Pricing Principles**”), the pricing benchmark date of the Issuance of H Shares to Specific Investor shall be the date of the Board meeting of the Company (i.e. Board meeting date) convened for approving the Issuance of H Shares to Specific Investor. For the purpose of our analysis, the issue price would be at least HK\$5.09 per H Share (the “**H Share Floor Issue Price**”), being the average trading price of the H Shares in the 20 trading days prior to the Board meeting date (excluding the Board meeting Date) and is the same as the H Share Issue Price.

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The H Share Issue Price represents:

- (i) a premium of approximately 8.30% over the closing price of HK\$4.70 per H Share as quoted on the Stock Exchange on the Board meeting date;
- (ii) a premium of approximately 5.38% over the average closing price of HK\$4.83 per H Share as quoted on the Stock Exchange for the five trading days immediately prior to the Board meeting date;
- (iii) a premium of approximately 3.04% over the average closing price of HK\$4.94 per H Share as quoted on the Stock Exchange for the ten trading days immediately prior to the Board meeting date;
- (iv) a premium of approximately 8.07% over the closing price of HK\$4.71 per H Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a premium of approximately 185.96% over the IFRS NAV per Share of RMB1.62 (equivalent to approximately HK\$1.78) as at the 31 December 2022; and
- (vi) a premium of approximately 103.60% over the IFRS NAV per Share of RMB2.27 (equivalent to approximately HK\$2.50) as at 30 June 2023.

We noted that the H Share Issue Price is lower than the average closing price of HK\$6.12 per H Share during the Historical Price Period. Having considered that (i) the issue price is equal to the H Share Floor Issue Price and higher than the lowest closing price during the Historical Price Period and it represents a premium over the average 5-day and 10-day closing prices of H Shares; (ii) the H Share Issue Price representing a premium over the net assets value per Share; and (iii) the declining trend of the trading prices of H Shares and the bearish market sentiment on overall Hong Kong stock market, we consider the H Share Pricing Principles are acceptable. Investors should also consider our analysis below to assess the fairness and reasonableness of the issue price.

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Comparison with comparable issuances

To further assess the fairness and reasonableness of the principal terms of the H Share Subscription Agreement, we have searched on the website of the Stock Exchange for transactions regarding subscription of H shares by connected person(s) as announced by companies whose H shares are listed on the Stock Exchange during the Historical Price Period and there was only one comparable transaction during the Historical Price Period, which was carried out and announced by China Southern Airline Company Limited (Stock Code: 1055.HK) (“CSAC”) in respect of the proposed share issuance and connected transaction in respect of proposed share issuance on 31 May 2023 (the “Comparable Issuance”). Details of the terms of the Comparable Issuance are summarised as below.

Company Name (Stock code)	Announcement date	No. of H shares to be issued	Issue price of H Shares	Basis for the determination of issue price of H shares	Subscriber	Lock-up period
China Southern Airlines Company Limited (1055.HK) (600029.SH)	31 May 2023	No more than 855,028,969 H shares	Not Specified	Shall be the higher of (i) the average trading price of the H Shares as quoted on the Stock Exchange in the 20 Hong Kong trading days immediately prior to the date of the board meeting approving the proposed issuance and (ii) the latest audited net asset value per share attributable to equity shareholders of the CSAC on the board meeting date for the new H Shares as at the issuance of the new H Shares.	Nan Lung, a wholly-owned subsidiary of CSAH <i>Note (1)</i>	The shares which will be subscribed by investors shall not be transferred within 36 months from the completion date of the issuance.

Note

1. China Southern Air Holding Limited Company (“CSAH”), a state-owned enterprise established under the laws of the PRC and the controlling shareholder of CSAC

As such, we considered we could not identify enough comparable issuances based on the aforesaid criteria. Alternatively, we have performed our analysis on the share prices of comparable companies as below.

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Comparison with Industry Comparables

We attempted to perform a trading multiples analysis of price-to-earnings (“P/E”) ratio, price-to-book (“P/B”) ratio and price-to-sales (“P/S”) ratio of comparable companies which are the most common approaches adopted by the investment community in valuing entities. Given the Group is principally engaged in provision of air transportation service in the PRC, we have conducted a search for comparable companies which are (i) listed on the Stock Exchange; and (ii) principally engaged in provision of air transportation service in the PRC and the Asia Pacific region. To the best of our knowledge and as far as we are aware of, we have identified three comparable companies (the “**Comparable Companies**”). As the Group and the Comparable Companies recorded net losses for FY2022, no P/E ratio analysis can be performed in this regard. P/S is considered not appropriate because it only focus on the sales amount, the results will be easily distorted if the cost structure is not being taken into account. As the civil aviation service industry is capital-intensive in nature, we consider that it is also appropriate to compare the P/B ratio of the Comparable Companies with the implied P/B ratio of the H Share Subscription Price. Set out below is summary of the P/B ratio analysis:

Company Name (Stock code)	Closing share price as at the Board meeting date (HK\$)	Net asset value per share (Note 1) (HK\$)	P/B ratio (Note 2) (times)
Cathay Pacific Airways Limited (293.HK)	8.27	10.02	0.83
China Eastern Airlines Corporation Limited (670.HK)	2.18	1.24	1.76
China Southern Airlines Company Limited (1055.HK)	3.11	2.33	1.34
		Maximum	1.76
		Minimum	0.83
		Median	1.34
		Average	1.31
the Company (753.HK)	5.09 <i>(Note 3)</i>	2.37	2.15 <i>(Note 4)</i>

Source: Website of the Stock Exchange (<http://www.hkex.com.hk/>)

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Notes:

1. Net asset value per share refers to net assets attributable to the owners of the company reported in the respective companies' latest published financial reports (i.e. 30 June 2023) prepared in accordance with the IFRS or Hong Kong Financial Reporting Standards divided by the total number of shares in issue of the respective Comparable Companies as at the Board meeting date. For illustration purpose, the figures are adjusted for the central parity rate of HK\$1=RMB0.90862 on the Board meeting date.
2. The historical P/B ratio of the Comparable Companies are calculated based on their respective closing price as at the Board meeting date divided by the respective net asset value per share attributable to equity shareholders of the Comparable Companies.
3. The H Share Subscription Price.
4. The implied P/B ratio of the Company as at the Board meeting date is calculated based on the H Share Subscription Price divided by the NAV per Share.

As set out in the above table, the historical P/B ratio of the Comparable Companies ranged from approximately 0.83 times to approximately 1.76 times, with a median of approximately 1.34 times and an average of approximately 1.31 times. We note that the implied P/B ratio of the H Share Subscription Price is higher than the maximum of but close to that of the Comparable Companies.

Taking into account of the above and that the H Share Subscription Price represents a premium over the prevailing closing prices of H Shares and will not be lower than the net asset value per Share attributable to equity shareholders of the Company as at the end of the most recent period (i.e. 31 December 2022), we consider that the H Share Subscription Price to be acceptable and fair and reasonable so far as the Independent Shareholders are concerned.

5. Dilution effect on the shareholding interests of the existing public Shareholders

As illustrated by the tables under the sub-section headed "3. Dilutive Effects of the Issuance of A Shares and H Shares to Specific Investor on the Shareholding Structure of the Company" in the Letter from the Board, the shareholding interests of the existing public Shareholders (including all of the public A Shareholders and H Shareholders) in the Company was approximately 33.60% as at the Latest Practicable Date.

Assuming there are no other changes to the total issued share capital of the Company other than the Issuance of A Shares and H Shares to Specific Investor from the Latest Practicable Date to the date of the Completion and the maximum number of A Shares under the Issuance of A Shares to Specific Investor and maximum number of H Shares under the Issuance of H Shares to Specific Investor are issued in full, upon Completion, the existing public shareholders of the H Shares will decrease from approximately 10.52% to approximately 9.77%, the shareholding of the existing public shareholders of the A Shares will decrease from approximately 23.08% to approximately 21.43% and the shareholdings of the existing public shareholders of A Shares and H Shares in aggregate will decrease from approximately 33.60% to approximately 31.20%.

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Nonetheless, in view of (a) the availability of the raised funds from the Issuance of A Shares and H Shares to Specific Investor will be used for (i) the partial payment for the Aircraft Introduction Project which would facilitate the Company's business development, strengthen its core competitiveness and profitability by optimizing its fleet structure; and (ii) funding the working capital requirements of the Group to improve its financial and liquidity position; and (b) with the increase in equity capital of the maximum of approximately RMB7.97 billion upon Completion, both the IFRS NAV per Share and CAS NAV per Share will increase to approximately RMB2.45 per Share, we are of the view that the above merits outweigh the dilution impact to the shareholding of the existing public Shareholders and thus, we consider the Issuance of A Shares and H Shares to Specific Investor is fair and reasonable and in the interest of the public Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the respective A Share Subscription Agreement and H Share Subscription Agreement, though not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole and the terms of the respective A Share Subscription Agreement and H Share Subscription Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the respective A Share Subscription Agreement and H Share Subscription Agreement and we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) in this regard.

For the purpose of this letter, the exchange rate of HK\$1.00 = RMB0.90862 (representing central parity rate of HK\$1=RMB0.90862 on the Board meeting date) has been used, for illustration purpose only and do not constitute representations that any amount has been, could have been or may be exchanged at such rate or any other rates or at all on the date or dates in question or any other date.

Yours faithfully,

For and on behalf of

BaoQiao Partners Capital Limited

Monica Lin

Irene Poon

Managing Director

Executive Director

Ms. Monica Lin is a responsible officer registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in corporate finance industry.

Ms. Irene Poon is a responsible officer registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in the accounting and corporate financial services industry.

APPENDIX I FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR IN 2023

The Feasibility Analysis Report on the Use of Proceeds from the Issuance of A Shares to Specific Investor in 2023 is written in Chinese, with no official English translation. The English translation is provided solely for reference only. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail. The full version of the Feasibility Analysis Report on the Use of Proceeds from the Issuance of A Shares to Specific Investor in 2023 is as follows:

I. PLAN OF THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR

The gross proceeds to be raised from the Issuance of A Shares to Specific Investor of the Company will not be more than RMB6.00 billion (inclusive). After deducting the relevant issuance expenses, the net proceeds are intended to be used in the following projects:

No.	Name of project	Total investment amount (RMB100 million)	Proposed amount of proceeds to be applied (RMB100 million)
1	The project of introducing 17 aircraft	75.71	42.00
2	Replenishment of working capital	18.00	18.00
	Total	93.71	60.00

Note: Based on the central parity RMB exchange rate of the interbank foreign exchange market on 30 November, same for below

Before the receipt of the proceeds from the Issuance of A Shares to Specific Investor, the Company will invest with its own funds or self-raised funds based on the actual progress of the projects to be invested. The Company will replace such funds according to relevant prescribed procedures upon receiving the proceeds.

II. NECESSITY AND FEASIBILITY ANALYSIS OF THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR

(I) The project of introducing 17 aircraft

1. Basic Information

The Company intends to use the proceeds from the Issuance of A Shares to Specific Investor of RMB4.20 billion to introduce 17 aircraft, including 6 C919 aircraft and 11 ARJ21 aircraft. According to the catalogue unit price provided by the manufacturer, COMAC, the total investment amount of the aforesaid 17 aircraft amounts to USD1.066 billion (equivalent to approximately RMB7.571 billion). The Company intends to pay RMB4.2 billion with the proceeds from the Issuance of A Shares to Specific Investor. The 17 aircraft introduced are scheduled for delivery in the years from 2024 to 2025.

2. *Necessity and feasibility analysis of the project*

(1) *The civil aviation industry is on a clear trend of recovery with broad prospects for development*

The civil aviation industry has suffered a strong negative impact since 2020, but with the force majeure factors gradually receding, the civil aviation industry is on a clear recovery trend with the domestic routes already surpassed the level of the same period in 2019 in all aspects; and the international and regional routes also entered a phase of rapid recovery. From January to November 2023, China's civil aviation industry registered passenger turnover and passenger traffic volume of 941.47 billion passenger-kilometres and 570 million, respectively. The figures have recovered to 87.5% and 93.7% of the level of the same period in 2019, respectively. Among which, in terms of domestic routes, from January to November 2023, the civil aviation industry registered passenger turnover and passenger traffic volume of 827.21 billion passenger-kilometres and 540 million, respectively. The figures have reached 107.5% and 101.7% of the level of the same period in 2019, respectively. In terms of international routes, the passenger turnover and passenger traffic volume at the beginning of 2023 only accounted for less than 10% of the level of the same period in 2019. However, in the month of November, the figures have rapidly recovered to 50% of the level of the same period in 2019.

In the long term, driven by the rising per capita income level in China, demand for business travel and tourism are further unleashed, which indicates a promising market demand for China's civil aviation industry. According to the "14th Five-Year Plan" for Civil Aviation Development, the development goals for total traffic volume and passenger traffic volume of the civil aviation industry in China in 2025 will be 175.0 billion tonne-kilometres and 930 million, with an average annual growth of 17.0% and 17.2% from 2020 to 2025, respectively. It is expected that the number of air trips per capita per year in China will increase from 0.47 in 2019 to 0.67, implying a huge growth potential in China's civil aviation market where there is still much room for increasing the aviation penetration rate.

(2) *Enhance core competence and accelerate the development of a world-class aviation and transportation group*

As of 30 September 2023, the Company operated a total of 899 aircraft. With a continuously optimized fleet structure, extensive international routes and a balanced domestic and international network layout, the most valuable customer base and the strongest brand influence, it has risen to become a first-class air transport enterprise in the world. A reasonable fleet size and fleet age structure is a key prerequisite for the Company to further optimize the layout of its domestic and overseas route network in the future, and is also an important foundation for the Company to fully implement the concept of safe development and provide more comfortable and reliable air travel for domestic and overseas passengers.

APPENDIX I FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR IN 2023

In accordance with the spirit of the reform of the civil aviation flight schedule management system and mechanism, core resources will be tilted towards the main operators of hub airports, leading to the differentiated operation of various types of airlines in the market and reducing homogeneous competition. The introduction of 17 aircraft will further enhance the Company's transport capacity, optimize its fleet structure, strengthen its safety assurance capabilities and enhance the core competence of its principal business, which will help the Company give full play to its strengths as a market leader in the Beijing hub, and will be an important safeguard for the Company to realize the historical responsibility of implementing the "strategy of building China into a strong civil aviation powerhouse" and accelerating the development of a world-class aviation and transportation group with global competitiveness.

(3) *The Company is capable of absorbing new capacity by leveraging its sufficient customer base and the number of pilots*

In terms of customer base, the Company's principal base is located at Beijing Capital International Airport, also known as "the first gateway to China", which has a unique and prime location advantage for establishing itself into a major international aviation hub in the Northeast Asian region and already has extensive international routes and a balanced domestic and international network. In line with the Company's hub network strategy, the Company has positioned itself for the mainstream market of mid-to-high-end government and business passengers, and currently has the most valuable passenger group in China. With the recovery of the demand in the passenger aviation market, the advantages of Beijing in terms of both geographical location and customer structure of government and business travelers will create strong demand for air travel for the Company.

In terms of pilots, over the years, the Company has trained and developed a number of pilots with extensive flying experience and a reasonable pilot team size. As of 30 September 2023, the Company had a total of 11,018 pilots, of which 4,533 are captains. In addition, the Company has established a corresponding support scheme for human resources based on the future fleet development plan, and is capable of meeting the operational needs of the newly introduced aircraft every year.

3. *Project investment budget estimate*

Based on the catalogue unit price for 2024 provided by COMAC, the catalogue prices of the aircraft to be introduced by the Company are as follows:

No.	Aircraft model	Manufacturer	Number (aircraft)	Catalogue unit price (USD100 million)	Catalogue unit price (RMB100 million)
1	C919	COMAC	6	1.08	7.67
2	ARJ21	COMAC	11	0.38	2.70

APPENDIX I FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR IN 2023

The total catalogue prices of the 17 aircraft to be introduced amount to USD1.066 billion. The actual contract price, after being determined by the contracted parties on an arm's length basis, is lower than the price contained in the product catalogue. The Company will use the proceeds from the Issuance of A Shares to Specific Investor of RMB4.200 billion in the introduction of the 17 aircraft, and will make up for the shortfall from other channels.

4. *Project gains*

The introduction and putting into operation of the 17 aircraft will further increase the fleet size and enhance the transportation capacity of the Company, expand the transportation volume of major routes, as well as optimize the route network of the Company, and increase flight revenue. Meanwhile, the newly introduced aircraft will partly replace certain aircraft of old models, which will help to optimize the aircraft fleet structure of the Company and effectively reduce fuel consumption and maintenance costs, thereby enhancing the profitability and market competitiveness of the Company. The aircraft proposed to be introduced will be included in the current aircraft fleet of the Company for centralized allocation and management.

5. *Approval and registration in relation to project*

The planning document for the introduction of aircraft using the proceeds has been replied and approved by the CAAC.

(II) Replenishment of working capital

1. *Basic information*

The Company has proposed to use RMB1.800 billion of the proceeds from the Issuance of A Shares to Specific Investor for replenishment of working capital, with an aim to reduce the gearing ratio, optimize the capital structure and enhance the capital strengths of the Company, thereby further improving its resilience against risks.

2. *Necessity and feasibility analysis of the project*

As at the end of 2020, 2021, 2022 and September 2023, the Company's gearing ratio was 70.50%, 77.93%, 92.69% and 88.78%, respectively, which stood at a relatively high level. The Company has a higher operating leverage, which mitigated its resilience against risks and financial stability to a certain extent.

Following the continuous recovery of the civil aviation industry, the demand in the air passenger transportation market has been further released, leading to the expansion in the Company's investment in transport capacity and operation scale, and the increase in the overall demand for liquidity accordingly. Positioning its brand as "professional and reliable in terms of both international quality and Chinese temperament", the Company always regards safety assurance as the primary political responsibility and the topmost priority, and adheres to the

APPENDIX I FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR IN 2023

red line and bottom line of safety by enhancing the management and control on the process of safe production and key risks on a continuous basis. Sufficient capital supply is a strong safeguard for the Company to expand its business scale, ensure the aviation safety and improve service quality. The Company intends to use part of the proceeds from the Issuance of A Shares to Specific Investor for replenishment of working capital so as to improve its capital strength and resilience against risks, continue to consolidate the foundation of safety work and strengthen its competitive edge in the industry.

In strict compliance with the relevant requirements such as the Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for Listed Companies on the Management and Use of Raised Funds (2022 Revision) (CSRC Announcement [2022] No. 15) and the Shanghai Stock Exchange Self-Regulatory Guidelines for Listed Companies No. 1 – Standardised Operation (Shangzhengfa [2023] No. 193) and the Policy on Use and Management of Proceeds of the Company, the Company will reasonably arrange the applied amount and applied progress regarding the portion of the proceeds in replenishing the working capital, so as to ensure the safe and efficient use of proceeds and safeguard the use of proceeds against risks.

III. IMPACT OF THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR ON THE OPERATION MANAGEMENT AND FINANCIAL POSITION OF THE COMPANY

(I) Impact on the operation management of the Company

The proceeds to be raised from the Issuance of A Shares to Specific Investor, after deducting relevant issuance expenses, will be used for the project of introducing 17 aircraft and replenishment of working capital.

The projects to be funded and invested with the proceeds from the Issuance of A Shares to Specific Investor will further facilitate the expansion of the fleet size of the Company and optimization of the fleet structure, in order to provide the passengers with safe travel service of high quality, thereby continuing to optimize and strengthen its principal business of air transportation. At the same time, the Company's scale of assets and capital structure will be improved and optimized, and thus ease the Company's pressure on capital requirements for its daily operating activities, enhance its capital strength and facilitate its healthy and sustainable development, thereby safeguarding the interests of investors.

(II) Impact on the financial position of the Company

Upon completion of the Issuance of A Shares to Specific Investor, both the Company's total assets and net assets will be increased accordingly. It will enhance the Company's working capital, and the gearing ratio will decrease accordingly, which will be conducive to the Company in optimizing its capital structure, enhancing its profitability and strengthening its resilience against financial risks.

**APPENDIX I FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM
THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR IN 2023**

**IV. CONCLUSION ON THE FEASIBILITY ANALYSIS OF PROJECTS TO BE INVESTED
WITH THE PROCEEDS FROM THE ISSUANCE OF A SHARES TO SPECIFIC INVESTOR**

After prudent analysis and demonstration, the Board of the Company is of the opinion that the plan of the use of proceeds from the Issuance of A Shares to Specific Investor is in compliance with the relevant policies and laws and regulations. The projects to be funded and invested with the proceeds will facilitate the expansion of the fleet size and optimization of the fleet structure, which is in line with the Company's strategic requirements, and is necessary and feasible. At the same time, the use of proceeds will help meet the Company's capital requirement for business development, enhance its core competitiveness, optimize its capital structure and improve its financial position, profitability and sustainable development capability, and is in line with the interests of the Company and all shareholders.

Air China Limited
22 December 2023

The Report on Use of Proceeds from Previous Fund-Raising Activities is written in Chinese, with no official English translation. The English translation is provided solely for reference only. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail. The full version of the Report on Use of Proceeds from Previous Fund-Raising Activities is as follows:

I. BASIS OF PREPARATION

This Report on Use of Proceeds from Previous Fund-Raising Activities has been prepared in accordance with the Applicable Guidelines under Regulatory Rules – Issuance Category No. 7 issued by the China Securities Regulatory Commission.

II. AMOUNT, CREDITING DATE AND DEPOSIT OF PROCEEDS FROM PREVIOUS FUND-RAISING ACTIVITIES (THE “PREVIOUS PROCEEDS”)

According to the “Approval Reply regarding the Non-public Issuance of Shares by Air China Limited” (Zheng Jian Xu Ke [2022] No. 3050) issued by the China Securities Regulatory Commission, Air China Limited (hereinafter referred to as the “Company”) conducted a non-public issuance of 1,675,977,653 A Shares at an issue price of RMB8.95 per share on 3 January 2023 on the Shanghai Stock Exchange. The gross proceeds amounted to RMB14,999,999,994.35. After deducting undertaking and sponsorship fees of RMB949,999.99 (VAT inclusive), the proceeds amounted to RMB14,999,049,994.36; after deducting all issuance expenses (undertaking and sponsorship fees inclusive) of RMB6,983,407.03 (VAT exclusive), the actual net proceeds amounted to RMB14,993,016,587.32.

All the aforesaid proceeds of RMB14,999,049,994.36 were credited to a designated account on 3 January 2023, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP, with a capital verification report (De Shi Bao (Yan) Zi (23) No. 00005) issued in this regard.

The Company deposited the aforesaid proceeds into the designated accounts in Beijing Tianzhu Road Branch of the Bank of China, Beijing Konggang Branch of the Agricultural Bank of China, Beijing Pilot Free Trade Zone Business Central District Branch of the China Merchants Bank and Beijing Branch Sales Department of China CITIC Bank. As of 30 September 2023, the balance amounted to RMB512,911,893.61, including the remaining unutilized proceeds of RMB390,822,529.35 for the investment projects funded by the proceeds, outstanding issuance expenses payable of RMB3,749,191.44 and interest income of RMB118,340,172.82, details of which are as follows:

Currency Unit: RMB Yuan

Opening Bank	Account Number	Initial Deposit Amount	Balance as of 30 September 2023
Beijing Tianzhu Road Branch of the Bank of China	344173021439	6,000,049,994.36	464,564,247.97
Beijing Konggang Branch of the Agricultural Bank of China	11120901040020871	4,000,000,000.00	7,462,148.48

Opening Bank	Account Number	Initial Deposit Amount	Balance as of 30 September 2023
Beijing Pilot Free Trade Zone Business Central District Branch of the China Merchants Bank	010900009410633	2,000,000,000.00	7,852,142.71
Beijing Branch Sales Department of China CITIC Bank	8110701013702462408	<u>2,999,000,000.00</u>	<u>33,033,354.45</u>
Total	-	<u>14,999,049,994.36</u>	<u>512,911,893.61</u>

III. THE USE OF THE PREVIOUS PROCEEDS

(I) Statement of the Use of the Previous Proceeds

For details of the use of the aforesaid proceeds as of 30 September 2023, please refer to the Schedule for the “Statement of the Use of the Previous Proceeds”.

(II) Explanation on Initial Investment and Replacement in respect of the Investment Projects Funded by the Previous Proceeds

The Proposal on the Replacement of Self-raised Funds with Proceeds from the Non-public Issuance (《關於使用非公開發行募集資金置換自籌資金的議案》) was considered and approved at the tenth meeting of the sixth session of the Supervisory Committee convened on 29 March 2023 and the eighteenth meeting of the sixth session of the Board of the Company convened on 30 March 2023, respectively, under which the Company was permitted to replace the self-raised funds previously invested in proceeds committed investment projects and used to settle issuance expenses with proceeds amounting to RMB2,593,320,020.31, which included the actual investment amount of RMB2,591,693,257.54 for the project of introducing 22 aircraft previously funded by self-raised funds in advance and the partial issuance expenses of RMB1,626,762.77 (VAT exclusive) paid previously.

Regarding the aforesaid, the independent directors of the Company have expressed their concurring independent opinions and the sponsor, CITIC Securities Company Limited, has issued the Verification Opinion on the Replacement of Initial Investment with Proceeds by Air China Limited (《關於中國國際航空股份有限公司使用募集資金置換先期投入的核查意見》). Deloitte Touche Tohmatsu Certified Public Accountants LLP has audited the special statement in relation to the aforesaid replacement of self-raised funds invested in advance in proceeds committed investment projects with proceeds and the issuance expenses paid by the Company, and issued the Audit Report on the Special Statement in relation to the Replacement of Self-raised Funds Invested in Advance in Proceeds Committed Investment Projects with Proceeds and the Issuance Expenses Paid by Air China Limited (De Shi Bao (He) Zi (23) No. E00008) (《關於中國國際航空股份有限公司以募集資金置換自籌資金預先投入募集資金承諾投資項目和已支付發行費用專項說明的審核報告》(德師報(核)字(23)第E00008號)).

As of 30 September 2023, the Company has completed the aforesaid replacement of self-raised funds invested in advance with proceeds.

IV. RECOGNITION OF REVENUE FROM INVESTMENT PROJECTS WITH THE PREVIOUS PROCEEDS

Upon availability, the aforesaid proceeds have been used for the project of introducing 22 aircraft and to replenish the working capital of the Company. As the revenue of the Company is generated from the overall fleet operation, the revenue from the said projects cannot be accounted for separately.

V. UNUTILIZED PROCEEDS

As of 30 September 2023, the Company had unutilized proceeds of RMB390,822,529.35, representing 2.61% of the net proceeds. Subsequently, the Company will utilize the Previous Proceeds as planned.

The Board of Air China Limited
Beijing, the PRC, 22 December 2023

APPENDIX II

**REPORT ON USE OF PROCEEDS FROM
PREVIOUS FUND-RAISING ACTIVITIES**

Schedule:

STATEMENT OF THE USE OF THE PREVIOUS PROCEEDS

Currency Unit: RMB0'000

Total proceeds:			1,499,301.66			Total cumulative utilized proceeds:			1,460,219.41	
Total proceeds with change in purposes:			Not applicable			Total proceeds used for the year:			1,460,219.41	
Proportion of total proceeds with change in purposes:			Not applicable							
Investment projects			Total investment amount of proceeds			Cumulative investment amount of proceeds as of 30 September 2023				Date on which the project is ready for its intended use (or project progress as at the closing date)
No.	Committed investment project	Actual investment project	Committed investment amount prior to the fund raising	Committed investment amount after the fund raising	Actual investment amount	Committed investment amount prior to the fund raising	Committed investment amount after the fund raising	Actual investment amount	Difference between actual investment amount and committed investment amount after the fund raising	
1	The project of introducing 22 aircraft	The project of introducing 22 aircraft	1,079,301.66	1,079,301.66	1,040,219.41	1,079,301.66	1,079,301.66	1,040,219.41	(39,082.25)	Not applicable
2	Replenishing working capital	Replenishing working capital	420,000.00	420,000.00	420,000.00	420,000.00	420,000.00	420,000.00	-	Not applicable
Total			1,499,301.66	1,499,301.66	1,460,219.41	1,499,301.66	1,499,301.66	1,460,219.41	(39,082.25)	-

Dilution of the Company's Current Return by Issuing Shares to Specific Investors, the Remedial Measures and the Undertakings Made by the Relevant Entities in Respect of Such Measures is written in Chinese, with no official English translation. The English translation is provided solely for reference only. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail. The full version of the Dilution of the Company's Current Return by Issuing Shares to Specific Investors, the Remedial Measures and the Undertakings Made by the Relevant Entities in Respect of Such Measures is as follows:

Pursuant to the relevant requirements of laws, regulations and normative documents, including the Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), the Certain Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)) and the Guidelines on Matters concerning the Dilution of Current Return of the Initial Offering, Refinancing and Major Asset Restructuring (China Securities Regulatory Commission Notice [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證券監督管理委員會公告[2015]31號)), in order to protect the interests of minority investors, the Company carefully analyzed the impact of matters in relation to the issuance of Shares to specific investors on the dilution of current return, and proposed specific return remedial measures for the dilution of current return based on the actual situation. Meanwhile, the controlling shareholder of the Company and all the Directors and senior management of the Company make undertakings for the effective implementation of the remedial measures for the dilution of current return by the issuance of Shares to specific investors. The impacts of the dilution of current return by the issuance of Shares to specific investors on key financial indicators of the Company and the remedial measures taken by the Company are currently announced as follows:

I. IMPACTS OF DILUTION OF CURRENT RETURN BY THE ISSUANCE OF SHARES TO SPECIFIC INVESTORS ON THE KEY FINANCIAL INDICATORS OF THE COMPANY

(I) Assumed conditions for the projected calculations of diluted current return

1. It is assumed that there are no significant adverse changes in the macro-economic environment, market conditions, industry policies, as well as production and operation of the Company and its subsidiaries.
2. It is assumed that the Issuance of A Shares and H Shares to Specific Investors will be completed in June 2024, which, being an assumption and estimation, will only be used to calculate the impacts of the dilution of current return by the issuance of Shares to specific investors on key financial indicators, and does not constitute a commitment to the actual completion date, which is subject to the approval of the competent regulatory authority for the issuance.

**DILUTION OF THE COMPANY'S CURRENT RETURN BY ISSUING SHARES TO
SPECIFIC INVESTORS, THE REMEDIAL MEASURES AND THE UNDERTAKINGS
MADE BY THE RELEVANT ENTITIES IN RESPECT OF SUCH MEASURES**

3. Excluding the issuance expenses, it is assumed that the size of the Issuance of A Shares to Specific Investor is RMB6.00 billion and the size of the Issuance of H Shares to Specific Investor is HK\$2.00 billion, with a total amount of approximately RMB7.82 billion based on an exchange rate of HK\$1 = RMB0.91.
4. The estimation of the total share capital of the Company is based on 16,200,792,838 shares in the total share capital as at the date of the announcement of the issuance plan, of which 789,854,000 shares are offset due to cross shareholdings with Cathay Pacific and shall be deducted from the weighted average number of the outstanding ordinary shares of the Company in calculating the earnings per share. It is assumed that 854,700,854 A Shares and 392,927,308 H Shares will be issued respectively. Except for the effect of the Issuance of A Shares and H Shares to Specific Investors, no other factors, such as bonus shares and conversion of capital reserve into share capital, are taken into account for changes in share capital. This assumption is solely used for calculating the impact of the issuance on the earnings per share of the Company, and does not represent the Company's judgement on the number of Shares to be issued, which is subject to the actual number of Shares to be issued.
5. According to the unaudited financial data, the net profit attributable to owners of the parent company for the period from January to September 2023 was RMB791.421 million, and the net profit attributable to owners of the parent company after deducting non-recurring profits and losses was -RMB873.124 million. If no significant operation risks will arise and without considering seasonal variations, it is assumed that the Company will break even for the year 2023 based on the current profit level. The above estimation does not represent the Company's profit forecast for the year 2023 and shall not be relied upon by investors in making investment decisions. The Company assumes no responsibility for any losses incurred by investors as a result of relying on such estimation in making investment decisions.

It is assumed that the net profit attributable to Shareholders of the listed Company and the net profit attributable to Shareholders of the listed Company after deducting non-recurring profits and losses in 2024 will be estimated based on three scenarios, namely 100%, 80% and 40% of that in 2019 respectively. Such assumption and analysis is solely used for estimating the impact of the dilution of current return by the issuance on the key financial indicators of the Company and does not constitute a profit forecast of the Company, and shall not be relied upon by investors in making investment decisions. The Company assumes no responsibility for any losses incurred by investors as a result of relying on such estimation in making investment decisions.

6. It is assumed that the owners' equity attributable to the listed Company as at 31 December 2024 = the owners' equity attributable to the listed Company at the beginning of 2024 + the net profit attributable to Shareholders of listed Company for the year of 2024 + the total proceeds raised from specific investors from the issuance.

**DILUTION OF THE COMPANY'S CURRENT RETURN BY ISSUING SHARES TO
SPECIFIC INVESTORS, THE REMEDIAL MEASURES AND THE UNDERTAKINGS
MADE BY THE RELEVANT ENTITIES IN RESPECT OF SUCH MEASURES**

7. No consideration is given to the impacts on the production and operation, financial conditions (such as finance costs, investment income), etc., of the Company upon the receipt of proceeds from the issuance of Shares to specific investors. This estimation takes in no consideration of the impacts of the cash dividends of the Company.

(II) Impacts on the key indicators of the Company

Under the premise of the above assumptions, the estimated impacts of the issuance of Shares to specific investors on the key financial indicators of the Company are as follows:

Items	31 December 2023/year 2023	31 December 2024/year 2024 (E)	
		Before the Issuance of A Shares and H Shares to Specific Investors	After the Issuance of A Shares and H Shares to Specific Investors
Scenario 1: Net profit before and after deducting non-recurring profits and losses in 2024 is approximately 100% of that in 2019			
Total share capital (10,000 shares) (Note 1)	1,541,093.88	1,541,093.88	1,665,856.70
Net profit attributable to Shareholders of the listed Company (RMB10,000)	-	640,857.60	640,857.60
Net profit attributable to Shareholders of the listed Company after deducting non-recurring profits and losses (RMB10,000)	-	617,387.20	617,387.20
Owners' equity attributable to the listed Company (RMB10,000)	2,360,913.40	3,001,771.00	3,783,771.00
Basic earnings per share (RMB/share)	-	0.42	0.40
Basic earnings per share (after deducting non-recurring profits and losses) (RMB/share)	-	0.40	0.39
Weighted average return on net assets (%)	-	23.90%	20.86%
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-	23.03%	20.10%

**DILUTION OF THE COMPANY'S CURRENT RETURN BY ISSUING SHARES TO
SPECIFIC INVESTORS, THE REMEDIAL MEASURES AND THE UNDERTAKINGS
MADE BY THE RELEVANT ENTITIES IN RESPECT OF SUCH MEASURES**

Items	31 December 2023/year 2023	31 December 2024/year 2024 (E)	
		Before the Issuance of A Shares and H Shares to Specific Investors	After the Issuance of A Shares and H Shares to Specific Investors
Scenario 2: Net profit before and after deducting non-recurring profits and losses in 2024 is 80% of that in 2019			
Total share capital (10,000 shares) (Note 1)	1,541,093.88	1,541,093.88	1,665,856.70
Net profit attributable to Shareholders of the listed Company (RMB10,000)	-	512,686.08	512,686.08
Net profit attributable to Shareholders of the listed Company after deducting non-recurring profits and losses (RMB10,000)	-	493,909.76	493,909.76
Owners' equity attributable to the listed Company (RMB10,000)	2,360,913.40	2,873,599.48	3,655,599.48
Basic earnings per share (RMB/share)	-	0.33	0.32
Basic earnings per share (after deducting non-recurring profits and losses) (RMB/share)	-	0.32	0.31
Weighted average return on net assets (%)	-	19.59%	17.04%
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-	18.87%	16.42%
Scenario 3: Net profit before and after deducting non-recurring profits and losses in 2024 is 40% of that in 2019			
Total share capital (10,000 shares) (Note 1)	1,541,093.88	1,541,093.88	1,665,856.70
Net profit attributable to Shareholders of the listed Company (RMB10,000)	-	256,343.04	256,343.04
Net profit attributable to Shareholders of the listed Company after deducting non-recurring profits and losses (RMB10,000)	-	246,954.88	246,954.88
Owners' equity attributable to the listed Company (RMB10,000)	2,360,913.40	2,617,256.44	3,399,256.44
Basic earnings per share (RMB/share)	-	0.17	0.16
Basic earnings per share (after deducting non-recurring profits and losses) (RMB/share)	-	0.16	0.15
Weighted average return on net assets (%)	-	10.30%	8.90%
Weighted average return on net assets (after deducting non-recurring profits and losses) (%)	-	9.92%	8.57%

Note 1: As of the date of the announcement of the preliminary proposal, the total share capital of the Company was 16,200,792,800 shares, of which 789,854,000 shares are offset due to cross shareholdings with Cathay Pacific and shall be deducted from the weighted average number of the outstanding ordinary shares of the Company in calculating the earnings per share.

Note 2: Basic earnings per share and diluted earnings per share are calculated in accordance with the "Compilation Rules for Information Disclosure of Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share".

II. SPECIAL RISK WARNING ON DILUTION OF CURRENT RETURN BY THE ISSUANCE OF SHARES TO SPECIFIC INVESTORS

After the completion of the issuance of Shares to specific investors, the total share capital and net assets of the Company will increase, which will help to enhance the Company's risk resistance capability and thus achieve its strategic goals, however, the use of proceeds and the realization of the relevant benefits will take a certain period of time. Where both the total share capital and net assets of the Company increase, there may still be a risk that the issuance may dilute the current return of the Company for the year in which the issuance is completed if a corresponding growth does not occur in the Company's profit. In addition, once there is any significant change in the assumed conditions of the above analysis or the operation of the Company, we cannot rule out the possibility that the issuance may result in changes in the dilution of current return.

The Company hereby reminds investors to invest rationally and pay attention to the risks that the issuance may dilute the current return. In the medium to long-run, with the full utilization of the raised proceeds and further development of the principal business, the Company's ability to sustain its profitability and core competence will be further enhanced, which will in turn boost the Company's indicators including earnings per share and return on net assets.

III. RELATIONSHIP BETWEEN THE PROCEEDS-FUNDED INVESTMENT PROJECTS AND THE EXISTING BUSINESSES OF THE COMPANY AND THE COMPANY'S RESERVE STATUS OF, AMONG OTHERS, PERSONNEL, TECHNOLOGIES AND MARKETS INVOLVED IN THESE PROJECTS

(I) Investment projects funded by proceeds from the Issuance of A Shares to Specific Investor

The gross proceeds from the Issuance of A Shares to Specific Investor (including issuance expenses) shall be not more than RMB6.00 billion (inclusive). The net proceeds after deducting the issuance expenses shall be used in the following projects:

**DILUTION OF THE COMPANY'S CURRENT RETURN BY ISSUING SHARES TO
SPECIFIC INVESTORS, THE REMEDIAL MEASURES AND THE UNDERTAKINGS
MADE BY THE RELEVANT ENTITIES IN RESPECT OF SUCH MEASURES**

No.	Name of projects	Total investment amount (RMB100 million)	Proposed amount of proceeds to be applied (RMB100 million)
1	Introducing 17 aircraft	75.71	42.00
2	Replenishing the working capital	18.00	18.00
	Total	93.71	60.00

(II) Relationship between the proceeds-funded investment projects and the existing businesses of the Company

The projects funded by the proceeds from the Issuance of A Shares to Specific Investor are related to the principal business of the Company. Upon completion of the proceeds-funded investment projects, the project in relation to the introduction of 17 aircraft will further enhance the fleet size, optimize the fleet age structure, enhance the air transportation capacity, increase the frequency of existing flights and lay a foundation for introducing new routes to accelerate the Company's pace in building a world-class air transport group; the project in relation to the replenishment of working capital will help to enhance the financial condition, optimize the capital structure and enhance the risk resistance capability of the Company. The investments funded by proceeds from the Issuance of A Shares to Specific Investor will focus on the principal business of the Company, and are in line with the scale of business, technology level and management capabilities of the Company.

(III) Reserve status of, among others, personnel, technologies and resources and markets of the Company involved in proceeds-funded investment projects

1. Personnel reserve

Over the years, the Company has cultivated a number of experienced and excellent management personnel and pilots, with sufficient talent reserves and reasonable talent structure to ensure the effective implementation of the proceeds-funded investment projects. As at 30 September 2023, the Company had a total of 11,018 pilots, including 4,533 captains, forming a reasonably-sized fleet of pilots with a wealth of flight experience. In addition, based on the future fleet development plan, the Company has developed a corresponding human resources support plan, and is capable of meeting the operational needs of newly introduced aircraft every year.

2. Technologies and resources reserve

As the only national flag carrier in China, the Company bears the historical responsibility of building a national airline company and implementing the "strategy of building China into a strong civil aviation powerhouse". Currently, the Company has extensive international routes and a balanced domestic and international network, and the fleet structure

is continuously optimized. As of 30 September 2023, the Company had a total of 899 passenger aircraft (including business jets), being among the leading fleets in the world in terms of size. Through years of operation, the Company's core resources are better aligned with the market characteristics, helping the Company establish long-term development advantages of the fleet, and optimize the efficiency of flight and human resource allocation. With Beijing as the hub and based on the Yangtze River Delta, the Pearl River Delta and the Chengdu-Chongqing Economic Zone, the Company's route network connects domestic key routes and regional routes, provides comprehensive support for international routes, forms an extensive and balanced domestic and international route network covering the most economically-developed and densely-populated regions in China, and has an absolutely leading edge in respect of mainstream international routes including Europe and the United States.

3. *Markets reserve*

In line with the Company's hub network strategy, the Company targets the mainstream market of mid-to-high-end government and business passengers, and currently has the most valuable passenger group in China. As at the end of September 2023, the number of "Phoenix Miles" members has exceeded 80 million. The customers of the Company have strong stickiness.

The Company's principal base is located at Beijing Capital International Airport, which ranks among the top in the world in terms of annual passenger throughput. It is located at the intersection of Europe, America and Asia and is also a place with large government and business passenger bases. The advantages of Beijing in terms of both geographical location and customer structure are favourable to the Company for maintaining a higher level of revenue. Upon the commencement of operation of Daxing International Airport in 2019, the operation model of "One Airport, Two Terminals" was officially launched by the Company in January 2021. As the principal base airline that currently operates in both airports and generates the largest business volume, the Company embraces the historic opportunities arising from the establishment of the Beijing Hub.

IV. SPECIFIC REMEDIAL MEASURES FOR DILUTION OF CURRENT RETURN BY THE ISSUANCE OF SHARES TO SPECIFIC INVESTORS

In order to protect the interests of general investors and reduce the impact of the possible dilution of current return by the issuance of Shares to specific investors, the Company intends to adopt various measures to prevent the risk of dilution of current return and achieve sustainable business development of the Company, so as to maximize future earnings. The specific measures the Company intends to take are as follows:

(I) Enhance operation management and internal control to improve operation efficiency and profitability

By focusing on its development objective of “accelerating the development of a world-class aviation transportation group with global competitiveness”, the Company will adhere to the four strategic directions of “hub network, balanced development of cargo and passenger services, leadership in costs and brand strategy”, and focus on such key areas including safety management enhancement, market layout optimization, resource structure adjustment, product service upgrade, digital innovation development, green and low-carbon development, and promote work implementation. At the same time, the Company will strengthen its daily operation management and internal control, promote the optimization of domestic and international capacity investment structure, stabilize the market share of its main bases, refine marketing control, enhance the precision of major cost control, make every effort to reduce costs and expenses, and enhance operating performance.

(II) Enhance the management and usage of the proceeds to prevent the risks in connection with the use of proceeds

Upon the completion of the issuance of Shares to specific investors, pursuant to the Regulatory Guidance for Listed Companies No.2-Regulatory Requirements for the Administration and Use of Proceeds of the Listed Companies (《上市公司監管指引第2號——上市公司募集資金管理和使用的監管要求》), the Use of Proceeds and Management System (《募集資金使用與管理制度》) and resolutions of the Board of the Company, the Company will set up a special account of proceeds for the proceeds from the issuance of Shares to specific investors. The Company, the account-opening bank and the sponsor will enter into a tripartite supervision agreement for proceeds, pursuant to which, the sponsor, the account-opening bank and the Company shall jointly manage the proceeds, and regularly examine the circumstances related to the deposit and use of proceeds to ensure the reasonable and compliant use of proceeds.

(III) Continuously improve corporate governance to provide an institutional safeguard for the development of the Company

The Company will strictly comply with the requirements of the Company Law, the Securities Law, the Stock Listing Rules and other relevant laws, regulations and normative documents, continuously improve the corporate governance structure, and ensure that Shareholders can fully exercise their rights, that the Board can exercise its functions and powers in accordance with the provisions of laws, regulations and articles of association, make scientific, prompt and prudent decisions, and ensure that independent Directors can earnestly perform their duties. The Company will safeguard its overall interests, especially the legitimate rights and interests of minority Shareholders, and ensure that the board of supervisors can independently and effectively exercise the right to supervise and inspect the Directors, managers and other senior managers and the Company's finance, so as to provide an institutional safeguard for the development of the Company.

The Company notes to the investors that the formulation of the return remedial measures does not constitute a guarantee of the Company's future profits. The Company will continue to disclose the completion status of the current return remedial measures and the performance of the undertakings by the relevant undertaking entities in the subsequent regular reports.

Given the above, upon completion of the issuance of Shares to specific investors, the Company will strengthen the internal management, consolidate its main business, rationally regulate the use of the raised proceeds, improve the fund utilization efficiency, take various measures to continuously improve operating performance, and actively promote the profit distribution to shareholders upon the satisfaction of the conditions for profit distribution, so as to improve the Company's ability to provide returns to its investors, and effectively reduce the risks faced by the Shareholders in connection with the dilution of current return.

V. UNDERTAKINGS TO ENSURE THE EFFECTIVE IMPLEMENTATION OF CURRENT RETURN REMEDIAL MEASURES FOR THE ISSUANCE OF SHARES TO SPECIFIC INVESTORS BY THE COMPANY

(I) Undertakings made by the Directors and the senior management of the Company

To secure the effective implementation of the remedial measures for the dilution of current return upon completion of the issuance of the Company, the Directors and the senior management of the Company make the following undertakings:

- “1. I hereby undertake to discharge my duties faithfully and diligently, and protect the legitimate interests of the Company and all Shareholders;
2. I hereby undertake not to transfer any benefits to other entities or individuals unconditionally or unfairly nor otherwise take any actions that damage the interests of the Company;
3. I hereby undertake that my own expenditures during my performance of duties shall be restrained;
4. I hereby undertake not to use any assets of the Company for any investment or expenditure which is unrelated to the performance of my duties;
5. I hereby undertake to, within the scope of my duties and authority, promote the remuneration policy formulated by the Board or the remuneration committee to be in conjunction with the implementation of the return remedial measures of the Company;
6. I hereby undertake to, within the scope of my duties and authority, promote the conditions of the proposed share incentive plan of the Company to be in conjunction with the implementation of the return remedial measures of the Company if the Company intends to implement any share incentive plan in the future;

7. I hereby undertake to make any supplemental undertakings in accordance with the latest requirements of the CSRC if the above undertakings are not able to meet other new regulatory requirements of the CSRC issued in respect of the return remedial measures and related undertakings after the date of making these undertakings and before the completion of the issuance of Shares to specific investors by the Company;
8. I hereby undertake to earnestly implement the relevant return remedial measures formulated by the Company and to perform my undertakings made in respect of such. If I violate the above undertakings and cause losses to the Company or investors, I willingly undertake to assume the corresponding legal liabilities.”

(II) Undertakings made by the controlling shareholder of the Company

To secure the effective implementation of the remedial measures for the dilution of current return upon completion of the issuance of the Company, CNAHC, being the controlling shareholder of the Company, makes the following undertakings pursuant to relevant requirements of the CSRC:

- “1. The Company will strictly comply with laws and regulations and relevant regulatory rules of the CSRC and the Shanghai Stock Exchange, will not exceed its authority to intervene in the operation and management activities of the listed Company and will not infringe the interests of the listed Company;
2. The Company undertakes to make supplemental undertakings in due time and in accordance with the latest requirements of the CSRC if the above undertakings are not able to fulfill other new regulatory requirements of the CSRC issued in respect of the return remedial measures and related undertakings after the date of making these undertakings and before the completion of the issuance of Shares to specific investors;
3. The Company undertakes to earnestly implement the relevant return remedial measures formulated by the listed Company and to perform any undertakings made by the Company in respect of the relevant return remedial measures. If the Company violates such undertakings and cause losses to the listed Company or investors, the Company willingly undertakes to indemnify the Company or investors in respect of any losses incurred in accordance with the laws;
4. As one of the relevant responsible entities of the return remedial measures, if the Company violates the above undertakings or refuses to perform such undertakings, the Company consents to the enforcement of relevant punishment or adoption of relevant regulatory measures upon the Company by securities regulatory authorities such as the CSRC and the Shanghai Stock Exchange pursuant to relevant requirements and rules formulated or issued by such authorities.”

**VI. PROCEDURES OF CONSIDERATION FOR THE REMEDIAL MEASURES FOR DILUTION
OF CURRENT RETURN BY THE ISSUANCE OF SHARES TO SPECIFIC INVESTORS AND
THE UNDERTAKINGS THEREFOR**

The analysis of the dilution of current return by the issuance of Shares to specific investors by the Company, the current return remedial measures and the undertakings by the relevant undertaking entities, among other matters, have been considered and approved at the 25th meeting of the 6th session of the Board of the Company, and are subject to consideration and deliberation at the general meeting.

The Company will continue to disclose the implementation circumstances of the undertakings by the relevant undertaking entities in the periodic reports.

Board of Air China Limited
Beijing, the PRC, 22 December 2023

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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 complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

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 Hong Kong 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 notifiable to the Company and the Hong Kong 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 has any direct or indirect interest in any assets which have been, since 31 December 2022 (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 was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H Shares (representing approximately 16.26% of the total issued shares of the Company) as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Ma Chongxian, an executive Director of the Company, and Mr. Patrick Healy, a non-executive Director of the Company, are concurrently directors of Cathay Pacific. Cathay Pacific competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates airline services to certain destinations which are also served by the Company.

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

3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

4. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

The followings are the particulars of Directors' and Supervisors' employment with substantial Shareholders (which have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO) as at the Latest Practicable Date:

Mr. Ma Chongxian, the chairman of the Company and an executive Director, serves as the chairman of the board of directors and the Secretary of the Communist Party Group of CNAHC, and a non-executive Director of Cathay Pacific.

Mr. Wang Mingyuan, an executive Director, the vice chairman and the president of the Company, serves as a director, the general manager and the Deputy Secretary of the Communist Party Group of CNAHC.

Mr. Feng Gang, a non-executive Director and the Deputy Secretary of the Communist Party Committee of the Company, serves as a director and the Deputy Secretary of the Communist Party Group of CNAHC.

Mr. Patrick Healy, a non-executive Director of the Company, is the chairman of the board of directors and an executive director of Cathay Pacific, a director of Swire Pacific Limited and a director and chairman of the charity committee of John Swire & Sons (H.K.) Limited.

Mr. Xiao Peng, an employee representative Director of the Company, serves as the chairman of the trade union of CNAHC.

Mr. Xiao Jian, a Supervisor of the Company, serves as the president of CNAHC.

Ms. Lyu Yanfang, a Supervisor of the Company, serves as the general manager of the legal department of CNAHC.

Ms. Guo Lina, a Supervisor of the Company, serves as the general manager of the audit department of CNAHC.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there has been no material adverse change in the Group's financial or trading position since 31 December 2022, being the date to which the latest published audited financial statements of the Group have been made up.

6. EXPERT

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

Name	Qualification
BaoQiao Partners Capital Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

- (a) As at the Latest Practicable Date, BaoQiao Partners Capital Limited 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 2022 (the date to which the latest published audited financial statements of the Group were made up);
- (b) As at the Latest Practicable Date, BaoQiao Partners Capital Limited 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) BaoQiao Partners Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the 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 joint company secretaries of the Company are Mr. Huang Bin and Mr. Huen Ho Yin. Mr. Huen Ho Yin is a practicing solicitor of the High Court of Hong Kong.
- (b) The registered address of the Company is at 1st Floor – 9th Floor 101, Building 1, 30 Tianzhu Road, 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 ON DISPLAY

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.airchina.com.cn) for a period of 14 days from the date of this Circular:

- (a) A Share Subscription Agreement; and
- (b) H Share Subscription Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國國際航空股份有限公司 AIR CHINA LIMITED

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

(Stock Code: 00753)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Air China Limited (the “Company”) will be held at 11:30 a.m. on Friday, 26 January 2024 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC to consider and, if thought fit, to pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 9 January 2024.

1. To consider and approve the resolution in relation to the satisfaction of the Company of the requirements for the Issuance of A Shares to Specific Investor
2. To consider and approve the resolution in relation to the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023
 - 2.1 class and par value of Shares to be issued
 - 2.2 method and time of issuance
 - 2.3 target subscribers and method of subscription
 - 2.4 issue price and pricing method
 - 2.5 number of Shares to be issued
 - 2.6 lock-up arrangement
 - 2.7 listing venue
 - 2.8 arrangement relating to the accumulated undistributed profits prior to this issuance
 - 2.9 amount and use of proceeds
 - 2.10 validity period of the resolution of this issuance

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. To consider and approve the resolution in relation to the preliminary proposal of the Issuance of A Shares to Specific Investor by the Company in 2023
4. To consider and approve the resolution in relation to the discussion and analysis report on the proposal of the Issuance of A Shares to Specific Investor by the Company in 2023
5. To consider and approve the resolution in relation to the feasibility analysis report on the use of proceeds from the Issuance of A Shares to Specific Investor by the Company in 2023
6. To consider and approve the resolution in relation to the dilution of the Company's current return by issuing Shares to specific investors in 2023, the remedial measures and the undertakings made by the relevant entities in respect of such measures
7. To consider and approve the resolution in relation to the report on use of proceeds from previous fund-raising activities of the Company
8. To consider and approve the resolution in relation to the related (connected) transaction concerning the entering into of the conditional A Share Subscription Agreement with specific subscriber by the Company
9. To consider and approve the resolution in relation to the proposal of the Issuance of H Shares to Specific Investor by the Company in 2023
 - 9.1 class and par value of Shares to be issued
 - 9.2 method and time of issuance
 - 9.3 target subscribers and method of subscription
 - 9.4 issue price and pricing method
 - 9.5 number of Shares to be issued
 - 9.6 lock-up arrangement
 - 9.7 amount and use of proceeds
10. To consider and approve the resolution in relation to the related (connected) transaction concerning the entering into of the conditional H Share Subscription Agreement with specific subscriber by the Company

NOTICE OF EXTRAORDINARY GENERAL MEETING

11. To consider and approve the resolution in relation to the authorization by the general meeting to the Board and its authorized person(s) to proceed with relevant matters in respect of the issuance of Shares to specific investors by the Company in their sole discretion

The above resolutions No. 1, No. 6 and No. 7 are ordinary resolutions; the remaining resolutions are special resolutions.

By Order of the Board
Air China Limited
Huang Bin Huen Ho Yin
Joint Company Secretaries

Beijing, the PRC, 9 January 2024

As at the date of this notice, the directors of the Company are Mr. Ma Chongxian, Mr. Wang Mingyuan, Mr. Feng Gang, Mr. Patrick Healy, Mr. Xiao Peng, Mr. Li Fushen, Mr. He Yun*, Mr. Xu Junxin* and Ms. Winnie Tam Wan-chi*.*

* *Independent non-executive director of the Company*

Notes:

1. Closure of register of members

Holders of H Shares of the Company are advised that the register of members of the Company will close from Wednesday, 24 January 2024 to Friday, 26 January 2024 (both days inclusive), during which time no transfer of any H Shares will be effected. In order to qualify for attendance and voting at the EGM, holders of H Shares must lodge all documents of transfer with the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:30 p.m. on Tuesday, 23 January 2024.

H Shareholders whose names appear on the register of H Shareholders of the Company at the close of business on Tuesday, 23 January 2024 are entitled to attend and vote at the EGM.

2. Proxy

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

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointor or his attorney duly authorised in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares not less than 24 hours before the time specified for the holding of the EGM (or any adjournment thereof). If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar.

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. Other businesses

(i) The EGM is expected to last for no more than half a working day. Shareholders and their proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.

(ii) The address of Computershare Hong Kong Investor Services Limited is:

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