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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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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)**

**(1) CONTINUING CONNECTED TRANSACTION:  
ENTERING INTO NEW TRADEMARK LICENSE FRAMEWORK  
AGREEMENT;**

**(2) DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED  
TRANSACTIONS:  
PROPOSED REVISION OF ANNUAL CAP AND ENTERING INTO FINANCIAL  
SERVICES AGREEMENTS;**

**(3) GENERAL MANDATE TO ISSUE DEBT FINANCING INSTRUMENTS  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

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



**BAOQIAO PARTNERS CAPITAL LIMITED**

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A letter from the Board is set out on pages 6 to 45 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 46 to 47 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company, is set out on pages 48 to 69 of this circular.

A notice convening the AGM to be held at 11:00 a.m. on Thursday, 25 May 2023 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC, is set out on pages 86 to 88 of this circular. Whether or not you are able to attend the AGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	6
I.    Introduction .....	7
II.   Entering into the New Trademark License Framework Agreement .....	7
III.  Non-exempt Continuing Connected Transactions .....	11
IV.  Details of Other Resolutions .....	40
V.   AGM .....	44
VI.  Recommendation .....	45
VII. Additional Information .....	45
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	46
<b>LETTER FROM BAOQIAO PARTNERS</b> .....	48
<b>APPENDIX I – GENERAL INFORMATION</b> .....	70
<b>APPENDIX II – 2022 WORK REPORT OF THE BOARD OF DIRECTORS</b> .....	74
<b>APPENDIX III – 2022 WORK REPORT OF THE SUPERVISORY COMMITTEE</b> .....	82
<b>NOTICE OF ANNUAL GENERAL MEETING</b> .....	86

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## DEFINITIONS

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

“AGM”	the annual general meeting of the Company for the year ended 31 December 2022 to be held on Thursday, 25 May 2023
“Air China Cargo”	Air China Cargo Co., Ltd., a company incorporated under the laws of the PRC with limited liability and was owned as to approximately 45% by CNAHC as at the Latest Practicable Date, being a subsidiary of CNAHC. Air China Cargo is principally engaged in air cargo and mail transportation business.
“ACC Financial Services Agreement”	the financial services framework agreement entered into between Air China Cargo and CNAF on 30 March 2023, with a term commencing from 1 January 2024 and ending on 31 December 2026
“ACC Group”	Air China Cargo and its wholly-owned and controlling subsidiaries
“ACC New Annual Caps”	RMB0 billion, RMB2 billion and RMB2.5 billion, being the proposed maximum daily balance of loans (including accrued interests) to be provided by CNAF to the ACC Group under the ACC Financial Services Agreement for the three years ending 31 December 2024, 2025 and 2026, respectively
“Air China Financial Services Agreement”	the financial services framework agreement entered into between the Company and CNAF on 30 March 2023, with a term commencing from 1 January 2024 and ending on 31 December 2026
“Air China New Annual Caps”	RMB22 billion, RMB23 billion and RMB23 billion, being the proposed maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Air China Financial Services Agreement for the three years ending 31 December 2024, 2025 and 2026, respectively
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited
“CBIRC”	China Banking and Insurance Regulatory Commission

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## DEFINITIONS

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“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC, directly holding approximately 9.61% of the issued share capital of the Company as at the Latest Practicable Date
“CNAF”	China National Aviation Finance Co., Ltd., a company incorporated under the laws of the PRC with limited liability and was held as to approximately 51% and 49% by the Company and CNAHC as at the Latest Practicable Date, being a connected subsidiary of the Company and thus a connected person of the Company under the Hong Kong Listing Rules. CNAF is primarily engaged in providing financial services to member companies of CNAHC Group
“CNAHC”	China National Aviation Holding Corporation Limited, a PRC state-owned enterprise and the controlling shareholder of the Company, directly and through its wholly-owned subsidiary CNACG, holding approximately 50.14% of the issued share capital of the Company in aggregate as at the Latest Practicable Date. 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. SASAC is a controlling shareholder and de facto controller of CNAHC
“CNAHC Financial Services Agreement”	the financial services framework agreement entered into between CNAHC and CNAF on 30 March 2023, with a term commencing from 1 January 2024 and ending on 31 December 2026
“CNAHC Group”	CNAHC and the corporations or other entities in which CNAHC holds 30% or more equity interests or voting powers or the majority of the directors of which is controlled, directly or indirectly, by CNAHC, as well as any other CNAHC Group member company which, in accordance with the listing rules of the places where the shares of the Company are listed as in force and as amended from time to time, is a connected person or related party of the Company (excluding the Group, Air China Cargo and the corporations or other entities in which Air China Cargo holds 30% or more equity interests or voting powers or the majority of the directors of which are controlled, directly or indirectly, by Air China Cargo)
“CNAHC New Annual Caps”	RMB5.5 billion, RMB5.5 billion and RMB5.5 billion, being the proposed maximum daily balance of loans (including accrued interests) to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for the three years ending 31 December 2024, 2025 and 2026, respectively

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## DEFINITIONS

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“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange. The Company is principally engaged in providing air passenger, air cargo and related services
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Existing Air China Financial Services Agreement”	the financial services framework agreement renewed by the Company and CNAF on 28 August 2020, for a term commencing from 1 January 2021 and ending on 31 December 2023
“Existing ACC Financial Services Agreement”	the financial services framework agreement entered into between Air China Cargo and CNAF on 25 November 2022, with a term ending on 31 December 2023
“Existing CNAHC Financial Services Agreement”	the financial services framework agreement renewed by CNAHC and CNAF on 28 August 2020, for a term commencing from 1 January 2021 and ending on 31 December 2023
“Existing Financial Services Agreements”	the Existing Air China Financial Services Agreement, the Existing CNAHC Financial Services Agreement and the Existing ACC Financial Services Agreement
“Existing Trademark License Framework Agreement”	the trademark license framework agreement entered into between the Company and CNAHC on 28 August 2020, with a term commencing from 1 January 2021 and ending on 31 December 2023
“Financial Services Agreements”	the Air China Financial Services Agreement, the CNAHC Financial Services Agreement and the ACC Financial Services Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Independent Board Committee”	a board committee comprising Mr. Li Fushen, Mr. He Yun, Mr. Xu Junxin and Ms. Winnie Tam Wan-chi, all being the independent non-executive Directors, to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions

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## DEFINITIONS

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“Independent Financial Adviser” or “BaoQiao Partners”	BaoQiao Partners Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the Non-exempt Continuing Connected Transactions, and also being the independent financial adviser to advise on the term of the New Trademark License Framework Agreement
“Independent Shareholders”	the Shareholders who do not have material interests in the Non-exempt Continuing Connected Transactions and the transaction under the New Trademark License Framework Agreement
“Latest Practicable Date”	26 April 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“NAFMII”	National Association of Financial Market Institutional Investors
“New Trademark License Framework Agreement”	the trademark license framework agreement dated 30 March 2023 entered into between the Company and CNAHC, with a term commencing from 1 January 2024 and ending on 31 December 2033
“Non-exempt Continuing Connected Transactions”	the Proposed Revision of Annual Cap, the deposit services provided by CNAF to the Group under the Air China Financial Services Agreement within the Air China New Annual Caps, the loan services provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement within the CNAHC New Annual Caps and the loan services provided by CNAF to the ACC Group under the ACC Financial Services Agreement within the ACC New Annual Caps
“PBOC”	People’s Bank of China
“Percentage Ratio”	has the meaning ascribed to it under the Hong Kong Listing Rules
“PRC”	the People’s Republic of China (other than, for the purpose of this circular only, Hong Kong, Macau and Taiwan)
“Proposed Annual Caps”	Revised Annual Cap, Air China New Annual Caps, CNAHC New Annual Caps and ACC New Annual Caps
“Proposed Revision of Annual Cap”	Revision of the maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Existing Air China Financial Services Agreement for the year ending 31 December 2023, from RMB15 billion to RMB20 billion

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## DEFINITIONS

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“Revised Annual Cap”	RMB20 billion, being the proposed revised maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Existing Air China Financial Services Agreement for the year ending 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	The State-owned Assets Supervision and Administration Commission of the State Council
“Shandong Aviation Group Corporation”	Shandong Aviation Group Company Limited and its wholly-owned and controlled subsidiaries
“Shandong Aviation Group Company”	Shandong Aviation Group Company Limited
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of the shares of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supplemental Agreement”	the agreement for the matters in relation to the related (connected) transactions involving Air China Cargo entered into among the Company, CNAHC, Air China Cargo and CNAF on 20 September 2022, pursuant to which, among other things, Air China Cargo will, as an independent entity, enter into financial services agreement(s) with CNAF separately, and such transactions will no longer be regulated by the financial services agreement entered into between CNAF and CNAHC; the sum of the actual amount incurred from such transactions and the actual transaction amount incurred under the Existing CNAHC Financial Services Agreement shall not exceed the annual caps for the transaction amount of the Existing CNAHC Group Framework Agreement as approved at the Company’s general meeting
“Trademark License Agreement”	the trademark license agreement entered into between the Company and CNAHC on 1 November 2004, with a term ended on 31 December 2014

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LETTER FROM THE BOARD

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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)

Directors:

*Non-Executive Directors:*

Mr. Feng Gang

Mr. Patrick Healy

*Executive Directors:*

Mr. Ma Chongxian (*Chairman*)

Mr. Wang Mingyuan

*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 Address:*

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

3 May 2023

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION:  
ENTERING INTO NEW TRADEMARK LICENSE FRAMEWORK  
AGREEMENT;**  
**(2) DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED  
TRANSACTIONS:  
PROPOSED REVISION OF ANNUAL CAP AND ENTERING INTO FINANCIAL  
SERVICES AGREEMENTS;**  
**(3) GENERAL MANDATES TO ISSUE DEBT FINANCING INSTRUMENTS  
AND  
NOTICE OF ANNUAL GENERAL MEETING**



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## LETTER FROM THE BOARD

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### I. INTRODUCTION

The AGM of the Company will be held at 11:00 a.m. on Thursday, 25 May 2023.

The resolutions to be proposed at the AGM for the Shareholders' approval include: (1) the resolution on the 2022 work report of the Board; (2) the resolution on the 2022 work report of the supervisory committee; (3) the resolution on the financial reports for the year 2022; (4) the resolution on the profit distribution proposal for the year 2022; (5) the resolution on the unrecovered losses of the Company exceeding one-third of the total amount of its paid-up share capital; (6) the resolution on the re-appointment of international auditor, domestic auditor and internal control auditor for the year 2023; (7) the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between the Company and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026; (8) the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between CNAHC and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026; (9) the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between Air China Cargo and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026; (10) the resolution on the entering into of the Continuing Related Transactions Framework Agreement on Trademark License between the Company and CNAHC; (11) resolution on the grant of mandate to the Board of the Company to issue debt financing instruments.

The above resolution no. 11 is a special resolution and the rest resolutions are ordinary resolutions.

The purpose of this circular is to provide you with all the information reasonably necessary to enable you to make an informed decision on voting in respect of the relevant resolutions at the AGM. For details of the above resolutions no. 1 to 6 and resolution no.11, please refer to the section headed "V. DETAILS OF OTHER RESOLUTIONS" in this circular; for details of the above resolutions no. 7 and 9, please refer to the section headed "III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS" in this circular; for details of the above resolution no. 10, please refer to the section headed "II. ENTERING INTO THE NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT" in this circular.

### II. ENTERING INTO THE NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT

Reference is made to (i) the announcement of the Company dated 28 August 2020 in relation to the Existing Trademark License Framework Agreement between the Company and CNAHC; and (ii) the announcement of the Company dated 30 March 2023 in relation to the New Trademark License Framework Agreement entered into between the Company and CNAHC.

At the time of the incorporation of the Company, CNAHC contributed certain registered trademarks to the Company at nil consideration as the Company's intangible assets. As the trademarks are related to the daily business of CNAHC Group, the Company licensed certain trademarks to CNAHC Group at nil consideration for their use in its ordinary course of business as a reciprocal arrangement pursuant to the Trademark License Agreement since 1 November 2004. Given that it is necessary for CNAHC Group to continue using such trademarks for its future business and that CNAHC Group has duly performed its

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## LETTER FROM THE BOARD

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obligations under the Trademark License Agreement without causing any detriment to the reputation recognition of the Company's brands, the Company has renewed the above reciprocal arrangement by way of entering into new framework agreements.

As the Existing Trademark License Framework Agreement will expire on 31 December 2023, to maintain the consistency of the business operation and renew the above reciprocal arrangement, on 30 March 2023, the Company and CNAHC entered into the New Trademark License Framework Agreement upon consideration and approval by the Board, pursuant to which the Company granted CNAHC Group a non-exclusive license at nil consideration for the use of a total of 83 registered trademarks of the Company. The CNAHC Group undertook to use such licensed trademarks subject to the terms of the non-competition agreement between CNAHC and the Company dated 20 November 2004, and to ensure the quality of the services using the licensed trademarks in order to maintain their reputation.

Given the stable continuity of the reciprocal arrangement mentioned above, to save the relevant administrative costs in relation to the renewal, and taking into account of the duration of the relevant trademarks and the requirements on the term of agreement of transactions of similar nature under applicable laws and regulations, upon arm's length negotiation, the Company and CNAHC have agreed that the term of the New Trademark License Framework Agreement shall be ten years commencing from 1 January 2024 and expiring on 31 December 2033. Unless otherwise terminated by the Company and CNAHC, the New Trademark License Framework Agreement will be automatically renewed for a term of ten years upon the expiry date, and is subject to limitations and requirements of the relevant laws and regulations and the listing rules. Pursuant to Rule 14A.52 of the Hong Kong Listing Rules, as the term of the New Trademark License Framework Agreement exceeds three years, the Company has appointed BaoQiao Partners as the independent financial adviser, to explain why a term exceeding three years is required and to confirm that it is normal business practice for agreement of this type to be of such duration.

The Board considers that the transaction under the New Trademark License Framework Agreement is on normal commercial terms or better, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the Hong Kong Listing Rules, the transaction under the New Trademark License Framework Agreement constitutes a continuing connected transaction of the Company. As the transaction is on normal commercial terms or better and on nil consideration basis, it falls below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and therefore is fully exempt from Independent Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. Pursuant to the SSE Listing Rules, the transaction under the New Trademark License Framework Agreement is subject to the Independent Shareholders' approval at the AGM.

### **BaoQiao Partners' opinion on the term of the New Trademark License Framework Agreement**

As disclosed above, the Existing Trademark License Framework Agreement will expire on 31 December 2023. In order to maintain the consistency of the business operation, on 30 March 2023, the Company and CNAHC entered into the New Trademark License Framework Agreement upon consideration and approval by the Board, pursuant to which the Company granted CNAHC Group a non-exclusive license at nil consideration for the use of a total of 83 registered trademarks of the Company for a term of ten years from 1 January 2024 to 31 December 2033 (unless otherwise

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## LETTER FROM THE BOARD

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terminated by the Company and CNAHC, the New Trademark License Framework Agreement will be automatically renewed for a term of ten years upon the expiry date, and is subject to limitations and requirements of the relevant laws and regulations and the Listing Rules) (the “**License Period**” or “**Term**”).

As the Term of the New Trademark License Framework Agreement exceeds three years, the Company has appointed BaoQiao Partners as the independent financial adviser to explain why a period exceeding three years is required and to confirm that it is normal business practice for agreement of this type to be of such duration. Pursuant to Rule 14A.52 of the Hong Kong Listing Rules, BaoQiao Partners has formulated its opinion based on its research and analysis and the discussion with the management of the Company (the “**Management**”) in respect of the following:

### *Background of the Company and CNAHC*

- (i) The Company is principally engaged in providing air passenger and cargo transportation services and other aviation-related services; and
- (ii) CNAHC is a controlling shareholder of the Company and it 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.

### *Background and the terms of the New Trademark License Framework Agreement*

- (i) Based on BaoQiao Partners’ review of the Existing Trademark License Framework Agreement and the trademark license agreements dated 1 November 2004 and 28 October 2014 respectively entered into between the Company and CNAHC (the “**Trademark License Framework Agreements**”), CNAHC contributed certain registered trademarks to the Company at the time of the incorporation of the Company. As the trademarks are related to the daily business of CNAHC Group, the Company has licensed certain trademarks to CNAHC Group at nil consideration for its use in its ordinary course of business as a reciprocal arrangement since 2004;
- (ii) As abovementioned, the Company and CNAHC have been in cooperation since 2004 for the trademark licensing arrangements and CNAHC, as the controlling shareholder of the Company, 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, both the Company and CNAHC consider that the License Period of using such trademarks under the New Trademark License Framework Agreement of longer than three years is necessary to satisfy the daily operation needs of CNAHC Group;
- (iii) BaoQiao Partners notes that the terms of the New Trademark License Framework Agreement (save for the terms relating to the license period and/or updating the name of CNAHC and the parties’ correspondence addresses and/or the possible spin-off of Air

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## LETTER FROM THE BOARD

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China Cargo from CNAHC as disclosed in the announcement of Company dated 20 September 2022) are materially the same as those of the Trademark License Framework Agreements;

- (iv) As confirmed by the Management, CNAHC Group has duly performed its obligations under the Trademarks License Framework Agreements and undertook to use such trademarks subject to the terms of the non-competition agreement between CNAHC and the Company dated 20 November 2004 to ensure the quality of the services using the trademarks and maintain their reputation without causing any detriment to the awareness and reputation of the Company's brands and business;
- (v) Based on BaoQiao Partners' review of 《中華人民共和國商標法》 (Trademark Law of the People's Republic of China<sup>1</sup>) (“**PRC Trademark Law**”), the period of validity under the PRC Trademark Law of a registered trademark shall be 10 years from the day the registration is approved and the validity of each renewal of registration shall be ten years. BaoQiao Partners notes that the validity period of about 98% of the said 83 trademarks will expire in 2030 or later and as confirmed by the Management, the renewal of registered trademarks involves largely administrative procedures and the Company has no record of unsuccessful renewal of any trademark registrations in the past. In this regard, it is commercially justifiable for the Term under the New Trademark License Framework Agreement to be over three years; and
- (vi) Having considered the aforesaid matters and the reasons for the Term of 10 years as disclosed in this circular, in particular the stable continuity of the reciprocal arrangement, the duration of the relevant trademarks and the requirements on the term of agreement of transactions of similar nature under applicable laws and regulations, BaoQiao Partners concurs with the Management that it would be more cost effective for the Company to agree with CNAHC on a longer term under the New Trademark License Framework Agreement with a view to saving the relevant administrative costs and better allocating its management resources required for the renewal of the trademark licensing agreement for every other three years or less in accordance with Rule 14A.52 of the Hong Kong Listing Rules.

### *Review of comparable transactions*

BaoQiao Partners has reviewed the continuing connected transaction announcements published by companies listed on the Stock Exchange since 2020, and noted that there were 3 comparable transactions in relation to the licensing arrangement of certain intellectual property rights, including, trademarks, patents and game adaptation rights, of which the terms of the underlying licensing framework agreements exceeded three years, from a term of 3.5 years to 10 years.

Having considered the principal factors discussed above, BaoQiao Partners is of the view that the Term under the New Trademark License Framework Agreement is on normal commercial term for a transaction of this nature and it is normal business practice for agreement of this type to be of such duration.

<sup>1</sup> For identification purpose only

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## LETTER FROM THE BOARD

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### III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### (I) Proposed Revision of Annual Cap

##### 1. Introduction

Reference is made to (i) the announcement of the Company dated 28 August 2020 and the circular dated 14 September 2020 in relation to the Existing Air China Financial Services Agreement; and (ii) the announcement of the Company dated 30 March 2023 in relation to the Proposed Revision of Annual Cap.

On 30 March 2022, the Board resolved to revise the maximum daily balance of deposits (including accrued interests) of the deposit services provided by CNAF to the Group under the Existing Air China Financial Services Agreement for the year ending 31 December 2023 from RMB15 billion to RMB20 billion.

As one or more of the applicable Percentage Ratios in respect of the Revised Annual Cap are more than 5% but less than 25%, the Proposed Revision of Annual Cap is subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

##### 2. Principal terms of the Existing Air China Financial Services Agreement

The principal terms of the deposit services under the Existing Air Chain Financial Services Agreement are set out as follows:

<b>Parties:</b>	the Company and CNAF
<b>Date:</b>	28 August 2020
<b>Financial services to be provided by CNAF to the Group:</b>	Pursuant to the Existing Air China Financial Services Agreement, CNAF has agreed to provide the Group with a range of financial services including the deposit services.

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## LETTER FROM THE BOARD

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**Pricing basis:**

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

**Risk control:**

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

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## LETTER FROM THE BOARD

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**Effective date and term:**

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

### 3. *Proposed Revision of Annual Cap*

Set forth below is a summary of the historical annual caps and the actual maximum amount for the daily balance of deposits (including accrued interests) placed by the Group with CNAF and the Revised Annual Cap:

Transaction	Historical annual caps			Actual maximum amount			Revised Annual Cap
	For the year ended	For the year ended	For the year ending	For the year ended	For the year ended	For the period from	For the year ending
	31 December 2021	31 December 2022	31 December 2023	31 December 2021	31 December 2022	1 January 2023 to 30 March 2023	31 December 2023
Daily balance of deposits (including accrued interests)	RMB15 billion	RMB15 billion	RMB15 billion	RMB10.798 billion	RMB13.588 billion	RMB8.682 billion	RMB20 billion

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## LETTER FROM THE BOARD

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The above Revised Annual Cap is determined based on the following factors:

- a. The historical maximum amount of daily balance of deposits placed by the Group with CNAF by 30 March 2023 was RMB8.682 billion;
- b. Based on the historical maximum amount of the Group's daily deposit balance placed with CNAF and the projected future amount of the Group's cash and bank balance without taking into account the factors set out in paragraph c below, it is estimated that the amount of the Group's daily deposit balance placed with CNAF for the year ending 31 December 2023 will reach RMB15.2 billion; and
- c. The acquisition of Shandong Aviation Group Company by the Company expands the scale of members of the Group, and combined with the cash and bank balance of the Shandong Aviation Group Corporation, the daily balance of deposits to be placed by the Group with CNAF during 2023 is expected to increase by RMB4.4 billion.

#### ***4. Reasons and benefits for the transaction***

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

- a. in respect of transactions between the Group and CNAF, CNAF is able to provide more efficient settlement services compared with independent third party banks;
- b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2004 and up to the Latest Practicable Date, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has had a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;
- c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and
- d. a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient.



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## LETTER FROM THE BOARD

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

### **(II) Entering into The Financial Services Agreements**

#### ***1. Introduction***

Reference is made to (i) the announcement of the Company dated 28 August 2020 and the circular dated 14 September 2020 in relation to the Existing Air China Financial Services Agreement and the Existing CNAHC Financial Services Agreement; (ii) the circular of the Company dated 28 September 2022 in relation to, among other things, the Supplemental Agreement. After the entering into of the Supplemental Agreement, Air China Cargo and CNAF entered into the Existing ACC Financial Services Agreement separately on 25 November 2022 for a term ending on 31 December 2023; and (iii) the announcement of the Company dated 30 March 2023 in relation to the Air China Financial Services Agreement, the CNAHC Financial Services Agreement and the ACC Financial Services Agreement.

As the Existing Financial Services Agreements will expire on 31 December 2023, on 30 March 2023, upon consideration and approval by the Board, (1) the Company and CNAF entered into the Air China Financial Services Agreement; (2) CNAF and CNAHC entered into the CNAHC Financial Services Agreement; and (3) CNAF and Air China Cargo entered into the ACC Financial Services Agreement, pursuant to which, CNAF will continue to provide financial services to the Group, the CNAHC Group and the ACC Group for a term of three years commencing from 1 January 2024 and ending on 31 December 2026.

Meanwhile, the Board determined the annual caps of the relevant transactions under the Financial Services Agreements for three years ending 31 December 2026, including the Air China New Annual Caps, the CNAHC New Annual Caps and the ACC New Annual Caps. As one or more of the applicable Percentage Ratios in respect of each of the above new annual caps are more than 5% but less than 25%, such transactions are therefore subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

In addition, according to the relevant laws and regulations in the banking industry and the SSE Listing Rules, the CNAHC Financial Services Agreement and the ACC Financial Services Agreement put businesses (apart from loan businesses, including bill discounting, non-financing letters of guarantee, bill acceptances and other credit extension services) provided by CNAF to CNAHC Group and ACC Group and where credit risks are essentially borne by CNAF under unified management, and the Board has determined the credit lines of such comprehensive credit line business. As the comprehensive credit lines will be taken up in the form of balance for comprehensive credit line services, and the credit lines may be taken

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## LETTER FROM THE BOARD

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up among different types of products, such credit lines can be used on a revolving basis. The above comprehensive credit lines are also subject to approval by the Independent Shareholders under the SSE Listing Rules.

2. *The Air China Financial Services Agreement and the Annual Caps of the Relevant Transactions thereunder*

(1) *Principal terms of the Air China Financial Services Agreement*

**Parties:** The Company and CNAF

**Date:** 30 March 2023

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

- a. deposit services;
- b. credit services, including loan, bill discounting and other credit services;
- c. other financial services, including but not limited to:
  - (i) non-financing letters of guarantee services;
  - (ii) bill acceptance services;
  - (iii) settlement and payment services;
  - (iv) trust loan services;
  - (v) bond underwriting services;
  - (vi) financial advisory services;
  - (vii) spot exchange settlement and sale services;
  - (viii) cross-border bilateral RMB capital pooling services; and

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## LETTER FROM THE BOARD

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- (ix) credit appraisal and consulting agency services.

Agency fees, handling fees, consultancy fees or other service fees will be charged by CNAF to the Group for the above “other financial services”.

**Pricing basis:**

*Deposit services*

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

*Credit services*

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

*Other financial services*

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

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## LETTER FROM THE BOARD

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

**Risk control:**

Pursuant to the Air China Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities. Various risk monitoring indicators of CNAF shall be in line with the Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) and the relevant requirements of CBIRC. CNAF is not allowed, during the term of the Air China Financial Services Agreement, to make use of the deposits of the Group for investments involving high risks, including but not limited to investments in fixed-income marketable securities and other products, and is required to satisfy the relevant requirements of the Administrative Measures for Finance Companies of Enterprise Groups. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangements for such inspection after receiving notice from the Company.

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## LETTER FROM THE BOARD

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**Effective date and term:** The Air China Financial Services Agreement is subject to the approval by the Independent Shareholders at a general meeting. If approved by the Independent Shareholders, the term of the Air China Financial Services Agreement shall be three years commencing from 1 January 2024 and ending on 31 December 2026, which is automatically renewable for successive terms of three years after the expiry of the term subject to the fulfillment of the requirements under Hong Kong Listing Rules and the required approval procedures thereunder. Upon expiry of the Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of the Air China Financial Services Agreement, the agreement can be terminated on its expiry on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

(2) *Reasons and benefits for the transaction*

The Directors believe that it is in the best interest of the Group to enter into the transactions under the Air China Financial Services Agreement having taken into account the following factors:

- a. in respect of transactions between the Group and CNAF, CNAF is able to provide more efficient settlement services compared with independent third party banks;
- b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2004 and up to the Latest Practicable Date, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has had a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;
- c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and

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## LETTER FROM THE BOARD

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

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

(3) *Annual Caps of Deposit Services*

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

Transaction	Historical annual caps			Actual maximum amount			Air China New Annual Caps		
							For the		
							period from		
	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ending 31 December 2023	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023	1 January 2023 to 30 March 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
Daily balance of deposits (including accrued interests)	RMB15 billion	RMB15 billion	RMB15 billion	RMB10.798 billion	RMB13.588 billion	RMB8.682 billion	RMB22 billion	RMB23 billion	RMB23 billion

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

- a. Based on the historical maximum amount of daily balance of deposits placed by the Group with CNAF, and the expected cash and bank balance of the Group in the future without taking into account of the factors set out in the paragraphs b and c below, it is expected that the daily balance of deposits to be placed by the Group with CNAF during each of the three years ending 31 December 2026 will amount to RMB17 billion, RMB17.4 billion and RMB17 billion, respectively;
- b. Taking into account the Company's capital needs and current market condition, the Company may raise funds by way of direct financing in the next three years, which may lead to a temporary increase in the balance of deposits placed by the Group with CNAF, and the daily balance of deposits to be placed by the Group with CNAF during each of the three years ending 31 December 2026 is expected to increase by RMB0.5 billion, RMB0.9 billion and RMB1.3 billion, respectively; and

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## LETTER FROM THE BOARD

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- c. The acquisition of Shandong Aviation Group Company by the Company expands the scale of members of the Group, and combined with the cash and bank balance of the Shandong Aviation Group Corporation, the daily balance of deposits to be placed by the Group with CNAF during each of the three years ending 31 December 2026 is expected to correspondingly increase by RMB4.4 billion, RMB4.7 billion and RMB4.7 billion, respectively.

3. *The CNAHC Financial Services Agreement and the Annual Caps of the Relevant Transactions thereunder*

(1) *Principal terms of the CNAHC Financial Services Agreement*

**Parties:** CNAF and CNAHC

**Date:** 30 March 2023

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

- a. deposit services;
- b. comprehensive credit line services, including loan, bill discounting and non-financing letters of guarantee, bill acceptances and other credit line services;
- c. other financial services, including but not limited to:
  - (i) settlement and payment services;
  - (ii) trust loan services;
  - (iii) bond underwriting services;
  - (iv) financial advisory services;
  - (v) spot exchange settlement and sale services;
  - (vi) cross-border bilateral RMB capital pooling services; and

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## LETTER FROM THE BOARD

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- (vii) credit appraisal and consulting agency services.

**Pricing basis:**

*Deposit services*

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

*Loan and bill discounting services*

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

*Other financial services*

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



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## LETTER FROM THE BOARD

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

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## LETTER FROM THE BOARD

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**Risk control:**

Pursuant to the CNAHC Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities. Various risk monitoring indicators of CNAF shall be in line with the Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) and the relevant requirements of CBIRC. In providing comprehensive credit line services for the CNAHC Group, CNAF shall set credit lines prior to conducting specific business in accordance with the requirements of the business development procedures. CNAF shall approve each business in accordance with the established business approval authority. After the loan business is processed, the loan business shall be tracked and managed on a regular basis to ensure the recovery of funds. CNAF shall be entitled to recover the relevant loans in advance, in the event that the CNAHC Group is unable to settle any debts of other financial institutions, and undergoes the deterioration in its operating or financial condition, closedown, dissolution, suspension of operations, liquidation, bankruptcy, reorganization, settlement, rectification or similar legal proceedings, or all or a significant portion of its property is occupied, seized, frozen, impounded, enforced, expropriated, forfeited or taken over by an appointed trustee, receiver or similar officer, or other similar measures are implemented in respect of the property.

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## LETTER FROM THE BOARD

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**Effective date and term:** The CNAHC Financial Services Agreement is subject to the approval by the Independent Shareholders at a general meeting. If approved by the Independent Shareholders, the term of the CNAHC Financial Services Agreement shall be three years commencing from 1 January 2024 and ending on 31 December 2026, which is automatically renewable for successive terms of three years after the expiry of above initial term subject to the fulfillment of the requirements under Hong Kong Listing Rules/SSE Listing Rules and the required approval procedures thereunder. Upon expiry of the CNAHC Financial Services Agreement, the Board will re-assess the terms and conditions of the CNAHC Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules/SSE Listing Rules. During the term of the CNAHC Financial Services Agreement, the agreement can be terminated on its expiry on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

(2) *Reasons and benefits for the transaction*

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

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

## LETTER FROM THE BOARD

### (3) Annual caps of comprehensive credit line services

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

Transaction	Historical annual caps			Actual daily maximum balance			CNAHC New Annual Caps		
							For the		
							period from		
	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ending 31 December 2023	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023	1 January 2023 to 30 March 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
Daily balance of loans (including accrued interests) (note)	RMB 6.5 billion	RMB 6.5 billion	RMB 6.5 billion	RMB 90 million	RMB 120 million	RMB 130 million	RMB 5.5 billion	RMB 5.5 billion	RMB 5.5 billion

*Notes:*

1. For the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023, CNAF did not provide any credit services to the ACC Group.
2. The low utilization rate of the historical annual caps is due to the facts that (i) as CNAHC Group strengthened the use of direct financing such as super short-term commercial papers and corporate bonds while Air China Cargo successfully brought in strategic investors, the CNAHC Group had ample liquidity on an overall basis, therefore its demands for loans were much lower than expected; and (ii) some members of the CNAHC Group who had loan demands could choose to borrow their loans from independent third-party banks rather than CNAF.

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

- a. The historical maximum amount of daily balance of credit services provided by CNAF to the CNAHC Group;
- b. CNAF will further make full use of its functions in loan business as a finance company. On the premise that CNAHC will maintain the same level of demand for liquidity loans in the next three years, and assuming that an amount equivalent to 50% of the direct financing previously obtained by the CNAHC can be borrowed through CNAF in the future, it is expected that CNAF may provide further loan services to CNAHC with an amount of RMB3.85 billion for each of the three years ending 31 December 2026;

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## LETTER FROM THE BOARD

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- c. According to the loan demand of certain subsidiaries of CNAHC regarding their liquidity planning, it is expected that such subsidiaries of CNAHC will therefore have additional demands for loans from CNAF with an amount of approximately RMB770 million, RMB847 million and RMB932 million for the next three years; and
- d. A buffer of approximately RMB500 million is applied for each of the three years ending 31 December 2026 to cater the CNAHC Group's needs from time to time.

According to the relevant laws and regulations in the banking industry and the SSE Listing Rules, the CNAHC Financial Services Agreement put businesses (apart from loan businesses, including bill discounting, non-financing letters of guarantee, bill acceptances and other credit extension services) provided by CNAF to the CNAHC Group and where credit risks are essentially borne by CNAF under unified management as comprehensive credit line services, and has determined the credit lines in relation thereto. As the comprehensive credit lines will be taken up in the form of balance for such comprehensive credit line services business, and the credit lines may be shared among different types of products, such credit lines can be used on a revolving basis. After taking into account the actual amount of credit lines granted by CNAF to the CNAHC Group in the past (i.e. the sum of the maximum credit line granted by CNAF to the relevant member companies of the CNAHC Group upon assessing the credit status of the relevant member companies prior to processing the specific comprehensive credit line business for such member companies), the future demand for comprehensive credit line services (mainly in loans and guarantee letter business) of the CNAHC Group and the latest credit status of relevant member companies, the credit lines of comprehensive credit line services provided by CNAF to the CNAHC Group shall be RMB7.5 billion, RMB8 billion, RMB9 billion and RMB9 billion for the year ending 31 December 2023 and each of the three years ending 31 December 2026, respectively.

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## LETTER FROM THE BOARD

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4. *The ACC Financial Services Agreement and the Annual Caps of the Relevant Transactions thereunder*

(1) *Principal terms of the ACC Financial Services Agreement*

**Parties:** CNAF and Air China Cargo

**Date:** 30 March 2023

**Financial services to be provided by CNAF to the ACC Group:** Pursuant to the ACC Financial Services Agreement, CNAF has agreed to provide the ACC Group with a range of financial services, including the following:

- a. deposit services;
- b. comprehensive credit line services, including loan, bill discounting, non-financing letters of guarantee, bill acceptances and other credit line services;
- c. other financial services, including but not limited to:
  - (i) settlement and payment services;
  - (ii) trust loan services;
  - (iii) bond underwriting services;
  - (iv) financial advisory services;
  - (v) spot exchange settlement and sale services;
  - (vi) cross-border bilateral RMB capital pooling services; and
  - (vii) credit appraisal and consulting agency services.

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## LETTER FROM THE BOARD

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**Pricing basis:**

*Deposit services*

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

*Loan and bill discounting services*

The interest rates applicable to the loan and bill discounting services provided by CNAF to the ACC Group shall (i) be in compliance with the requirements on interest rates prescribed by PBOC for such type of services; and (ii) be not lower than the interest rates charged by state-owned commercial banks to the ACC Group for the same type of services under the same conditions.

*Other financial services*

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

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

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## LETTER FROM THE BOARD

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**Risk control:**

Pursuant to the ACC Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities. Various risk monitoring indicators of CNAF shall be in line with the Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) and the relevant requirements of CBIRC. In providing comprehensive credit line services for the ACC Group, CNAF shall set credit lines prior to conducting specific business in accordance with the requirements of the business development procedures. CNAF shall approve each business in accordance with the established business approval authority. After the loan business is processed, the loan business shall be tracked and managed on a regular basis to ensure the recovery of funds. CNAF shall be entitled to recover the relevant loans in advance, in the event that the ACC Group is unable to settle any debts of other financial institutions, and undergoes deterioration in its operating or financial condition, closedown, dissolution, suspension of operations, liquidation, bankruptcy, reorganization, settlement, rectification or similar legal proceedings, or all or a significant portion of its property is occupied, seized, frozen, impounded, enforced, expropriated, forfeited or taken over by an appointed trustee, receiver or similar officer, or other similar measures are implemented in respect of the property.



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## LETTER FROM THE BOARD

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**Effective date and term:** The renewal of the ACC Financial Services Agreement is subject to the approval by the Independent Shareholders at the AGM. If approved by the Independent Shareholders, the term of the ACC Financial Services Agreement shall be renewed for three years commencing from 1 January 2024 and ending on 31 December 2026, which is automatically renewable for successive terms of three years after the expiry of the above initial term subject to the fulfillment of the requirements under Hong Kong Listing Rules/SSE Listing Rules and the required approval procedures thereunder. Upon expiry of the ACC Financial Services Agreement, the Board will re-assess the terms and conditions of the ACC Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules/SSE Listing Rules. During the term of the ACC Financial Services Agreement, the agreement can be terminated on its expiry on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

(2) *Reasons and benefits for the transaction*

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

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

(3) *Annual caps of Comprehensive Credit Line Services*

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

## LETTER FROM THE BOARD

Transaction	Historical annual caps			Actual daily maximum amount			ACC New Annual Caps		
							for the		
							period from		
	for the year ended 31 December 2021	for the year ended 31 December 2022	for the year ended 31 December 2023	for the year ended 31 December 2021	for the year ended 31 December 2022	for the year ended 31 December 2023	1 January 2023 to 31 December 2024	for the year ending 31 December 2025	for the year ending 31 December 2026
Maximum balance of daily loans (including accrued interests) (note)	-	-	-	RMB0 billion	RMB0 billion	RMB0 billion	RMB0 billion	RMB2 billion	RMB2.5 billion

*Note:* As at the Latest Practicable Date, the sum of the actual amount incurred under the Existing ACC Financial Services Agreement and the actual transaction amount incurred under the Existing CNAHC Financial Services Agreement did not exceed the annual caps for the transaction amount of the Existing CNAHC Group Framework Agreement as approved at the Company's general meeting.

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

- a. As the ACC Group has sufficient funding in recent years, it is not expected to be any loan demands for the year of 2024;
- b. With the possible continuous expansion of the business of ACC Group to enhance its capacity level and expand its operating network layout, according to the loan demands of the ACC Group regarding their liquidity planning, it is expected that the ACC Group will therefore have demands for loans from CNAF with an amount of approximately RMB1.5 billion and RMB2 billion for the years of 2025 and 2026 respectively; and
- c. A buffer of approximately RMB0.5 billion is applied for each of the years ending 31 December 2025 and 2026 to cater for the ACC Group's needs from time to time.

According to the relevant laws and regulations in the banking industry and the SSE Listing Rules, the ACC Financial Services Agreement put businesses (apart from loan businesses, including bill discounting, non-financing letters of guarantee, bill acceptances and other credit extension services) provided by CNAF to the ACC Group and where credit risks are essentially borne by CNAF under unified management as comprehensive credit line services, and has determined the credit lines in relation thereto. Pursuant to the SSE Listing Rules, CNAF will determine the annual total credit lines for such credit line services. As the comprehensive credit lines will be taken up in the form of balance for such comprehensive credit line services business, and the credit lines may be shared among different types of products, such credit lines can be used on a revolving basis. After taking into account the

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## LETTER FROM THE BOARD

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amount of credit lines actually granted by CNAF to the ACC Group in the past (i.e. the sum of the maximum credit line granted by CNAF to the relevant member companies of the ACC Group upon assessing the credit status of the relevant member companies prior to processing the above-mentioned specific comprehensive credit line business for such member companies), the future demand for comprehensive credit line services of the ACC Group and the latest credit status of relevant member companies, the annual credit lines of comprehensive credit line services provided by CNAF to the ACC Group shall be RMB4 billion for each of the three years ending 31 December 2026. No comprehensive credit line service is expected to occur under the Existing ACC Financial Services Agreement for the year ending 31 December 2023.

### **(III) Risk Profile and Management of CNAF**

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

#### *Compliance risks*

According to the Measures for the Administration of Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) issued by the CBIRC on 27 July 2004 (as last amended on 13 November 2022), CNAF shall comply with various ratios in respect of its assets and liabilities, including the capital adequacy ratio, total extra-group liabilities to net capital ratio, total investment to net capital ratio, and net self-owned fixed assets to net capital ratio. Since its establishment until the Latest Practicable Date, CNAF has complied with all the relevant requirements from the CBIRC in respect of the above-mentioned ratios and the applicable rules and regulations stipulated by the CBIRC.

#### *Liquidity risks*

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

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

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## LETTER FROM THE BOARD

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### *Credit risks*

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

### *Directors' view*

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

#### **(IV) Internal Control Measures for the Non-exempt Continuing Connected Transactions**

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

#### *Deposit services under the (Existing) Air China Financial Services Agreement*

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

- a. the Company and CNAF set up designated posts to monitor the deposit balance of the Group with CNAF within the scope of the list of the Company's subsidiaries on a daily basis to ensure that it does not exceed the relevant annual caps;

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## LETTER FROM THE BOARD

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- b. the Company sets up designated posts to update the list of the Company's subsidiaries on a regular basis to ensure the aggregate deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the relevant annual caps; and
- c. the designated staff of the Company would compare the rates and terms offered by CNAF and several state-owned commercial banks when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are in line with the relevant pricing basis.

### *Comprehensive credit line services under the CNAHC Financial Services Agreement and the ACC Financial Services Agreement*

CNAF would take the following review procedure process against the following assessment criteria when providing the comprehensive credit line services to the CNAHC Group under the CNAHC Financial Services Agreement and to the ACC Group under the ACC Financial Services Agreement:

- a. The credit department of CNAF conducts analysis and assessment based on the general situation, financial and operating conditions and credit status of the members of the CNAHC Group and ACC Group, and risk management department of CNAF issues a report to the loan review committee of CNAF after its examination. After the loan review committee of CNAF has approved the comprehensive credit line services and determined the amount of the comprehensive credit line services, the general manager makes the final decision;
- b. after receiving the credit demand from members of the CNAHC Group and ACC Group, the credit department of CNAF would carry out the following works: verifying the credit demand of the applicant, considering the credit risk and financing ability of the applicant, checking the records such as if CNAF has provided the same type of services to the members of the CNAHC Group and ACC Group respectively under the same condition, learning about the current level of market interest charged by state-owned commercial banks and offering quotation;
- c. after securing the loan business, CNAF would issue a report to the loan review committee of CNAF, which in turn would determine the approval of the loan business, including loan interest rate, and the general manager would make the final decision;
- d. if it is discovered in the various quotations for a transaction under the same conditions that the loan interest rates intended to be offered by CNAF to the CNAHC Group and ACC Group are more favorable than those provided by independent third parties to the CNAHC Group and ACC Group respectively, such findings shall be reported to the loan review committee of CNAF. The loan review committee of CNAF would assess whether to adjust the price for services

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## LETTER FROM THE BOARD

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provided by CNAF or to amend relevant conditions with reference to various factors, such as loan demand and the applicant's qualifications and credibility, and the general manager would make the final decision;

- e. CNAF would complete the approval procedures of the risk management department, and grant the loan to the applicant after obtaining approval from the leader of credit department and leaders of CNAF;
- f. after the grant of the loan, the credit department of CNAF will conduct regular post-loan examination on the applicant and issue examination reports; and
- g. the accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for extension in writing to CNAF prior to the maturity of the loan, and may carry out relevant formalities upon obtaining approval.

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

### **(V) Listing Rules Implications**

#### ***1. Proposed Revision of Annual Cap***

Pursuant to the Hong Kong Listing Rules, as one or more of the applicable Percentage Ratios in respect of the Revised Annual Cap are more than 5% but less than 25%, the Proposed Revision of Annual Cap is subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### 2. *Entering into Financial Services Agreements*

#### (1) *Air China Financial Services Agreement*

*Deposit services* As the highest applicable Percentage Ratio in respect of the Air China New Annual Caps under the Chapter 14 of the Hong Kong Listing Rules exceeds 5% but below 25% and the highest applicable Percentage Ratio under the Chapter 14A of the Hong Kong Listing Rules exceeds 5%, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

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

*Other financial services* The other financial services to be provided by CNAF to the Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to CNAF for such services for each of the three years ending 31 December 2024, 2025 and 2026 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions under the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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(2) *CNAHC Financial Services Agreement and ACC Financial Services Agreement*

As at the Latest Practicable Date, as Air China Cargo is a subsidiary of CNAHC, the transactions of similar type under the CNAHC Financial Services Agreement and the ACC Financial Services Agreement shall be aggregated under the Hong Kong Listing Rules.

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

*Comprehensive credit line services*                      Pursuant to Chapter 14A of the Hong Kong Listing Rules, as (i) the highest of the applicable Percentage Ratios in respect of the CNAHC New Annual Caps exceeds 5% on a standalone basis; and (ii) the highest of the applicable Percentage Ratios in respect of the ACC New Annual Caps, although does not exceed 5% on a standalone basis, exceeds 5% when aggregated with the CNAHC New Annual Caps, the loan services to be provided to the CNAHC Group by CNAF under the CNAHC Financial Services Agreement and the loan services to be provided to the ACC Group by CNAF under the ACC Financial Services Agreement are subject to the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.



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## LETTER FROM THE BOARD

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Pursuant to Chapter 14 of the Hong Kong Listing Rules, as the highest of the applicable Percentage Ratios does not exceed 5% on a standalone basis in respect of each of the CNAHC New Annual Caps and the ACC New Annual Caps, while exceeds 5% but below 25% when aggregated with each other, and the highest of the applicable Percentage Ratios under Chapter 14A of the Hong Kong Listing Rules exceeds 5%, the loan services to be provided to the CNAHC Group by CNAF under the CNAHC Financial Services Agreement and the loan services to be provided to the ACC Group by CNAF under the ACC Financial Services Agreement are also subject to the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

Furthermore, the credit lines of the comprehensive credit line services provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement and the credit lines of the comprehensive credit line services provided by CNAF to the ACC Group under the ACC Financial Services Agreement are also subject to approval by the Independent Shareholders under the SSE Listing Rules.

*Other financial  
services*

The other financial services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement and the other financial services provided by CNAF to the ACC Group under the ACC Financial Services Agreement will be carried out on normal commercial terms or better and the aggregated total annual fees to be paid by the CNAHC Group and ACC Group to CNAF for such services for each of the three years ending 31 December 2024, 2025 and 2026 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions under the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### IV. DETAILS OF OTHER RESOLUTIONS

#### (I) Resolution on the 2022 work report of the Board

For the full text of the 2022 work report of the Board, please refer to Appendix II of this circular.

#### (II) Resolution on the 2022 work report of the supervisory committee

For the full text of the 2022 work report of the supervisory committee, please refer to Appendix III of this circular.

#### (III) Resolution on the financial reports for the year 2022

For the full text of the financial reports for the year 2022 prepared under CASs and the IFRSs by the Company, please refer to relevant disclosures made by the Company on the website of the Shanghai Stock Exchange and the HKEXnews website of the Hong Kong Stock Exchange.

#### (IV) Resolution on the profit distribution proposal for the year 2022

According to the audited financial statements of the Company prepared in accordance with the CASs and the IFRSs, the Company recorded negative profits available for distribution to Shareholders in 2022. As considered and approved by the 18th meeting of the sixth session of the Board, the Company proposed not to make profit distribution for the year of 2022.

#### (V) Resolution on the unrecovered losses of the Company exceeding one-third of the total amount of its paid-up share capital

Pursuant to the relevant requirements of the Company Law and the Articles of Association, under circumstances that the amount of the unrecovered losses of the Company exceeds one-third of the total paid-up share capital, it shall be subject to consideration at the general meeting of Shareholders.

According to the audit report issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP, the net profit attributable to parent company in 2022 was a loss of RMB38,619,000,000. The accumulated unrecovered losses of the Company was RMB29,309,000,000. As of the end of 2022, the paid-up share capital of the Company was RMB14,525,000,000. The amount of the unrecovered losses of the Company exceeded one-third of the total paid-up share capital.

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## LETTER FROM THE BOARD

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**(VI) Resolution on the re-appointment of international auditor, domestic auditor and internal control auditor for the year 2023**

The Board proposed the re-appointment of Deloitte Touche Tohmatsu as the Company's international auditor for the year 2023 and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's domestic auditor and internal control auditor for the year 2023, and submitted to the general meeting of shareholders the aforementioned re-appointment proposal for approval and to authorise the Audit and Risk Management Committee (the Supervision Committee) of the Board to determine their remunerations for the year 2023.

**(VII) Resolution on the grant of general mandate to the Board to issue debt financing instruments**

In order to meet the Company's production and operation needs, and to supplement liquidity, according to the 2023 financing plan of the Company, the Company shall issue debt financing instruments at appropriate time. To grasp the favourable opportunity in the market, improve flexibility and efficiency of financing, the application is now been submitted by the Board at the general meeting of shareholders of the Company to obtain general and unconditional mandate from the general meeting, under which the Board of the Company shall determine to issue debt financing instruments in one or multiple tranches within the cap amount of bond issuance under the requirements of applicable laws (the "Issuance"). If the Board has resolved to issue debt financing instruments according to the authorisation obtained at the general meeting(s), the authorisation in relation to the issuance of such debt financing instruments shall continue to be valid and extended to the term of authorisation of the Issuance accordingly. Particulars regarding the Issuance are as follows:

**1. Plan of the issuance**

The relevant debt financing instruments include, but not limited to, ultra-short-term commercial papers, short-term commercial papers, mid-term notes, corporate bonds, domestic non-public targeted debt financing instruments, overseas debt financing instruments and overseas bonds/notes denominated in RMB or foreign currencies.

**2. Major Terms of the issuance**

- |                          |  |
|--------------------------|--|
| (1) Issuer:              | the Company and/or its controlled or wholly-owned subsidiary, and the specific issuer shall be determined by the Board according to the needs of issuance. |
| (2) Placing arrangement: | no preferential placement to the shareholders of the Company.  |

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## LETTER FROM THE BOARD

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- (3) Issue size: subject to that the balance of the outstanding debt financing instruments of the Issuance shall be within the permissible size prescribed by the relevant laws and regulations and specified by regulatory authorities, and the specific issue size shall be determined by the Board according to the capital requirement and the market conditions.
- (4) Term and type: not more than 15 years for one single-term instrument or a portfolio of instruments with various terms. The specific term composition and the issue size of instruments with various terms shall be determined by the Board according to the relevant regulations and market conditions.
- (5) Use of proceeds: the proceeds to be raised from the issuance are intended to be applied towards meeting the demand of the Company's production and operations, adjusting its debt structure, replenishing its working capital and/or funding its project investments, among others. The specific use of proceeds shall be determined by the Board according to the capital requirement.
- (6) Term of validity of the authorization: from the date of the passing of the resolution at the general meeting of the Company to the date of the annual general meeting of the Company for the year 2023.

If the Board (including its authorized person) has resolved to issue within the valid term of the mandate, it shall be deemed as an extension to the term of the mandate granted to the Board (including its authorized person) in respect of such issue on the general meeting, provided that there is no conflict between the mandate renewed by the Board (including its authorized person) on the general meeting after the expiry of the mandate and the mandate granted to the Board (including its authorized person) in respect of such issue.

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## LETTER FROM THE BOARD

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### 3. *Authorization to the Board*

The Board proposed to the shareholders at the AGM to authorize the Board, generally and unconditionally, to deal with the following in accordance with the specific needs of the Company and other market conditions:

- (1) to determine the issuer, issue size, type, specific instruments, detailed terms, conditions and other matters relating to the Issuance (including, but not limited to, the issue size, actual principal amount, currency, issue price, interest rate or mechanism for determining the interest rate, issue place, issue timing, term, whether or not to issue in multiple tranches and number of tranches, whether or not to set put-back or redemption terms, credit rating, guarantee, repayment term, detailed fund-raising arrangements within the scope of use approved by the general meeting, detailed placing arrangements, underwriting arrangements and all other matters relating to the Issuance).
- (2) to carry out all necessary and ancillary actions and procedures relating to the Issuance (including, but not limited to, engage underwriters, lawyers, auditors, rating agencies, financial advisers and other intermediary institutions; handle all approval, registration and filing procedures with the relevant regulatory authorities in connection with the Issuance on behalf of the Company; execute all necessary legal documents; select bonds trustee manager for the Issuance; formulate rules for the bondholders' meeting and handle any other matters relating to the issuance and trading).
- (3) to approve and confirm any action or procedure relating to the Issuance as mentioned above already taken by the Company.
- (4) to make adjustments to the relevant matters such as the specific proposals for the Issuance in accordance with the comments from the regulatory authorities or the prevailing market conditions within the authority granted at the general meeting of the Company, except where voting at a general meeting of the Company is required by any relevant laws and regulations and the Articles of Association of Air China Limited.
- (5) to determine and handle all relevant matters relating to the listing of the issued debt financing instruments upon the completion of the Issuance.
- (6) in the case of issuance of the Company's debt financing instruments, during the term of the Company's debt financing instruments, to determine not to distribute dividends to the shareholders to safeguard repayment of debts as required under the relevant laws and regulations in the event that the Company expects to, or does fail to pay the principal and interests as they fall due.

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## LETTER FROM THE BOARD

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- (7) to approve, execute and dispatch any announcements or circulars relating to the Issuance and make any related disclosure in accordance with the listing rules of the relevant jurisdictions where the Company is listed.

The Board also proposed to the shareholders at the AGM to authorize the Board to delegate the authorizations set forth in paragraph (1) to (6) above to the president and/or the general accountant of the Company and to authorize the Board to delegate the authorization set forth in paragraph (7) above to the secretary of the Board upon obtaining the authorization at the AGM.

### V. AGM

The Company will convene the AGM at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC at 11:00 a.m. on Thursday, 25 May 2023 to consider and, if thought fit, approve, among other things, the aforesaid matters. Votes on the resolutions to be considered at the AGM shall be taken by way of poll. A form of proxy is also enclosed herein, and published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.airchina.com.cn](http://www.airchina.com.cn)). The notice of AGM is reproduced in this circular.

As at the Latest Practicable Date, CNAHC and its subsidiaries, CNACG, held an aggregate of 8,123,096,767 shares of the Company (representing approximately 50.14% of the issued share capital of the Company), and controlled or were entitled to control over the voting right in respect of their shares in the Company. Cathay Pacific held 2,633,725,455 shares of the Company (representing 16.26% of the issued share capital of the Company), and controlled or were entitled to control over the voting right in respect of their shares in the Company. Pursuant to the Hong Kong Listing Rules, CNAHC and CNACG have a material interest in the transactions under the New Trademark License Framework Agreement and the Non-exempt Continuing Connected Transactions, and are therefore required to abstain from voting on the relevant resolutions (i.e. resolutions no. (7) to (10)) at the AGM. Cathay Pacific has a material interest in the transactions under the ACC Financial Services Agreement, and is therefore required to abstain from voting on the relevant resolution (i.e. resolution no. (9)) at the AGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as the above Shareholders, no Shareholder has a material interest in the resolutions set out in the notice of the AGM or should be required to abstain from voting on the relevant resolutions at the AGM.

The register of members of H shares will be closed from Thursday, 18 May 2023 to Thursday, 25 May 2023 (both days inclusive), during which no transfer of H shares will be effected in order to determine the list of holders of H shares of the Company who will be entitled to attend and vote at the AGM. H Shareholders of the Company whose names appear on the H share register of members of the Company on Thursday, 18 May 2023 are entitled to attend the AGM after completing the registration procedures. In order to qualify for attendance at the AGM, all the transfer documents must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, by 4:30 p.m. on Wednesday, 17 May 2023.

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## LETTER FROM THE BOARD

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Whether or not you intend to attend the AGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon as soon as practicable but in any event not less than 24 hours before the time appointed for convening the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or at any adjourned meeting thereof should you so wish.

### VI. RECOMMENDATION

The Board considers that the matters to be put to the Shareholders for voting at the AGM are in the interests of the Company and its shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of all the resolutions at the AGM.

### VII. ADDITIONAL INFORMATION

At the board meeting on 30 March 2023, Mr. Ma Chongxian, Mr. Feng Gang and Mr. Xiao Peng were considered to have material interest in the transactions under the New Trademark License Framework Agreement and the Non-exempt Continuing Connected Transactions, Mr. Patrick Healy was considered to have material interest in the transactions under the ACC Financial Services Agreement, and have abstained from voting on the relevant board resolutions. Save the above-mentioned Directors, no Director is required to abstain from voting on the relevant board resolutions. Besides, Mr. Wang Mingyuan was not eligible to attend the above board meeting to vote as he was not appointed as a Director at the time of the board meeting until the extraordinary general meeting convened later on the same day.

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 as to the voting at the AGM regarding the Non-exempt Continuing Connected Transactions.

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

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

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

3 May 2023

To the Independent Shareholders of the Company

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED  
TRANSACTIONS:  
PROPOSED REVISION OF ANNUAL CAP AND ENTERING INTO FINANCIAL  
SERVICES AGREEMENTS**

We refer to the circular dated 3 May 2023 issued by the Company to its Shareholders (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 30 March 2023, the Board approved (1) the Proposed Revision of Annual Cap; and (2) the entering into of the Financial Services Agreements, and approved the Air China New Annual Caps, CNAHC New Annual Caps and ACC New Annual Caps. The above Non-exempt Continuing Connected Transactions are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The details of the above Non-exempt Continuing Connected Transactions are set out in the letter from the Board contained in the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions, the terms of the Financial Services Agreements, and the Proposed Annual Caps are fair and reasonable and whether such transactions



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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are in the interest of the Company and the Shareholders as a whole. BaoQiao Partners has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Non-exempt Continuing Connected Transactions, the relevant terms of the Financial Services Agreements, and the basis upon which the relevant terms and the Proposed Annual Caps have been determined. We have also considered the key factors taken into account by BaoQiao Partners in arriving at its opinion regarding the Non-exempt Continuing Connected Transactions as set out in the letter from the Independent Financial Adviser annexed to 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 the Non-exempt Continuing Connected Transactions are carried out in the usual and ordinary course of business and on normal commercial terms, the terms of the Financial Services Agreements and the Proposed Annual Caps are fair and reasonable, and thus such transactions are in the best interest of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions as set out in the notice of the AGM.

Yours faithfully,

**Independent Board Committee**

**Mr. Li Fushen**

*Independent*

*non-executive Director*

**Mr. He Yun**

*Independent*

*non-executive Director*

**Mr. Xu Junxin**

*Independent*

*non-executive Director*

**Ms. Winnie Tam Wan-chi**

*Independent*

*non-executive Director*

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## LETTER FROM BAOQIAO PARTNERS

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*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 Non-exempt Continuing Connected Transactions which has been prepared for the purpose of inclusion in this circular.*



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### BAOQIAO PARTNERS CAPITAL LIMITED

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

3 May 2023

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

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS: PROPOSED REVISION OF ANNUAL CAP AND ENTERING INTO FINANCIAL SERVICES AGREEMENTS**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed Revision of Annual Cap of the deposit services (“**Deposit Services**”) provided by CNAF to the Group under the Existing Air China Financial Services Agreement; (ii) the Deposit Services (together with the Air China New Annual Caps) provided by CNAF to the Group under the Air China Financial Services Agreement; (iii) the comprehensive credit line services (“**CNAHC Credit Line Services**”) (together with the CNAHC New Annual Caps) provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement; and (iv) the comprehensive credit line services (“**ACC Credit Line Services**”) (together with the ACC New Annual Caps) provided by CNAF to the ACC Group under the ACC Financial Services Agreement (collectively known as the “**Non-exempt Continuing Connected Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 3 May 2023 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 30 March 2023, upon consideration and approval by the Board, the Board resolved to (i) revise the maximum daily balance of deposits (including accrued interests) of the Deposit Services provided by CNAF to the Group under the Existing Air China Financial Services Agreement for the year ending 31 December 2023 from RMB15 billion to RMB20 billion; and (ii) as the Existing Financial Services

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## LETTER FROM BAOQIAO PARTNERS

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Agreements will expire on 31 December 2023, the entering into the Financial Services Agreements, pursuant to which, CNAF will continue to provide financial services to the Group, the CNAHC Group and the ACC Group for a term of three years commencing from 1 January 2024 and ending on 31 December 2026 and approved the Air China New Annual Caps, CNAHC New Annual Caps, and ACC New Annual Caps.

According to the Hong Kong Listing Rules, as one or more of the applicable Percentage Ratios in respect of the Revised Annual Cap of the Deposit Services under the Existing Air China Financial Services Agreement are more than 5% but less than 25%, the Proposed Revision of Annual Cap is subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

Similarly, according to the Hong Kong Listing Rules, as one or more of the applicable Percentage Ratios in respect of each of the maximum daily balances of Deposit Services under the Air China Financial Services Agreement, CNAHC Credit Line Services under the CNAHC Financial Services Agreement and ACC Credit Line Services under the ACC Financial Services Agreement are more than 5% but less than 25%, such transactions are therefore subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

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 Non-exempt Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Non-exempt Continuing Connected Transactions at the AGM. 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 Hong Kong Listing Rules, as set out in the announcements of the Company dated 29 October 2021 and 30 March 2023 respectively; and (ii) to advise the independent board committee and independent shareholders of the Company the revision of annual caps for continuing connected transactions of the Company, as set out in the announcement and circular of the Company dated 10 December 2021 and 14 December 2021 respectively.

As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Group, CNAF, CNAHC, Air China Cargo 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

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## LETTER FROM BAOQIAO PARTNERS

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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 Hong Kong 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 Existing Financial Services Agreement, the Financial Services Agreements, the interim report (the "**2022 Interim Report**") for the six months ended 30 June 2022 ("**HY2022**"), the annual report (the "**2022 Annual Report**") of the Company for the year ended 31 December 2022 ("**FY2022**") 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 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. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNAF, CNAHC, Air China Cargo and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

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 Non-exempt Continuing Connected Transactions, 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](http://www.hkexnews.hk)) and the Company ([www.airchina.com.cn](http://www.airchina.com.cn)) as required under the Hong Kong 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.

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## LETTER FROM BAOQIAO PARTNERS

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background information of the Company, CNAHC, Air China Cargo and CNAF

##### *Information on the Company*

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

##### *Information on 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. As at the Latest Practicable Date, CNAHC holds approximately 50.14% of the Company's shares directly and through its wholly-owned subsidiary CNACG, and is a controlling shareholder of the Company. Therefore, CNAHC is a connected person of the Company as defined under the Hong Kong Listing Rules. The State-owned Assets Supervision and Administration Commission of the State Council is a controlling shareholder and de facto controller of CNAHC.

##### *Information on Air China Cargo*

Air China Cargo is a limited liability company established under the laws of the PRC and is principally engaged in air cargo and mail transportation business. As at the Latest Practicable Date, CNAHC holds approximately 45% equity interest in Air China Cargo, and Air China Cargo is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

##### *Information on CNAF*

CNAF is a company with limited liability incorporated in the PRC, and is primarily engaged in providing financial services to CNAHC Member Companies. As at the Latest Practicable Date, the Company and CNAHC hold approximately 51% and 49% of the shares of CNAF respectively. Therefore, CNAF is a connected subsidiary of the Company and a connected person of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules.

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

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## LETTER FROM BAOQIAO PARTNERS

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(a) *Compliance risks*

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

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

The table below sets out the key financial ratio requirements of the Administrative Measures and the respective financial ratios of CNAF for the three years ended 31 December 2022 as provided by the Company.

Financial ratio	Requirements	Financial ratios of CNAF		
		For the year ended 31 December 2022 <i>(approximate %)</i>	For the year ended 31 December 2021 <i>(approximate %)</i>	For the year ended 31 December 2020 <i>(approximate %)</i>
		<i>Lowest during the respective period</i>		
Capital adequacy ratio	Not less than 10%	19.77%	20.97%	26.40%
		<i>Highest during the respective period</i>		
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	Nil	Nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	Nil	Nil	Nil
Long-term and short-term investment to total capital ratio	Not more than 70%	66.28%	67.92%	68.37%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.17%	0.23%	0.31%
Non-performing loan ratio	Not more than 5%	Nil	Nil	Nil

As shown in the table above, CNAF complied with the relevant financial ratio requirements as set out in the Administrative Measures during 2020, 2021 and 2022. As also confirmed by the Management, they are not aware of any record of non-compliance with relevant laws and regulations of the PRC on CNAF during the recent three years.

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## LETTER FROM BAOQIAO PARTNERS

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(b) *Liquidity risks*

CNAF recorded liquidity ratio of approximately 85.57% and 68.25% as at 31 December 2021 and 31 December 2022 respectively. According to the statistics as published by CBIRC, the PRC commercial banks recorded average liquidity ratio of approximately 62.85% for the fourth quarter in 2022. As such, CNAF had a higher liquidity ratio as compared to the average liquidity ratio of the PRC commercial banks for the fourth quarter in 2022.

(c) *Credit risks*

The key indicators of credit risk are the non-performing loans ratio and the allowance of non-performing loans to total loans ratio. As advised by the Management, as at 31 December 2022, CNAF did not record any non-performing loans and the allowance of non-performing loans to total loans ratios is not applicable.

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

## 2. **Reasons for and benefits of entering into the Non-Exempt Continuing Connected Transactions**

### ***Proposed Revision of Annual Cap under the Existing Air China Financial Services Agreement and Deposit Services (together with Air China New Annual Caps) under the Air China Financial Services Agreement***

Pursuant to the Existing Air China Financial Services Agreement and the Air China Financial Services Agreement, CNAF will provide certain financial services to the Group, among others, CNAF shall accept deposit of money from the Group at interest rates in line with the interest rate rules prescribed by the PBOC from time to time for the same type of deposit. As disclosed in the Letter from the Board, the main reasons for and benefits of the Proposed Revision of Annual Cap and the continuing provision of Deposit Services within the Air China New Annual Cap by the CNAF Group to the Group are summarised as below:

- (i) CNAF is able to provide more efficient settlement services as compared with independent third party banks;
- (ii) CNAF has a good track record on compliance and CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group for years;
- (iii) CNAF is a professional financial institution within the Group and it could act more proactively in protecting the interest of the Group than external institutions; and

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## LETTER FROM BAOQIAO PARTNERS

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- (iv) a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years.

***CNAHC Credit Line Services under the CNAHC Financial Services Agreement and ACC Credit Line Services under the ACC Financial Services Agreement***

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

In addition, as disclosed in the announcement of the Company dated 20 September 2022, Air China Cargo, being a subsidiary of CNAHC as at the Latest Practicable Date, intends to apply for the initial public offering and listing of A shares ("**Proposed A-Share Listing**"), according to the relevant requirements under the "Administrative Measures for initial Public Offerings and Listing" issued by the CSRC, Air China Cargo shall maintain independence from CNAHC and enter into the ACC Financial Services Agreement with CNAF separately.

Taking into account the followings:

*Well established and reliable relationship*

CNAF is regulated by the PBOC and the CBIRC, which requires, among others, CNAF to provide its services in accordance with the Administrative Measures. We have obtained and reviewed the approval granted by the relevant authority(ies) permitting the CNAF to carry out such financial services including but not limited to, the provision of Deposit Services, CNAHC Credit Line Services and ACC Credit Line Services. Also, we have been advised by the Management that, to the best knowledge of the Company, there is no record of material non-compliance with the relevant law, rules and regulations in the PRC applicable to CNAF. From our review of the official website of CBIRC, we did not note any non-compliance record of CNAF.

As advised by the Management, CNAF has been in cooperation with the Group, CNAHC Group and ACC Group for years, thereby having in-depth understanding in each other's business model and working practice which facilitate CNAF to provide financial services to Group, CNAHC Group and ACC Group in an efficient and effective manner. In addition, the Financial Services Agreements provide the Group, CNAHC Group and ACC Group with flexibility in selecting financial services providers, including CNAF, to suit their own business needs, which will be conducive to the Group's full and reasonable utilisation of market resources.



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## LETTER FROM BAOQIAO PARTNERS

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### *Favourable pricing policies for Deposit Services, CNAHC Credit Line Services and ACC Credit Line Services*

CNAF has been providing financial services to the Group, CNAHC Group and ACC Group for many years, and have an in-depth understanding of the business and development needs of the Group, CNAHC Group and ACC Group. In respect of the Deposits Services offered by CNAF to the Group, CNAF can assist the Group in formulating a beneficial deposit mix that will increase the return on funds and maintain the sufficiency and flexibility of the Group's working capital. In addition, CNAF can offer reliable and stable financial resource and mid-term and long-term credit line for the CNAHC Group and ACC Group to serve their respective financing needs and other financial services needs from time to time for their respective business operations, therefore optimizing the funding structure of the CNAHC Group and ACC Group.

As CNAF is a regulated financial institution in the PRC and is entitled to interbank interest rates, which are generally higher than normal commercial interest rates when re-depositing deposits with commercial banks in the PRC. The Company also holds approximately 51% equity interest in CNAF. Accordingly, the Company will share the benefit from CNAF's profits.

Furthermore, the pricing policy of CNAF and commercial banks in China are subject to guidelines set by the PBOC. Therefore, the fees charged by the CNAF for its services to the Group, CNAHC Group and ACC Group are comparable to those charged by PRC banks for similar services.

Based on the above and the fact that (i) each of the Group, CNAHC Group and ACC Group is not restricted under the Existing Financial Services Agreement and the Financial Services Agreements to utilise any financial services (including Deposit Services, CNAHC Credit Line Services and ACC Credit Line Services) with or other banks or financial institutions; and (ii) the deposit rates for Deposit Services and interest rates for CNAHC Credit Line Services and ACC Credit Line Services offered by CNAF were in line with/or better than those promulgated by the PBOC or those offered by major commercial banks in the PRC (as set out in our analysis in the section below), we concur with the Directors' view that the Non-exempt Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM BAOQIAO PARTNERS

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### 3. Principal Terms of the Non-exempt Continuing Connected Transactions

#### *Proposed Revision of Annual Cap under the Existing Air China Financial Services Agreement and The Air China Financial Services Agreement (together with the Air China New Annual Caps)*

##### *(i) Principal terms of the Deposit Services under the Existing Air China Financial Services Agreement and the Air China Financial Services Agreement*

Summarised below are the major terms of the Deposit Services under the Existing Air China Financial Services Agreement and the Air China Financial Services Agreement, details of which are set out under the paragraph headed “(I) Proposed Revision of Annual Cap” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board; and “2. The Air China Financial Services Agreement and the Annual Caps of the Relevant Transactions thereunder” under the sub-section headed “(II) Entering into the Financial Services Agreements” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board respectively:

	<u>Air China Financial Services Agreement</u>	<u>Existing Air China Financial Services Agreement</u>
<b>Date:</b>	30 March 2023	28 August 2020
<b>Parties:</b>	The Company and CNAF	
<b>Effective date and Term:</b>	Three years commencing from 1 January 2024 and ending on 31 December 2026, which is automatically renewable for successive terms of three years after the expiry of the term subject to the fulfillment of the requirements under Hong Kong Listing Rules and the required approval procedures thereunder.  Upon expiry of the Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of the Air China Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.	Three years commencing from 1 January 2021 and ending on 31 December 2023, which is automatically renewable for successive terms of three years after the expiry of the term subject to the fulfillment of the requirements under Hong Kong Listing Rules and the required approval procedures thereunder.  Upon expiry of the Existing Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Existing Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of Existing Air China Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

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## LETTER FROM BAOQIAO PARTNERS

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### Air China Financial Services Agreement

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### Existing Air China Financial Services Agreement

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<b>Principal terms:</b>	CNAF has agreed to provide the Group with a range of financial services including the Deposit Services	
<b>Pricing basis:</b>	The interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements on interest rates prescribed by PBOC for such type of deposit; and (ii) be not lower than the interest rates offered by state-owned commercial banks to the Group for the same type of services under the same conditions.	The interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements on interest rates prescribed by PBOC for such type of deposit; (ii) be not lower than the interest rates offered by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rate for the same type of services by CNAF to other member companies of CNAHC under the same conditions.

Based on the above and as confirmed by the Management, the principal terms of the provision of the Deposits Services pursuant to the Air China Financial Services Agreement are general in line with the Existing Air China Financial Services Agreement.

In respect of the pricing basis of the Deposit Services provided by CNAF to the Group, we note that, as compared with the Existing Air China Financial Services Agreement, the interest rates for the same type of services provided by CNAF to the Group to be not lower than that offered by CNAF to other member companies of CNAHC is no longer required under the Air China Financial Services Agreement. As advised by the Management, such term is considered excessive based on the requirements of the Hong Kong Listing Rules and burdensome that requires additional management resources to liaise with CNAHC Group for the purpose of continuing compliance.

We have obtained 4 sets of deposit records between (i) the Group and CNAF; (ii) the Group and a state-owned commercial bank; and (iii) the CNAHC Group and CNAF in the same period during 2021 and 2022, respectively. According to the aforesaid deposit records, we noted that the interest rates offered by CNAF to the Group were (i) in compliance with the requirements on interest rates prescribed by PBOC for such type of deposit; (ii) not lower than those offered by the commercial bank to the Group; and (iii) not lower than those offered by CNAF to CNAHC Group. As such, we consider that the provision of Deposit Services by CNAF to the Group was carried out in accordance with the terms of the Existing Air China Financial Services Agreement.

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## LETTER FROM BAOQIAO PARTNERS

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(ii) *Internal control measures*

The Group adopted certain internal control measures in respect of the Deposit Services to be provided by CNAF to the Group. Details of the measures are set out under the sub-sections headed “(IV) Internal Control Measures for the Non-Exempt Continuing Connected Transactions” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” in the Letter from the Board.

For the purpose of Rule 14A.56 of the Listing Rules, the Company’s external auditors, will be engaged to issue a letter to report on the Group’s continuing connected transactions (including the provision of Deposit Services) in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. We have obtained from the Company and reviewed the letters issued by the Company’s external auditors in 2020, 2021 and 2022 and noted that the auditors have confirmed that the internal control procedures implemented by the Company have been effective in all material aspects.

Based on the above and our findings on deposit rates, we consider that effective implementation of the measures will ensure the fair pricing of the Deposit Services offered by CNAF to the Group and we do not doubt the effectiveness of the implementation of the internal procedures for the Deposit Services.

In view of the above, we consider that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(iii) *Proposed Revised Annual Cap and Air China New Annual Caps*

*Historical Figures*

Set out below are the historical maximum daily balance of deposits placed with CNAF by the Group for the two years ended 31 December 2022 and the period from 1 January 2023 to 30 March 2023:

	<b>For the year ended 31 December 2021 RMB’ billion</b>	<b>For the year ended 31 December 2022 RMB’ billion</b>	<b>For the year ending 31 December 2023 RMB’ billion</b>
Maximum daily balance of deposits	10.798	13.588	8.682 (Note)
Existing annual caps	15	15	15
Utilisation rate (%)	71.99%	90.59%	57.88% (Note)

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## LETTER FROM BAOQIAO PARTNERS

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*Note:* the maximum daily balance of deposits with the CNAF placed by the Group and the utilisation rate of the existing annual cap for the year ending 31 December 2023 were calculated as at 30 March 2023

### *Revised Annual Caps and Air China New Annual Caps*

Set out below are the proposed (i) Revised Annual Cap for the year ending 31 December 2023; and (ii) the Air China New Annual Caps for the three years ending 31 December 2026:

	<b>For the year ending 31 December</b>			
	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
Revised Annual Cap / Air China New Annual Caps	20	22	23	23

As set out in the Letter from the Board, the Revised Annual Cap and the Air China New Annual Caps are determined principally in consideration of (i) the growth in maximum historical daily balances of deposits of the Group placed with CNAF, in particular during the period from 1 January 2023 to 30 March 2023, which over 50% of the existing annual cap for the year ending 31 December 2023 has been utilised; (ii) the existing annual caps for the Existing Air China Financial Service Agreement; (iii) the expected growth in the cash position of the Group after completion of the Shandong Transactions (as defined below), which were completed on 7 April 2023; and (iv) the possible fund raisings activities to be conducted by the Group in the coming years.

In assessing the fairness and reasonableness of the Revised Annual Cap and the Air China New Annual Caps, we have taken into consideration the following:

### *The historical maximum daily balance of deposits and utilisation rates*

The historical maximum daily balance of deposits placed with CNAF by the Group for each of the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023 amounted to approximately RMB10.798 billion, RMB13.588 billion and RMB8.682 billion, respectively, representing (i) the historical utilisation rates of approximately 71.99% and 90.59% of the existing annual caps for the two years ended 31 December 2022; and (ii) as at 30 March 2023, the utilisation rate of the existing annual cap for the year ending 31 December 2023 was approximately 57.88%, indicating the deposits demand of the Group will grow in faster pace.

### *Cash position of the Group*

According to the 2022 Interim Report and 2022 Annual Report, as at 30 June 2022 and 31 December 2022, Group's (i) cash and cash equivalents amounted to approximately RMB18.6 billion and RMB10.6 billion respectively; and (ii) accounts receivable amounted to

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## LETTER FROM BAOQIAO PARTNERS

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approximately RMB1.6 billion and RMB1.6 billion respectively and the sum of the aforesaid two items amounted to approximately RMB20.2 billion and RMB12.2 billion as at 30 June 2022 and 31 December 2022. The sum of the aforesaid two items indicates the Group's possible demand of Deposit Services to be provided by commercial banks and CNAF and we note that the sum of the aforesaid two items during the year of 2022, in particular, as at 30 June 2022, which amounted to approximately RMB20.2 billion, is close to the proposed Revised Annual Cap for the year ending 31 December 2023.

Based on the information provided by the Management, as at 30 June 2022 and 31 December 2022, the balance of deposits placed by the Group with CNAF amounted to approximately RMB8.1 billion and RMB3.8 billion respectively, representing approximately 43.5% and 35.8% of the cash and cash equivalents of the Group of approximately RMB18.6 billion and RMB10.6 billion as at 30 June 2022 and 31 December 2022. The Company is not restricted under the Existing Air China Financial Services Agreement and the Air China Financial Services Agreement to place deposits with any other banks or financial institutions. As advised by the Management, during the two years ended 31 December 2022 and the period from 1 January 2023 to 30 March 2023, the Group had from time to time placed term deposits with other commercial banks if the terms provided are more favourable.

*Expected increase in utilisation rates of the Deposit Services after completion of the Shandong Transactions*

On 30 December 2022, the Company announced the proposed acquisition of an additional equity interest of 2.311% in Shandong Aviation Group Company at an aggregate consideration of approximately RMB3.3 billion and the proposed capital increase of RMB6.6 billion in Shandong Aviation Group Company (collectively known as the “**Shandong Transactions**”). Upon completion of the Shandong Transactions, the percentage of the equity interest of Shandong Aviation Group Company held by the Company will increase from 49.4067% to 66%, thereby acquiring the control of both Shandong Aviation Group Company and Shandong Airlines Co., Ltd. (which is owned as to 42% by Shandong Aviation Group Company and 22.8% by the Company). As disclosed in the announcement of the Company dated 7 April 2023, the Shandong Transactions were completed on 7 April 2023.

As advised by the Management, upon completion of the Shandong Transactions, the Group's cash resources would increase by approximately RMB5.5 billion, resulting to an increase in demand for the Deposit Services from CNAF for 2023 and years forward.

*To accommodate the short-term increase in deposits demand resulting from the Group's fund raising activities*

As stated in the Letter from the Board, taking into account the Company's capital needs and current market condition, the Company may raise funds by way of direct financing in the next three years. As advised the Management, it is estimated that this may lead to an increase of the Group's funds and result in an increase of daily balance of deposits to be placed by the Group with CNAF for the next three years ending 31 December 2026. Based on our review of

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## LETTER FROM BAOQIAO PARTNERS

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the public information of the Group published on the website of the Stock Exchange, we note that the Company has completed a non-public issuance of A shares with net proceeds amounting to approximately RMB14.9 million in January 2023.

In addition, based on our review of 2022 Annual Report, as at 31 December 2022, the Group's capital commitment amounted to approximately RMB58,509 million, which mainly consisted of the payables in the next few years for purchasing certain aircraft and related equipment. The Group intends to satisfy the capital expenditure requirement by means such as internal funds or financing. In addition, as disclosed in the 2022 Interim Report, the Group proactively responded to the market changes and dynamically adjusted its operation arrangement. In consideration the expected recovery of the civil aviation market from the COVID-19 pandemic and the gradual resumption of the international routes in the future, it is expected that the Group will expand its operation scale, aligning with the pace of market recovery, and result in an increase in the financing scale of the Group to ensure the liquidity safety. Based on the record published by the Civil Aviation Administration of China (CAAC), the total transportation turnover volume and passenger transportation volume of China's civil aviation increased by approximately 13.9% and 34.8% respectively in January 2023 as compared to the same period in the prior year.

Having considered the above factors, we are of the view that the proposed Revised Annual Cap for the year ending 31 December 2023 and the Air China New Annual Caps for the three years ending 31 December 2026 are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

### **THE CNAHC CREDIT LINE SERVICES (TOGETHER WITH THE CNAHC NEW ANNUAL CAPS) UNDER THE CNAHC FINANCIAL SERVICES AGREEMENT**

#### **(i) Principal terms of the CNAHC Credit Line Services**

Summarised below are the major terms of the comprehensive credit line services, details of which are set out under the paragraph headed "3. The CNAHC Financial Services Agreement and the Relevant Annual Caps of Transactions thereunder" under the sub-section headed "(II) Entering into the Financial Services Agreements" under the section headed "III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS" of the Letter from the Board:

***Date***

30 March 2023

***Parties***

CNAF and CNAHC

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## LETTER FROM BAOQIAO PARTNERS

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### *Principal terms*

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

As confirmed by the Management, the principal terms of the provision of the CNAHC Credit Line Services pursuant to the CNAHC Financial Services Agreement are general in line with the Existing CNAHC Financial Services Agreement.

### *Pricing basis*

As disclosed in the Letter from the Board, the interest rates applicable to the loan and bill discounting services provided by CNAF to the CNAHC Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; and (ii) be not lower than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions.

Upon our request, we have obtained and reviewed two samples loan documents entered into between the CNAHC Group and CNAF (“**CNAF Loan Samples**”), two samples loan documents entered into between the CNAHC Group and state-owned commercial banks and two samples loan documents entered into between the Group and CNAF during 2021 to 2022. Based on the aforesaid documents, we note that the interest rates charged by CNAF to the CNAHC Group were (i) in compliance with the requirements on interests prescribed by PBOC for such type of loan; (ii) not lower than those charged by CNAF to the commercial banks for loans with similar duration and granted in similar period; and (iii) not lower than those charged by CNAF to the Group for loans with similar duration and granted in similar period. As such, we consider that the CNAHC Credit line Services was carried out in accordance with the terms of the Existing CNAHC Financial Services Agreement.

### **(ii) Internal control measures**

With reference to the Letter from the Board, the Group adopted certain internal control measures in respect of the comprehensive credit line services to be provided by CNAF to the CNAHC Group. Details of the measures are set out under the sub-sections headed “(IV) Internal Control Measures for the Non-Exempt Continuing Connected Transactions” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board.

For the review of the CNAF Loan Samples, we noted that (i) CNAF’s staff had conducted pre-loan investigation on loan applications to, among other things, assess the borrowers’ creditworthiness; (ii) CNAF’s loan review committee approved the key terms of the loans; and (iii) after the approval from the loan review committee was obtained, the borrower and CNAF entered into a legally-binding loan agreement and then the loan principal was transferred to the borrower.

For the purpose of Rule 14A.56 of the Listing Rules, the Company’s external auditors, will be engaged to issue a letter to report on the Group’s continuing connected transactions (including the provision of CNAHC Credit Line Services by CNAF to CNAHC Group) in accordance with Hong Kong Standard on



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## LETTER FROM BAOQIAO PARTNERS

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Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. We have obtained from the Company and reviewed the letters issued by the Company’s external auditors in 2020, 2021 and 2022 and noted that the auditors have confirmed that the internal control procedures implemented by the Company have been effective in all material aspects.

Based on the above and our findings on interest rates, we consider that the effective implementation of the measures will ensure the fair pricing of the CNAHC Credit Line Services and we do not doubt the effectiveness of the implementation of the internal procedures for the comprehensive credit line services.

In view of the above, we consider that the terms of the CNAHC Credit Line Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### (iii) Proposed CNAHC New Annual Caps

#### *Historical Figures*

Set out below are the historical maximum daily balance of loans from CNAF to CNAHC Group for the two years ended 31 December 2022 and the period from 1 January 2023 to 30 March 2023:

	<b>For the year ended 31 December 2021 <i>RMB’ billion</i></b>	<b>For the year ended 31 December 2022 <i>RMB’ billion</i></b>	<b>For the year ending 31 December 2023 <i>RMB’ billion</i></b>
Maximum balance of daily loans (including accrued interests) <i>(Note 1)</i>	0.09	0.12	0.13 <i>(Note 2)</i>
Existing annual caps	6.5	6.5	6.5
Utilisation rate (%)	1.38%	1.85%	2% <i>(Note 2)</i>

#### *Notes:*

1. For the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023, CNAF did not provide any credit services to the ACC Group.
2. The maximum daily balance of loans from CNAF to CNAHC Group and the utilisation rate of the existing annual cap for the year ending 31 December 2023 were calculated as at 30 March 2023.

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## LETTER FROM BAOQIAO PARTNERS

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### *CNAHC New Annual Caps*

Set out below are the proposed CNAHC New Annual Caps for the three years ending 31 December 2026:

	<b>For the year ending 31 December 2024</b>	<b>For the year ending 31 December 2025</b>	<b>For the year ending 31 December 2026</b>
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
CNAHC New Annual Caps	5.5	5.5	5.5

As set out in the Letter from the Board, the proposed CNAHC New Annual Caps for the three years ending 31 December 2026 were determined principally in consideration of (i) the historical daily balance of CNAHC Credit Services provided by CNAF to CNAHC Group; (ii) it is the plan of CNAF to further make use its function in loan business as a finance company; (iii) the expected demand of loans of CNAHC Group for each of three years ending 31 December 2026; and (iv) a buffer of RMB500 million for each of three years ending 31 December 2026.

As (i) the utilisation rates of existing annual caps for the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023 were at low levels; and (ii) for the Proposed A-Share Listing, Air China Cargo and CNAF entered into the ACC Financial Services Agreement separately, the Management lower the CNAHC New Annual Caps for the three years ending 31 December 2026. Despite the fact that the proposed CNAHC New Annual Caps for the three years ending 31 December 2026 are lower than the existing annual cap for the year ending 31 December 2023, we note that the proposed CNAHC New Annual Caps are much more than the actual maximum daily balance of loans from CNAF Group to CNAHC Group for the two years ended 31 December 2022.

In assessing the fairness and reasonableness of the proposed CNAHC New Annual Caps, we have taken into consideration the following:

#### *The historical maximum daily balance of loans and utilisation rates*

We note the utilisation rates of existing annual caps for the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023 were approximately 1.38%, 1.85% and 2% respectively. As disclosed in the Letter from the Board, the low utilization rate of the historical annual caps is due to the fact that (i) as CNAHC and its subsidiaries increased the use of direct financing such as super short-term commercial papers and corporate bonds while Air China Cargo successfully brought in strategic investors, the CNAHC Group had ample liquidity overall, therefore their demands for loans were much lower than expected; and (ii) for those members of the CNAHC Group who had loan demands, they could choose to borrow their loans from independent third-party banks rather than CNAF.

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## LETTER FROM BAOQIAO PARTNERS

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### *CNAF as a financing platform*

We understand from the Management that it is the plan of CNAF to further make use its function in loan business as a finance company. CNAF has been providing stable and high-quality financial services to the members of the CNAHC Group in years and CNAF as an intra-group service provider, is more familiar with the CNAHC Group's operation to facilitate efficient loan services to the benefit of the CNAHC Group.

In addition, as advised by the Management, the integrated financial services offered by CNAF under the CNAHC Financial Services Agreement enable the Group to better utilize the platform of CNAF for efficiently manage the CNAHC Group's financial resources in order to achieve cost savings and optimize the indebtedness position of the CNAHC Group.

### *Expected demand of loans from CNAF to CNAHC Group for each of three years ending 31 December 2026*

Based on the information provided by the Management, assuming CNAHC will maintain the same level of demand for liquidity loans in the next three years ending 31 December 2026 and based on the loans with an amount equivalent to 50% of the direct financing previously obtained by CNAHC can be borrowed through CNAF, the estimated loan size can be provided by CNAF to CNAHC would be up to RMB3.85 billion. In addition, in determining the CNAHC New Annual Caps, the Management took into account the possible liquidity needs of the other member companies of CNAHC Group (excluding CNAHC), which is estimated to be approximately RMB770 million, RMB847 million and RMB932 million respectively for each of the year ending 31 December 2024, 31 December 2025 and 31 December 2026.

The Management has applied a buffer of RMB500 million for each of the three years ending 31 December 2026 as an assumption for the determination of the CNAHC New Annual Caps. Having considered that the additional buffer was applied for unforeseeable circumstances, for instance, the unpredictable increase in the CNAHC Group's actual demand on the loan services, we consider the buffer to be acceptable.

As discussed with the Management, despite the low utilisation of loan services under the Existing CNAHC Financial Services Agreement, the Management considered that the CNAHC Financial Services Agreement provides the CNAHC with a source of financing that it can choose to use when it deems appropriate which help the Group to maintain initiative and flexibility to accommodate the CNAHC Group's financing needs as well as any market/industry changes from time to time.

Having considered the above factors, we are of the view that the proposed CNAHC New Annual Caps for the three years ending 31 December 2026 are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

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## LETTER FROM BAOQIAO PARTNERS

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### THE ACC CREDIT LINE SERVICES (TOGETHER WITH THE ACC NEW ANNUAL CAPS) UNDER THE ACC FINANCIAL SERVICES AGREEMENT

#### (i) **Principal terms of ACC Credit Line Services**

Summarised below are the major terms of the comprehensive credit line services, details of which are set out under the paragraph headed “4. The ACC Financial Services Agreement and the Relevant Annual Caps of Transactions thereunder” under the sub-section headed “(II) Entering into the Financial Services Agreements” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board:

#### *Date*

30 March 2023

#### *Parties*

CNAF and Air China Cargo

#### *Principal terms*

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

As confirmed by the Management, the principal terms of the provision of the ACC Credit Line Services pursuant to the ACC Financial Services Agreement are general in line with the Existing ACC Financial Services Agreement.

#### *Pricing basis*

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

As advised by the Management, there was no loan transaction between ACC Group and CNAF for the two years ended 31 December 2022 and for the period from 1 January 2023 to 30 March 2023.

#### (ii) **Internal control measures**

With reference to the Letter from the Board, the Group adopted certain internal control measures in respect of the comprehensive credit line services to be provided by CNAF to the ACC Group. Details of the measures are set out under the sub-sections headed “(IV) Internal Control Measures for the Non-Exempt

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## LETTER FROM BAOQIAO PARTNERS

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Continuing Connected Transactions” under the section headed “III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board. We note that such measures are the same as those adopted for the CNAHC Credit Line Services.

Based on the above, we consider the effective implementation of the measures will ensure the fair pricing of the ACC Credit Line Services and we do not doubt the effectiveness of the implementation of the internal procedures for the ACC Credit Line Services.

In view of the above, we consider that the terms of the ACC Credit Line Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### (iii) Proposed ACC New Annual Caps

Set out below are the ACC New Annual Caps for the three years ending 31 December 2026:

	<b>For the year ending 31 December 2024</b>	<b>For the year ending 31 December 2025</b>	<b>For the year ending 31 December 2026</b>
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
ACC New Annual Caps	0	2	2.5

*Note:*

1. As of the Latest Practicable Date, the sum of the actual amount incurred under the Existing ACC Financial Services Agreement and the actual transaction amount incurred under the Existing CNAHC Financial Services Agreement did not exceed the annual caps for the transaction amount of the existing CNAHC Group framework agreement as approved at the Company's general meeting.

As set out in the Letter from the Board, the proposed ACC New Annual Caps for the three years ending 31 December 2026 were determined principally in consideration of the expected demand of loans of ACC Group for each of three years ending 31 December 2026. Based on the information provided by the Management in relation to the loan requirement plan of ACC Group, ACC Group has sufficient funding for its ongoing business operation and development for the year ending 31 December 2024 and thus, there is no expected loan demand and the annual cap will be zero for the year ending 31 December 2024. We have reviewed the financial statements of Air China Cargo for the year ended 31 December 2021 and we note that the working capital position of Air China Cargo is strong with net current assets and cash and banks balances of approximately RMB9.5 billion and RMB8.8 billion as at 31 December 2021. In respect of the years ending 31 December 2025 and 31 December 2026, the Management is of the view that, (i) with the possible continuous expansion of the business of ACC Group to enhance its capacity level and expand its operating network layout, the liquidity needs of loans from CNAF to ACC Group would amount to approximately RMB1.5 billion and RMB2 billion respectively for each of the year ending 31 December 2025 and 31 December 2026; and (ii) a buffer of approximately RMB500 million for unforeseeable circumstances for the years ending 31 December 2025 and 31 December 2026 respectively.

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## LETTER FROM BAOQIAO PARTNERS

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Having considered the above factors, we are of the view that the proposed ACC New Annual Caps for the three years ending 31 December 2026 are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

### **Reporting Requirement by the Hong Kong Listing Rules**

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

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

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

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

### **RECOMMENDATION**

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

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**LETTER FROM BAOQIAO PARTNERS**

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Yours faithfully,  
For and on behalf of  
**BaoQiao Partners Capital Limited**  
**Irene Poon**  
*Executive Director*

*Ms. Irene Poon is a responsible officer registered under the SFO to carry out Type 1 (dealing in securities) and 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.*

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS OF DIRECTORS AND SUPERVISORS**

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

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors or Supervisors of the Company was materially interested in any contract or arrangement which is significant in relation to the business of the Group and subsisting as at the Latest Practicable Date.

Mr. Patrick Healy, a non-executive Director of the Company, is concurrently the chairman and an executive director of Cathay Pacific. Cathay Pacific is a substantial shareholder of the Company, holding 2,633,725,455 H shares of the Company (representing approximately 16.26% of the total issued shares of the Company) as at the Latest Practicable Date, and wholly owns Cathay Dragon. Mr. Ma Chongxian, an executive Director of the Company, is concurrently non-executive directors of Cathay Pacific. Cathay Pacific competes or is likely to compete either directly or indirectly with the Company in 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 of the Company and their respective close associates (as defined in the Hong Kong Listing Rules) had any competing interests which would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules as if each of them was a controlling shareholder of the Company.



**3. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had 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 (holding interests or short positions in the shares and underlying shares of the Company required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO) as at the Latest Practicable Date:

Mr. Ma Chongxian, the chairman of the Board and an executive Director of the Company, serves as the chairman and the Secretary of the Communist Party Group of CNAHC. He is also a non-executive director of Cathay Pacific.

Mr. Wang Mingyuan, an executive Director, the vice chairman of the Board and the president of the Company, serves as the director, the general manager and the Vice 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 the 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 labour union of CNAHC.

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

Mrs. Lyu Yanfang, a Supervisor of the Company, serves as the general manager of the law department of CNAHC.

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

**5. NO 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 qualifications of the expert who has given its opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
BaoQiao Partners	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
a.	As at the Latest Practicable Date, BaoQiao Partners 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 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 has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and the references to its name included herein in the form and context in which they respectively appear.

**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, Airport Industrial Zone, Shunyi District, Beijing, the PRC. The head office of the Company is at No. 30 Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC.
- c. The H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- a. the Existing Air China Financial Services Agreement;

- b. the Air China Financial Services Agreement;
- c. the CNAHC Financial Services Agreement;
- d. the ACC Financial Services Agreement; and
- e. this circular.

**AIR CHINA LIMITED**  
**2022 WORK REPORT OF THE BOARD OF DIRECTORS**

The Board of Air China, which served as a national flag carrier and an aviation central enterprise, resolutely implemented the philosophy of the important instructions and directives issued by General Secretary Xi Jinping, the decisions and deployment plans of the CPC Central Committee and the State Council, fulfilled the work requirements of state-owned assets regulation and securities regulation and adhered to the “two-consistency” principle. With continuous efforts in optimizing the corporate governance mechanism, the Board continued to improve the standardization and effectiveness of its operation and steadily enhanced the level and capability of corporate governance, which provided a strong support for the strategy of building a world-class aviation transportation group and promoting the high-quality development of the Company.

**I. STRENGTHENED THE PARTY’S LEADERSHIP WHILE IMPROVING GOVERNANCE**

- (I) Strengthened the Party’s leadership. The Board successfully completed the three-year action plan for the reform of State-owned enterprises, and promoted the Work Plan for Improving the Quality of Listed Companies Controlled by Central Enterprises (《提高央企控股上市公司質量工作方案》) with careful planning. Furthermore, rectification measures in response to the central inspection, audit and assessment opinions of the Board were carried out. Upholding the concept that “safety responsibility is a kind of political responsibility”, the Board conscientiously implemented its working mechanism regarding safety operation as the “First Proposal” so as to perform its own responsibility in safety management. In accordance with the checklists of rights and responsibilities, it gave full play to the leadership role of the Party Committee in “setting the right direction, keeping in mind the big picture and promoting implementation”, thereby fostering effective connection and standardized operation among the Party Committee, the Board, the management and other governance bodies. To promote the standardized establishment of the Board, it fulfilled the responsibility of establishing the board of directors of subsidiaries and integrated Party building into corporate governance at all levels.
- (II) Giving play to the leadership role of the Party Committee. In 2022, based on the principle of “dynamic revision and continuous improvement”, the Board revised the decision-making matters, procedures and authority set out in the Checklist of Rights and Responsibilities for Material Matters, thereby enhancing the scientificity and effectiveness of the checklist of rights and responsibilities to better cater to the management and development needs of the Company. The Board clarified the scope of “decision-making” and “discussion” of the Party Committee, while strictly ensuring that preliminary research and discussion were carried out by the Party Committee for material operation and management matters. In 2022, the Board deliberated 53 proposals, of which the Party Committee made decisions on 7 proposals, and conducted preliminary research and discussion for 23 proposals. The preliminary research and discussion involved major proposals relating to introduction of aircraft, non-public issuance of shares and acquisition of equity interests in Shandong Aviation Group Corporation. The opinions put forward by the Party Committee after preliminary research were reflected in the Board’s proposals, ensuring that the decisions made by the Board were fully in line with the intention

of the Party organization. The Board also improved the checklists of rights and responsibilities for material matters of subsidiaries, with a view to giving full play to the leadership role of the Party in the governance of subsidiaries.

- (III) Integrated Party building into corporate governance. In 2022, the Company completed the adjustment of the main management and the re-election of the Board pursuant to the deployment plans of the CPC Central Committee and SASAC. It also adopted the “several responsibilities on one shoulder” model of the Secretary of Party (Group) Committee and Chairman, and fulfilled the work requirement of cross-appointment for members of the management and members of the leading group of the Party organization, thereby realizing a steady and coordinated operation among different governance entities and ensuring the organic integration of Party leadership with the main responsibility of establishing the board of directors.

## II. STRENGTHENED THE DEVELOPMENT OF GOVERNANCE SYSTEM

### (I) Continued to enhance the corporate governance system

- 1. Improved the rules and regulations.** The Board systematically improved the rules and regulations in accordance with the latest laws and regulations, the requirements of State-owned assets regulation and securities regulation, as well as the revised checklist of the rights and responsibilities for material matters. The Board revised and improved the Provisions on Internal Audit (《內部審計工作規定》) and Provisions on Internal Control and Management (《內控管理規定》). With reference to the requirements of State-owned assets regulation and securities regulation, it systematically reviewed the rules and procedures of meetings of the Board and each of the special committees, and formulated the Provisions on Liability Management (《負債管理規定》). Furthermore, revisions were made to 20 rules and regulations, including the Provisions on Guarantee Management (《擔保管理規定》) and the System for Use and Management of Proceeds (《募集資金使用與管理制度》). At the subsidiary level, the Board formulated and revised 43 management systems that supported the implementation of the major functions and powers of the Board.
- 2. Consolidated the development of systems for the board of directors of subsidiaries.** The Board established a “1+N” system framework with the Provisions on Management of Investment Enterprise (《投資企業管理規定》) as the core and the Working Rules of the Board of Directors of the Investment Enterprise (《投資企業董事會工作規則》) and others as supporting rules. It also formulated the Rules for Management of Dedicated External Directors and Supervisors, Assessment and Appraisal of Directors and Guarantee of Duty Performance (《專職外部董監事管理、董事考核評價及履職保障》) and other supporting systems, putting in place a system to support the performance of duties by the external director team of investment enterprises.
- 3. Established a mechanism to implement regulatory policies.** Given that the Company was subject to both State-owned assets regulation as well as domestic and foreign securities regulation, the Board kept abreast of the latest policies, systems and rules in

relation to State-owned assets regulation as well as domestic and foreign securities regulation. It also prepared Monthly Report on State-owned Assets Regulation (《國資監管信息月報》) and Monthly Report on Securities Regulation (《證券監管信息月報》), with a view to gaining understanding on the spirit of the regulations and supporting its implementation of regulatory requirements.

## (II) Strengthened the Standardized Development of the Board

### 1. *Standardized Operation*

- (1) Deepen the implementation of the functions and powers of the Board. The Board earnestly implemented the deployment plans of the SASAC and fulfilled the mission requirements of the three-year action plan for deepening reform. It strictly carried out 6 major functions and powers. When making major decisions in relation to introduction of aircraft and other matters, the Board has fully leveraged the professional expertise and experience of directors, and conducted a comprehensive analysis and evaluation based on the compatibility with the Company's strategy, the matching degree with market demand, the margin of operational security resources and the balance between risk and benefit, performing its role as the main decision-making entity. With a focus on the reform of three systems, the Board achieved full implementation of the tenure system and contracting of the management. It also stimulated the vitality of employees and enhanced the competitiveness of the enterprise by adopting a market-oriented recruitment and remuneration incentive mechanism. Relevant "implementation plan and checklist" were formulated to push forward the implementation of 6 major functions and powers of the board of directors in 14 subsidiaries.
- (2) Standardized the authorization of the Board. The Board strengthened the supervision over authorization on management matters and received reports on the exercise of power from the management on a semi-annual basis to ensure duly assured authorization with effective exercise of power. In 2022, the management of the Company has cautiously exercised the authorization regarding the transfer and use of off-budget funds for four times within the authority granted by the Board.
- (3) Strengthened the supervision of the Board. Firstly, the Board strengthened the supervision over the implementation of Board resolutions. The Board received special reports on the implementation of resolutions from the management on a semi-annual basis and regularly issued the Feedback Survey on the Implementation of Board Resolutions (《董事會決議執行反饋單》) to follow up the implementation progress of the resolutions, which formed a closed-loop management. In 2022, the Board approved 53 resolutions. Among which, three resolutions were delayed due to the project execution schedule while 50 resolutions were completed on schedule. Secondly, the Board strengthened the supervision over the implementation of major rectification measures. The Board

focused on strengthening the supervision over the implementation of rectification of issues identified during central audit and inspections, opinions on approval of financial accounts and opinions on evaluation of the Board. The Chairman strengthened the monitoring and control on the rectification process by making arrangements in person and formulating task lists to ensure practical and effective rectification. Based on the special reports from the management, independent directors gained understanding of the rectification progress and raised opinions and recommendations by leveraging on their expertise and experience to ensure effective implementation of rectification. Thirdly, according to the regulatory requirement of the Hong Kong Stock Exchange, the Board fulfilled securities regulatory responsibility by establishing a whistleblowing mechanism, under which employees, customers and suppliers can report to the Audit and Risk Control Committee (Supervision Committee).

2. *Strengthened the guarantee of duty performance*

- (1) Enhanced the support for duty performance of external directors. The Board revised and optimized the Working System for Guarantee of Duty Performance of External Directors (《外部董事履職保障工作制度》) of the Company and improved the “three guarantees” working mechanism. Firstly, in terms of guarantee for information, an electronic office information system was put in place. The Board established and optimized a mechanism for external directors to inquire about the Company’s situation and a mechanism for reporting significant events. Secondly, in terms of guarantee for business, the Board coordinated with special committees by capitalizing on the joint working group mechanism and supported the scientific decision-making by external directors. The Board determined the focus of research and made research plans based on the recommendations of external directors to ensure project execution. In addition, external directors received training on regulation of state-owned assets and securities as scheduled. Thirdly, in terms of guarantee for capability, the Board enhanced the development of its own capabilities and optimized the working mechanism and procedures with a focus on improving the quality of both employees and projects, thereby providing efficient services to external directors for duty performance.
- (2) Implemented a thorough communication mechanism for major decisions. The Board strengthened the communication between the Chairman and external directors, internal directors and external directors as well as directors and the management. For major decisions, the Chairman carried out “one-on-one” communication with external directors as soon as possible to exchange views and build a consensus, with a view to enhancing the efficiency of decision-making. Regarding various key tasks of the Company such as safe operation, pandemic prevention and control and maximization of operating performance, the Chairman and external directors carried out 18 thorough discussions, which enabled external directors to gain in-depth understanding of various aspects of the Company, including production, operation and pandemic prevention and control.

The Board stringently implemented the mechanism of reporting and proposal by the management to the Board to ensure the organic connection among governance bodies.

- (3) Implemented the work plan for research of external directors. Based on the duty performance requirements of external directors, the Board carried out three researches on nine business units, which were responsible for production, operation, marketing services and other businesses, as planned. The Board gained in-depth understanding of the progress and difficulties in respect of the Company's strategic development, safe operation, marketing and operating management, and provided opinions and recommendations on digital transformation, market-oriented selection and recruitment mechanism, which provided support to external directors for decision-making.

### 3. *Promoted the establishment of the board of directors of subsidiaries*

In accordance with the Opinions on Strengthening the Establishment of the Board of Directors of Subsidiaries of Central Enterprises (《關於中央企業深化子企業董事會建設的意見》) published by the SASAC, 32 subsidiaries have completely fulfilled the responsibility of establishing the board of directors with external directors as the majority while 14 subsidiaries comprehensively performed the major functions and powers of the board of directors. Leveraging on the talent pool of dedicated external directors, the Board assigned dedicated external directors and supervisors to six investment enterprises. By setting up an administrative department of external directors, the Board established a mechanism for regular communication in order to timely resolve problems faced by dedicated external directors during their performance of duties. The Board formulated an assessment and evaluation mechanism for the board of directors and directors of subsidiaries, at the same time supervising subsidiaries to strengthen the establishment of the board of directors and external directors to perform their duties diligently so as to enhance the quality of decisions and risk prevention capability.

## III. IMPLEMENTED THE MAIN RESPONSIBILITY OF THE BOARD

### (I) Strengthened the strategic leadership

**1. Solidly advanced the implementation of strategies.** Focusing on the establishment of a world-class aviation and transportation group, the Board took world-class peers as its benchmark in the preparation of special reports, and refined 12 tasks through precise management and made 53 milestone achievements during the year. Striving to make contribution to the major regional development strategies of China, the Board prepared a major regional development plan for the first time. During the strategic seminar, the Board clarified the relationship between the reduction of loss while achieving a turnaround from loss to profit and the corporate strategic goal of building a world-class enterprise of the CNAHC Group, and analyzed the development of the coming three years and the strategic focus in 2023, aiming to specify the implementation approach and plan.



**2. Promoted the innovative development.** The Board attached great importance to the innovative development and actively pushed forward the innovative technological management by developing an innovative management platform and making active contributions to the major breakthroughs in technological application. Centering on dual-carbon goals, the Board promoted green development by adhering to the dual-carbon strategy and implemented the Action Plan for Peak Carbon Emissions of China National Aviation Holding Corporation Limited (《中國航空集團有限公司碳達峰行動方案》) to shape the image as a green aviation central enterprise. By devoting significant efforts in completing the top-level design for digital transformation, the Board specified the action plan and implementation approach to solidly advance the digital transformation and upgrade.

**3. Optimized the strategic post-evaluation system.** Based on the national and industrial development strategies, the Board dynamically optimized the mid-to-long term planning system to ensure that the planned objectives and paths of the Company will be consistent with the requirements of the superior authorities. The inspection and evaluation on the implementation of strategies have been strengthened at all levels to ensure that the major operation decisions of the Company will be aligned with the Company's strategic plans and focused on its main responsibilities and core businesses, thereby avoiding strategic risks and timely rectifying any deviations arising in the course of implementation. It has also comprehensively commenced the publicity work of its plans and promoted the high-quality implementation of the strategic plans in the system by adopting a model of "promoting key tasks based on stratification and classification, and strengthening quantitative evaluation of index systems".

## (II) Improved the scientific decision-making level

**1. Decision-making in strict compliance with laws.** The Board exercised its powers and performed its duties in strict accordance with the requirements of laws and regulations, the Articles of Association and the Rules and Procedures of Board Meeting. During the year, the Board held 16 meetings, during which 53 resolutions were considered and approved, including major investments and 6 issues in relation to major functions and powers such as aircraft introduction, acquisition of equity interests, total salaries and payment plans, annual appraisal results of the management and remuneration redemption plans; and received 9 special reports regarding issues such as the implementation of rectification for problems identified during the approval of financial accounts by the SASAC, the execution of Board resolutions and the exercise of power by the management. For major investment projects, the Board exercised proper control over the entities, procedures, matters and components of decision-making to ensure lawful and compliant decision-making process. Through early intervention, sufficient communication and scientific research and judgement of the directors, the decision-making efficiency of Board resolutions has been enhanced.

**2. Giving play to the role of external directors.** Leveraging the advantages stemming from their expertise and experience, the external directors have conducted in-depth study on the legality and compliance of the resolutions, the consistency with the requirements of the investors, the compatibility with the Company's strategies and the balance between risks and revenues with a focus on the risks relating to decision-making. It has also thoroughly discussed and studied the matters with the management and provided professional advices and recommendations. The aviation industry was hard hit by the pandemic during the past three years and the Company was under huge operating

pressure. While formulating plans and making suggestions to help the Company out from the predicament, the external directors also compiled special reports on the operating conditions of the Company for submission to the superior authorities to seek their policy support. Based on the development trends of the industry, the external directors have reached a consensus for the promotion of digital transformation with the management, striving to establish our first-mover advantages in the post-pandemic era through the innovation of processes and concepts. Having paid due respect to the advices of the independent directors, the Board has also established a supervision mechanism for the implementation of their advices.

### **3. Giving play to the supporting role of the special committees for decision-making.**

During the year, the special committees of the Board held 29 meetings, during which 54 resolutions were considered. Suggestions and proposals for promoting the implementation of strategies, ensuring safe production and operation, preventing major risks and strengthening supervision and rectification were submitted with an aim to support scientific decision-making of the Board. The special committees gave full play to the mechanism of joint working group comprised of various business departments, which has enriched the perspectives and dimensions of their works, thereby better playing the supporting role of the special committees for decision-making. The directors of the committees reported to the Board the deliberation results, advices and recommendations of the committees as references for the decision-making of the Board.

## **(III) Strengthened the building of risk resistance capability**

### **1. Strengthened efforts in the building of the risk prevention and control system.**

The Board attached great importance to the building of the “four-in-one” risk control and compliance management system. It has arranged business units of the Company to submit special reports in order to gain understanding of the progress and effectiveness of the development of the risk control and compliance management system. It has also provided suggestions on strengthening the building of the compliance culture, creating the compliance environment and accelerating the development of the digital system, thereby improving the transparency of management and efficiency of the control measures through consolidation of the digital systems and procedures.

### **2. Enhanced supervision efforts in relation to rectification works.**

Centering on central inspection, audit on economic responsibilities, opinions on evaluation of the Board and the rectification for problems identified during the approval of financial accounts, the Board supervised the establishment of a working mechanism by the management to report their progress of rectification periodically so as to ensure effective implementation of the relevant works. The dedicated external directors received reports on the progress of rectification actions from time to time and supervised the management to complete various rectification tasks as planned.

### **3. Prevented major operational risks.**

Pursuant to the working requirements for special actions on comprehensive governance of “Strict Financial Discipline, Lawful And Compliant Operation”, the Company has formulated action plans, defined the responsible entities and clarified the work responsibilities, and the external directors have received the relevant special reports and prompted the Company to conduct investigations on risks relating to compliant operation of domestic and overseas businesses as well as risk relating to financial businesses. The Audit and Risk Control Committee (Supervision Committee) put forward advices and recommendations in respect of safety of

cash flows, connected transactions, management of overseas assets and the development of the risk prevention and control system in an effort to support the implementation of the major works in relation to risk prevention by the management.

**4. Promoted the formation of the “comprehensive supervision” system with joint efforts.**

The Board has enhanced the coordination of works between the Audit and Risk Management Committee (the Supervision Committee), the external directors and the Supervisory Committee, which promoted the synergy of work among various supervisory departments including discipline inspection, internal audit, legal compliance, etc. With such efforts, the Board has established a risk control and “comprehensive supervision” system covering pre-warning, in-process control and post-tracking accountability to support the Board to effectively prevent risk relating to decision-making.

Looking back at 2022, the Company successfully completed the re-election of the Board. Four independent directors have joined the new session of the Board. These directors possessed professional experience in aspects such as planning of corporate strategies, finance and audit, operation management and legal, which brought new ideas, new perspectives, new vision and new concepts to the Board, hence realizing professional diversification, extensive experience and complementary capabilities and laying a sound foundation for regulating the development of the Board.

The Board gave full play to the functions of “developing strategies, making decisions and preventing risks” and improved the multi-dimensional communication and reporting mechanism. Positive progress has been achieved in aspects such as regulating the development of the Board and that of the board of directors of subsidiaries, and enhancing the ability in guaranteeing duty performance of the external directors. As a result, the quality of the development and operation of the Board improved steadily, and the foundation of corporate governance work was further solidified. Pursuant to the regulatory requirements on state-owned assets and securities, the Board carried out work in relation to information disclosure and investors’ relation in a practical manner. Its information disclosure received Grade A rating from the Shanghai Stock Exchange for nine years in a row and its results briefing made the list of 2021 Best Practice of China Association for Public Companies (CAPCO).

**IV. WORK ALLOCATION FOR THE YEAR 2023**

In 2023, guided by the philosophy of the 20th National Congress of the Communist Party, the Board adhered to the “two-consistency” principle, conscientiously implemented the major decisions and deployment plans of the CPC Central Committee and the State Council, fulfilled the work requirements of the SASAC and the requirements of CNAHC Group, and effectively coordinated the state-owned assets regulation and securities regulation, aiming to form an excellent Board. As such, the Board will continue to improve the quality of its operations by giving full play to its roles and responsibilities of “strategy formulation, decision making and risk prevention” and focusing on its decision-making and supervisory roles.

*Board of Directors,*  
**Air China Limited**

**AIR CHINA LIMITED**  
**2022 WORK REPORT OF THE SUPERVISORY COMMITTEE**

In 2022, the Supervisory Committee of the Company, based on its functions and positioning, faithfully and diligently performed their duties, supervised and inspected the performance of duties by directors and senior management, the Company's finance, the establishment of internal control system, the decision-making procedures of the Board and the Company's operation and management activities in strict accordance with the laws and regulations, such as the Company Law and the Securities Law, and relevant requirements, such as the Articles of Association. The Supervisory Committee played its supervisory role and safeguarded the interests of the Company and its shareholders and the legitimate rights and interests of employees. The work of the Supervisory Committee is hereby reported as follows:

**I. PERFORM THE SUPERVISORY AND INSPECTION DUTIES OF THE SUPERVISORY COMMITTEE**

- (1) Perform its duties according to law and play the supervisory role. Firstly, the Supervisory Committee attended 4 general meetings of shareholders, 11 on-site meetings of the Board and important special sessions of the Company throughout the year to fully understand the Company's production and operation and material operation and management matters, and focus on the supervision of meeting convening procedures and decision-making procedures. Secondly, the Supervisory Committee attended the Company's annual work meeting, interim work meeting and employee representative meeting. The Supervisory Committee carefully reviewed the work report of the management and the duty performance reports of directors and senior management of the Company, and timely monitored the duty performance of directors and senior management. Based on the audit inspection and the assessment results of SASAC, the Supervisory Committee followed up on the implementation of SASAC's assessment and rectification of the Board.
- (2) Effectively strengthen financial supervision. In view of the basic supervisory responsibilities, the Supervisory Committee regularly listened to the special reports of the Financial Department and the annual audit accountant, reviewed the Company's annual, interim and quarterly financial reports, and supervised the Company's financial operation and report preparation, audit and disclosure procedures, to ensure that the financial report information disclosed by the Company was true, accurate and complete.
- (3) Promote the development of the internal control system. The Supervisory Committee implemented the Company's requirements for legal compliance, quality improvement and efficiency increase, and further strengthened the development of the Company's internal control system and the implementation of internal control assessment and rectification. While carefully reviewing the internal control implementation plan and assessment report, the Supervisory Committee also listened to the special reports of the Company's functional departments, supervised the internal control assessment and rectification, carefully inspected the rectification results and improved the internal control and management level.

- (4) Strengthen supervision coordination. The Supervisory Committee put emphasis on strengthening communication with the Audit Committee and independent directors, constantly innovated the supervision mechanism and methods, and realized supervision coordination and sharing of resources. Adhering to the direction of preventing and eliminating major risks, the Supervisory Committee worked together with the Company's internal audit, compliance, discipline inspection and other supervisory departments to promote the risk control and supervision system of pre-warning, in-process control and ex-post accountability.

## **II. FOCUS ON LEGAL COMPLIANCE AND IMPROVE THE QUALITY OF DECISION-MAKING AND SUPERVISION**

- (1) Perform the duties of supervisors. The Supervisory Committee faithfully and diligently performed its duties within the scope of its functions and powers. Adhering to the principles of collective review and consideration, independent voting and individual accountability, it organized and held 8 meetings of the Supervisory Committee during the year, and made decisions on and supervised 22 major issues such as the annual financial plan, investment plan, financial report, profit distribution proposal, non-public issue of A shares, management and use of proceeds, internal control assessment report and internal control audit report, framework agreements on continuing related transactions between Air China and CNACG, between Air China and Air China Cargo and between Air China and Cathay Pacific, as well as the annual transaction caps, in accordance with its functions and powers.
- (2) Support the management to exercise their powers and perform their duties. The Supervisory Committee always expressed its opinions from the perspective of safeguarding the interests of the Company and its shareholders and the legitimate rights and interests of employees. It supported the management in both pandemic prevention and control and in production and operation, pushed forward the successful accomplishment of the three-year action mission for the reform of the state-owned enterprise and the implementation of the Company's material projects, and effectively promoted the management to perform the duties of pursuing operation results, implementing the requirements and strengthening the management.
- (3) Promote and improve the corporate governance system. Focusing on speeding up the improvement of the modern corporate system with Chinese characteristics, the Supervisory Committee took the initiative to strengthen coordination and communication with the Party Committee, the Board, the management and other corporate governance bodies, and defined the rights and responsibilities of each governance bodies while cooperating with the revision of the checklist of the rights and responsibilities for significant events of the Company. The Supervisory Committee promoted and improved the checklist of significant events of secondary and tertiary subsidiaries to be decided by Air China, and realized the corporate governance system of horizontal to border, vertically top-down and full level coverage.
- (4) Enhance the ability to perform duties. Members of the Supervisory Committee actively participated in the special training for directors and supervisors of listed companies organized by the China Association for Public Companies and the Listed Companies Association of Beijing to keep abreast of the latest securities regulatory policies and regulation, the standardized operation of listed companies and the practice of the supervisory committee, and

strengthen the sense of responsibility for lawful and compliant performance of duties, thereby enhancing the ability to perform duties and make decisions. During the year, Wang Jie, Qin Hao, Lyu Yanfang and Guo Lina, the Supervisors of the Company, have completed the training programs for supervisors during their term of office as required by the CSRC Beijing Bureau.

### **III. EXPRESS SPECIAL OPINIONS BASED ON THE INDEPENDENCE PRINCIPLE**

- (1) Independent opinions on the lawful and compliant operation of the Company. During the reporting period, the Supervisory Committee attended important meetings of the Board and the Company, listened to the special reports and fully exercised its power of inspection and supervision. The Supervisory Committee held that the Company operated in accordance with the Company Law and the Articles of Association, and its decision-making procedures were legal and effective. No directors or senior management of the Company have been identified to violate laws and regulations or the Company's Articles of Association or harm the interests of the Company or the legitimate rights and interests of employees when performing their duties.
- (2) Independent opinions on the Company's financial status. During the reporting period, the Supervisory Committee reviewed the Company's annual report, interim report and Q1 and Q3 reports (including financial statements). It considered that the financial data contained in the above reports truly, accurately and completely reflected the Company's financial status and operating results, and concurred with the standard unqualified audit opinion issued by Deloitte on the financial statements.
- (3) Independent opinions on the Company's related transactions. During the reporting period, the Supervisory Committee respectively reviewed the framework agreements on continuing related transactions between Air China and CNACG, between Air China and Air China Cargo, and between Air China and Cathay Pacific, and the annual transaction caps. It considered that the continuing related transactions of the Company were normal business transactions, with fair and reasonable pricing and transaction contents in line with business practices and the arm's length principle, and were not detrimental to the interests of the Company and minority shareholders. Related directors and shareholders abstained from voting during the review and consideration at the meetings of the Board and the general meetings of shareholders according to the legal and compliant review and consideration procedure.
- (4) Review and independent opinions on the self-assessment report of internal control. During the reporting period, the Supervisory Committee reviewed the Company's internal control assessment report and internal control audit report, paid attention to and supervised the development of the Company's internal control system and internal control rectification. It considered that the Company's internal control mechanism was continuously improved and its risk control ability was continuously improved. The self-assessment report on the Company's internal control issued by the Board reflected the actual status of the Company's internal control in an objective and true manner.

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**APPENDIX III 2022 WORK REPORT OF THE SUPERVISORY COMMITTEE**

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- (5) Independent opinions on the deposit and actual use of the proceeds. During the reporting period, the Supervisory Committee reviewed the special report on the deposit and actual use of proceeds from previous fund raising and the audit report issued by Deloitte. It considered that the Company had truly, accurately and completely disclosed the relevant information on the deposit and use of the proceeds, there were no violations in the management and use of the proceeds.

*Supervisory Committee,*  
**Air China Limited**

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## NOTICE OF ANNUAL GENERAL MEETING

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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)**

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an annual general meeting (the “AGM”) of Air China Limited (the “Company”) for the year ended 31 December 2022 will be held at 11:00 a.m. on Thursday, 25 May 2023 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 defined, capitalized terms herein shall have the same meaning as defined in the circular (the “Circular”) of the Company dated 3 May 2023.

#### ORDINARY RESOLUTIONS

1. the resolution on the 2022 work report of the Board
2. the resolution on the 2022 work report of the supervisory committee
3. the resolution on the financial reports for the year 2022
4. the resolution on the profit distribution proposal for the year 2022
5. the resolution on the unrecovered losses of the Company exceeding one-third of the total amount of its paid-up share capital
6. the resolution on the re-appointment of international auditor, domestic auditor and internal control auditor for the year 2023
7. the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between the Company and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026
8. the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between CNAHC and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026



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## NOTICE OF ANNUAL GENERAL MEETING

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9. the resolution on the entering into of the new Continuing Related Transactions Framework Agreement on Financial Services between Air China Cargo and CNAF and the application for the annual caps of the transactions thereunder for the years from 2023 to 2026
10. the resolution on the entering into of the Continuing Related Transactions Framework Agreement on Trademark License between the Company and CNAHC

### SPECIAL RESOLUTION

11. the resolution on the grant of mandate to the Board of the Company to issue debt financing instruments

For details of the foregoing resolutions, please refer to the Circular.

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

Beijing, the PRC, 3 May 2023

*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 H share register of members of the Company will be closed from Thursday, 18 May 2023 to Thursday, 25 May 2023 (both days inclusive), during which time no transfer of H Shares will be effected and registered. In order to qualify for attendance and voting at the AGM, holders of H Shares shall lodge all instruments 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 Wednesday, 17 May 2023.

H shareholders whose names appear on the register of members of the Company on Thursday, 18 May 2023 are entitled to attend and vote at the AGM.

#### **2. Proxy**

Every shareholder who has the right to attend and vote at the AGM 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 AGM.

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointor or his attorney duly authorized in writing. If the appointor 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 authorized in writing. The instrument appointing the proxy for holders of H Shares shall be deposited at the Company's H share registrar not less than 24 hours before the time specified for the holding of the

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## NOTICE OF ANNUAL GENERAL MEETING

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AGM (or any adjournment thereof). If the instrument appointing the proxy is signed by a person authorized by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarized. The notarized 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.

**3. Other businesses**

- (i) The AGM is expected to last for no more than half of 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)28628628  
Fax No.: (852)28650990