THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中國國際航空股份有限公司

AIR CHINA LIMITED

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

(Stock Code: 00753)

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

寶橋 BAOQIAO PARTNERS

BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 50 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 51 to 52 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 53 to 66 of this circular.

A notice convening the EGM to be held at 11:30 a.m. on Thursday, 5 December 2024 at The Conference Room, C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC, is set out on pages 72 to 74 of this circular. Whether or not you are able to attend the EGM, 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 EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

18 November 2024

CONTENTS

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

"2021 Circular"	the circular issued by the Company on 12 November 2021 to the Shareholders in respect of, among other things, certain continuing connected transactions
"2021 EGM"	the extraordinary general meeting of the Company held on 30 December 2021
"ACC Framework Agreement"	the framework agreement dated 20 September 2022 entered into between the Company and Air China Cargo in respect of the ACC Transactions
"ACC Group"	Air China Cargo and the corporations or other entities in which Air China Cargo holds 30% or more equity interests or voting rights at the general meeting or the majority directors of which are controlled, directly or indirectly, by Air China Cargo
"ACC Transactions"	the continuing connected transactions contemplated under the ACC Framework Agreement between any member of the Group on the one hand, and any member of the ACC Group on the other hand
"Air China Cargo"	Air China Cargo Co., Ltd., a joint stock company incorporated under the laws of the PRC with limited liability
"associate(s)"	has the meaning ascribed to it by the Hong Kong Listing Rules
"Board"	the board of Directors
"CAAC"	the Civil Aviation Administration of China
"Cathay Pacific"	Cathay Pacific Airways Limited
"CNACD"	China National Aviation Construction and Development Company, a wholly-owned subsidiary of CNAHC and is primarily engaged in businesses such as entrusted asset management, real estate development and construction project implementation and supervision
"CNACD Group"	CNACD and the corporations or other entities in which CNACD holds 30% or more equity interests or voting rights at the general meeting or the majority directors of which are controlled, directly or indirectly, by CNACD

"CNACG"	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC and a substantial shareholder of the Company, which directly holds approximately 11.75% of the Company's issued share capital as at the Latest Practicable Date
"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 51.32% of the issued share capital of the Company in aggregate as at the Latest Practicable Date
"CNAHC Framework Agreements"	the Government Charter Flight Services Framework Agreement, the New Properties Leasing Framework Agreement, the Media Services Framework Agreement and the New Comprehensive Services Framework Agreement
"CNAHC Group"	CNAHC and the corporation or other entities in which CNAHC holds 30% or more equity interests or voting rights at the general meeting or the majority directors of which are controlled, directly or indirectly, by CNAHC (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 Transactions"	the continuing connected transactions contemplated under the Government Charter Flight Services Framework Agreement, the New Properties Leasing Framework Agreement, the Media Services Framework Agreement and the New Comprehensive Services Framework Agreement for the three years ending 31 December 2027
"CNAMC"	China National Aviation Media Co., Ltd., a wholly-owned subsidiary of CNAHC
"Company" or "Air China"	Air China Limited, a company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
"Comprehensive Services Framework Agreement"	the framework agreement for the continuing related (connected) transactions of comprehensive services entered into between the Company and CNAHC on 29 October 2021

"connected person(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 11:30 a.m. on Thursday, 5 December 2024 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC
"Government Charter Flight Service Framework Agreement"	the framework agreement for the continuing related (connected) transactions of government charter flight service entered into between the Company and CNAHC on 29 October 2021
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange as primary listing venue and have been admitted into the Official List of the UK Listing Authority as secondary listing venue
"H Shareholder(s)"	holders of the H Shares
"Independent Board Committee"	a board committee comprising 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 Transactions
"Independent Financial Adviser" or "BaoQiao Partners"	BaoQiao Partners Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the Non-exempt Transactions, and also being the independent financial adviser to give opinion on the leasing term of properties under the New Properties Leasing Framework Agreement and the ACC Framework Agreement

"Independent Shareholders"	In respect of the CNAHC Transactions, the Shareholders of the Company other than CNAHC and its associate(s); in respect of the ACC Transactions, the Shareholders of the Company other than CNAHC, CNACG, Cathay Pacific and their respective associates
"Latest Practicable Date"	12 November 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Media Services"	including but not limited to the operation, design, creation, planning, production, promotion and dissemination in relation to aviation-related all-media business sectors such as in-flight entertainment system, in-flight network platform, brand management, media publicity management, advertisement management, all-media platform management, media cooperation management and copyright management
"Media Services Framework Agreement"	the framework agreement for the continuing related (connected) transactions of media services entered into between the Company and CNAMC on 29 October 2021
"New Comprehensive Services Framework Agreement"	the framework agreement for the continuing related (connected) transactions of comprehensive services entered into between the Company and CNAHC on 30 October 2024
"New Properties Leasing Framework Agreement"	the framework agreement for the continuing related (connected) transactions of properties leasing entered into between the Company and CNAHC on 30 October 2024
"Non-exempt Transactions"	the relevant transactions of the Passenger Aircraft Cargo Business under the ACC Framework Agreement and the relevant annual caps for the three years ending 31 December 2027
"Passenger Aircraft Cargo Business"	all passenger aircraft cargo businesses and a series of relevant business operation activities (including but not limited to sales, pricing and settlement of aircraft cargo space) operated by the Group (including all airlines controlled by the Group)
"Properties Leasing Framework Agreement"	the framework agreement for the continuing related (connected) transactions of properties leasing entered into between the Company and CNAHC on 29 October 2021
"RMB"	Renminbi, the lawful currency of the PRC
"Shanghai Listing Rules"	The Rules Governing the Listing of Stocks on the Shanghai Stock Exchange

"Shareholder(s)"	holder(s) of the shares of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"US$"	United States dollars, the lawful currency of the United States
"Zhejiang Zhongyu"	Zhejiang Zhongyu Aviation Development Co., Ltd. (浙江中宇航空發展有限公司)
"%"	per cent

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:

Executive Directors:
Ma Chongxian *(Chairman)*
Wang Mingyuan

Non-executive Directors:
Cui Xiaofeng
Patrick Healy

Employee Representative Director:
Xiao Peng

Independent Non-executive Directors:
He Yun
Xu Junxin
Winnie Tam Wan-chi

Registered Address:
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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

18 November 2024

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 30 October 2024 in relation to, among other things, certain continuing connected transactions of the Company.

The purpose of this circular is to provide you with further information on the abovementioned matters and all the information reasonably necessary to enable you to make an informed decision on voting in respect of the relevant resolutions at the EGM.

II. CNAHC TRANSACTIONS

Reference is made to the 2021 Circular in relation to, among other things, the continuing connected transactions of the Company. The Company expects that certain continuing connected transactions set out in the 2021 Circular will continue to be conducted after 31 December 2024, therefore, the Company will continue to comply with Chapter 14A of the Hong Kong Listing Rules for such continuing connected transactions to be conducted in the next three years (i.e. from 1 January 2025 to 31 December 2027) in accordance with the Hong Kong Listing Rules.

1. Parties and Connected Relationship between the Parties

The Company, whose principal business activity is air passenger, air cargo and related services, conducts continuing connected transactions with the following parties:

- ***CNAHC***

CNAHC directly holds 39.57% of the Company's shares and holds 11.75% of the Company's shares through its wholly-owned subsidiary CNACG, and is the controlling Shareholder of the Company as at the Latest Practicable Date. As at the Latest Practicable Date, the State-owned Assets Supervision and Administration Commission of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

- ***CNAMC***

CNAMC is a wholly-owned subsidiary of CNAHC and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. CNAMC is primarily engaged in media and advertising business.

2. Continuing Connected Transactions with the CNAHC Group

2.1 Government Charter Flight Services

The Company (as the carrier) and CNAHC (as the charterer) entered into the Government Charter Flight Service Framework Agreement on 29 October 2021. At the 2021 EGM, the Independent Shareholders approved, among other things, the continuing connected transactions contemplated under the Government Charter Flight Service Framework Agreement and the relevant annual caps for the three years ended/ending 31 December 2022, 2023 and 2024, which are required to be approved by the Independent Shareholders under the Shanghai Listing Rules.

The current term of the Government Charter Flight Service Framework Agreement will expire on 31 December 2024. As the Company expects that the transactions contemplated under the Government Charter Flight Service Framework Agreement will continue to be conducted after 31 December 2024, on 30 October 2024, the Board resolved to renew the Government Charter Flight Service Framework Agreement for a term of three years commencing from 1 January 2025 to 31 December 2027, subject to the Independent Shareholders' approval at the EGM.

Description of the transaction:

Pursuant to the Government Charter Flight Service Framework Agreement, CNAHC shall use the charter flight services of the Company (the "**Government Charter Flight Services**") for fulfilling its government charter flight assignments.

The parties agreed that the parties will determine the price for the Government Charter Flight Services through arm's length negotiations between the parties based on the cost incurred by the carrier in providing the Government Charter Flight Services adding a reasonable profit (by referring to the historical data, the reasonable profit margin generally ranges from 5% to 10%). The costs include direct costs and indirect costs. The Company considers the profit margin to be fair and reasonable as it aligns with historical data.

The renewal of the Government Charter Flight Service Framework Agreement is subject to the approval by the Independent Shareholders at the EGM. If approved by the Independent Shareholders, the term of the Government Charter Flight Service Framework Agreement shall be renewed for three years commencing from 1 January 2025 and ending on 31 December 2027, and may be renewed automatically for successive terms of three years each, subject to the compliance with the requirements of the Hong Kong Listing Rules/the Shanghai Listing Rules and the approval procedures required under the Hong Kong Listing Rules/the Shanghai Listing Rules. During the term of the Government Charter Flight Service Framework Agreement, either party may terminate the Government Charter Flight Service Framework Agreement on any 31 December by giving the other party at least three months' prior written notice.

Reasons for the transaction:

As the national flag carrier in China, the Company has historically provided government related charter flight services to government delegates, national sports teams and cultural envoys. As the designated government charter flight carrier, the Company has gained significant brand recognition. Pursuant to the Government Charter Flight Service Framework Agreement, the Company may generate revenue from such transactions based upon the cost-plus charging method.

Historical amounts and proposed caps:

Set forth below is a summary of the historical annual caps, the actual amounts and the proposed annual caps for the amounts payable by CNAHC for the Company's provision of the Government Charter Flights Services:

Unit: RMB Million

	Historical Annual Cap			Historical Actual Amounts				Proposed Annual Caps		
	Annual cap for the year ended 31 December 2022	Annual cap for the year ended 31 December 2023	Annual cap for the year ending 31 December 2024	Actual annual amount for the year ended 31 December 2022	Actual annual amount for the year ended 31 December 2023	Unaudited historical amount for the period from 1 January 2024 to 30 June 2024	Estimated annual amount for the year ending 31 December 2024	Annual cap for the year ending 31 December 2025	Annual cap for the year ending 31 December 2026	Annual cap for the year ending 31 December 2027
Amount payable by CNAHC for the Company's provision of the Government Charter Flight Services	900	900	900	252	383	37	560	900	900	900

Due to the irregular and unpredictable demand for government charter flights, the international charter flight services has decreased in 2022 and 2023, resulting in lower-than-expected revenue from the Company's charter flight in 2022 and 2023. The estimated annual amount for the Government Charter Flight Services for the year ending 31 December 2024 is derived from the highest historical payment made by CNAHC for the Company's provision of the Government Charter Flight Services. Furthermore, with the gradual resumption of government delegations' travel activities, this will result in an increase in the estimated amount for the year ending 31 December 2024.

Basis for the annual caps for the next three years:

In arriving at the above annual caps, the Directors have considered the historical and expected transaction amount for the same type of transactions as set out in the table above. Although international charter flight business has decreased in 2022 and 2023, it is expected that government delegations' travel activities will gradually resume and continuously increase. Therefore, it is proposed to maintain the annual caps for the Government Charter Flight Services at RMB900 million from 2025 to 2027, which is consistent with the historical annual caps for the Government Charter Flight Services for the three years ending 2024.

2.2 Property Leasing

The Company and CNAHC entered into the Properties Leasing Framework Agreement on 29 October 2021. At the 2021 EGM, the Independent Shareholders approved, among other things, the continuing connected transactions contemplated under the Properties Leasing

Framework Agreement and the relevant annual caps for the three years ended/ending 31 December 2022, 2023 and 2024 which are required to be approved by the Independent Shareholders under the Shanghai Listing Rules.

The current term of the Properties Leasing Framework Agreement will expire on 31 December 2024. As the Company expects that the transactions contemplated under the Properties Leasing Framework Agreement will continue to be conducted after 31 December 2024, on 30 October 2024, the Company and CNAHC entered into the New Properties Leasing Framework Agreement. ACC Group was excluded from the definition of CNAHC Group under the New Properties Leasing Framework Agreement.

Description of the transaction:

Pursuant to the New Properties Leasing Framework Agreement, the Group and the CNAHC Group agreed to continue to lease from each other certain properties (including ancillary facilities) and land use rights owned by each other for their respective production and operation, office and storage use. The properties (including ancillary facilities) and land use rights leased between the Group and the CNAHC Group are differentiated by their locations. Both the Group and the CNAHC Group select specific properties and land use rights to lease from each other based on their respective needs at different locations.

- The Group (as lessor) may rent out its own properties (including properties constructed by the Group or customized upon the request of the CNAHC Group) or land with legal use rights to the CNAHC Group for its production and operation, office and storage use. The pricing principles and conducting of the transaction shall be as follows:

  First, the Group shall provide quotation for the leased properties or land to the CNAHC Group after taking into account the factors including the relevant costs, tax and reasonable profit margin relating to the properties or land. The related costs include, among others, construction costs, depreciation costs, funding costs and maintenance costs. The reasonable profit margin is usually around 10%, mainly with reference to the historical average price for similar services (where possible) in the property leasing industry and/or the profit margin of comparable services disclosed by other listed companies.

  Then, the rent payable for the leased properties or land shall be determined through arm's length negotiations between the Group and the CNAHC Group after the CNAHC Group takes into account the factors such as the location of the leased properties or land and the service quality. Such rent shall not be lower than the rent offered by the Group to an independent third party (if any) in comparable circumstances.

- The Group (as lessee) may lease properties owned by the CNAHC Group and land with legal use right from the CNAHC Group based on its production and operation, office and storage needs. The pricing principles and conducting of the transaction shall be as follows:

  First, the Group shall conduct market research and collect, consolidate and analyze information in respect of provision of leasing services by independent third parties for the same type of properties or land (if any) in close proximity to the required leasehold properties or land. Generally, the Group shall assign a department or an officer to verify the price and terms available from at least two independent third parties (if any) by email, fax or telephone.

  Then, (i) if a comparable market for the same type of transaction is identified through market research, the parties shall determine the rental prices for the leased properties or land through arm's length negotiations with reference to the market price for the same type of services available from at least two independent third parties and take into account certain factors. The relevant factors include, among others, the location, function and layout, furnishing, ancillary facilities and property management of the property or land as well as the specific needs of the lessee; (ii) if there is no comparable market for the same type of transaction is identified in the neighboring areas through market research, the price shall be determined by adopting the cost-plus approach: the rental price of the leased properties or land shall be determined through arm's length negotiations between the parties based on the relevant costs, tax and reasonable profit margin of the properties or land offered by the CNAHC Group. The relevant costs include, among others, construction costs, depreciation costs, funding costs and maintenance costs. The reasonable profit margin shall be determined mainly with reference to the historical average price of similar services (where possible) in the property leasing industry and/or the profit margin of comparable services disclosed by other listed companies, and the reasonable profit margin of the CNAHC Group shall not exceed 10%. The abovementioned rental prices shall not be higher than those offered by the CNAHC Group to the independent third parties (if any) in comparable circumstances.

When leasing each other's properties or land, the parties may determine the price for leasing their respective properties or land based on the above pricing principles, and then exchange the lease of the properties or land use right in accordance with the principle of equivalent exchange.

Pursuant to the New Properties Leasing Framework Agreement, in general, the leasing term of properties or land for both parties shall not exceed three years. However, (i) if there are specific government and/or industry requirements, the leasing term of properties or land shall comply with such requirements; or (ii) if the property(ies) is/are custom built by the Group according to the requirements of the CNAHC Group, the leasing term of the property(ies), in principle, shall not exceed the useful life of the leased property(ies).

Pursuant to the New Properties Leasing Framework Agreement, the New Properties Leasing Framework Agreement shall take effect upon the approval by the Shareholders at the general meeting of the Company, and shall be valid from 1 January 2025 to 31 December 2027 (the "**Initial Term**"). Upon expiration of the Initial Term, the New Properties Leasing Framework Agreement may be automatically renewed for successive terms of three years each, subject to the compliance with requirements under the Hong Kong Listing Rules/Shanghai Listing Rules and the approval procedures required under the Hong Kong Listing Rules/Shanghai Listing Rules. During the term of the New Properties Leasing Framework Agreement, either party may terminate the New Properties Leasing Framework Agreement on any 31 December by giving the other party at least three months'prior written notice.

Reasons for the transaction:

In the ordinary course of business, the Group has entered into similar property leasing transactions with various parties including both connected persons and independent third parties.

Historical amounts and proposed caps:

Set forth below is a summary of the historical annual caps for and actual rent paid and received by the Group to and from CNAHC Group under the Properties Leasing Framework Agreement, and the proposed annual caps for the rent payable and receivable by the Group to and from CNAHC Group under the New Properties Leasing Framework Agreement:

Unit: RMB Million

	Historical Annual Cap			Historical Actual Amounts				Proposed Annual Caps		
	Annual cap for the year ended 31 December 2022	Annual cap for the year ended 31 December 2023	Annual cap for the year ending 31 December 2024	Actual annual amount for the year ended 31 December 2022	Actual annual amount for the year ended 31 December 2023	Unaudited historical amount for the period from 1 January 2024 to 30 June 2024	Estimated annual amount for the year ending 31 December 2024	Annual cap for the year ending 31 December 2025	Annual cap for the year ending 31 December 2026	Annual cap for the year ending 31 December 2027
Total value of right-of-use assets relating to the leases entered into by the Group as the lessee Note	350	370	390	111	63	14	200	250	260	270
Total annual rent receivable by the Group as the lessor (excluding the below mentioned Single Rent)	150	166	176	4	51	12	27	120	130	140
Single Rent recorded by the Group in relation to the leasing of Customized Properties	0	230	330	N/A	N/A	N/A	N/A	0	260	270

Note: As International Financial Reporting Standard 16 "Lease" took effect from 1 January 2019 and became applicable to financial years starting on or after 1 January 2019, pursuant to the requirements of the Hong Kong Stock Exchange, the annual caps for the continuing connected transactions of property leasing with the Group as the lessee for 2025, 2026 and 2027 are set based on the total value of right-of-use assets relating to the leases entered into by the Group.

As the construction of the relevant project has not yet started, there were no historical actual amount recorded in relation to the leasing of Customized Properties under the Properties Leasing Framework Agreement.

Basis for the annual caps for the next three years:

In arriving at the above annual caps for the total value of right-of-use assets relating to the leases that the Group will enter into as a lessee under the New Properties Leasing Framework Agreement, the Directors have considered (i) the historical transaction amounts, which were RMB111 million and RMB63 million for the years ended 31 December 2022 and 2023, respectively, and RMB14 million for the six months ended 30 June 2024; and (ii) the future growth of rent payable by the Group to the CNAHC Group (estimated at approximately 5% per year. The estimated annual growth rate of 5% is referencing forecasts of China's GDP growth made by relevant institutions) and the increasing demand for leasing driven by the Group's business development. Therefore, it is expected that the total future annual rent to be paid by the Group to the CNAHC Group from 2025 to 2027 will not exceed RMB120 million, RMB130 million and RMB140 million, respectively. On such basis, the value of right-of-use assets, calculated by discounting the total estimated future rent with a discount rate ranging 3% to 5% applicable to the Company's leasing business (which is determined by reference to the market borrowing interest rate level), is expected to be no more than RMB250 million, RMB260 million and RMB270 million for the years 2025 to 2027.

In arriving at the above annual caps for the annual total rent payable by the CNAHC Group to the Group under the New Properties Leasing Framework Agreement, the Directors have considered (i) the historical transaction amounts, which were RMB4 million and RMB51 million for the years ended 31 December 2022 and 2023, respectively, and RMB12 million for the six months ended 30 June 2024; and (ii) the anticipated future growth in rent payable by the CNAHC Group to the Group (estimated to be approximately 5% per year. The estimated annual growth rate of 5% is referencing forecasts of China's GDP growth made by relevant institutions) and the increasing demand for leasing driven by CNAHC Group's business development. Currently, the CNAHC Group mainly leases from the Company. Considering that the Company's subsidiaries may also lease to the CNAHC Group under the New Properties Leasing Framework Agreement in the future, this could lead to an increase in the rent payable by the CNAHC Group to the Group under the New Properties Leasing Framework Agreement. Therefore, it is expected that the total future annual rent to be paid by the CNAHC Group to the Group from 2025 to 2027 will not exceed RMB120 million, RMB130 million and RMB140 million, respectively.

In addition, the Group expects to enter into customized leasing transactions with CNAHC Group in accordance with the New Properties Leasing Framework Agreement in the next three years. That is, the Group will build property(ies) ("**Customized Property(ies)**") upon CNAHC Group's request on the land to which the Group has the right of use, and lease out the Customized Property(ies) to CNAHC Group and commence the leasing terms thereof following the completion of the construction. The rent of such leasing transactions comprises of the single rent to be charged prior to the commencement of the leasing term and accounted for as a finance lease from the inception of the leasing term (which generally equals to the construction costs of the property(ies)) (the "**Single Rent**") and the annual rent to be paid upon the commencement of the leasing term (the "**Annual Rent**"). The Annual Rent has been included in the annual caps for the total rent payable by CNAHC Group to the Group under the New Properties Leasing Framework Agreement. In respect of the Single Rent, since the Single Rent will be accounted for as a finance lease at the inception of the leasing term, the Company will therefore set the annual transaction cap for the Single Rent with reference to the mechanism of setting a cap for finance lease transactions. Based on the current estimation, the potential Customized Property(ies) transactions to be entered into between the Group and CNAHC Group in the next three years include the Zhejiang Zhongyu catering building. Considering that the construction of Zhejiang Zhongyu catering building is expected to commence in 2025 and be completed and put into operation by the end of 2026, or possibly extended to 2027, along with an estimated project investment in the amount of RMB220 million, as well as the potential increase in costs due to construction delays, such as increased labor costs, it is expected that the Single Rent to be recorded by the Group for leasing the Customized Property(ies) under the New Properties Leasing Framework Agreement for 2026 and 2027 will not exceed RMB260 million and RMB270 million, respectively.

Independent Financial Adviser's opinion on the leasing term of properties under the New Properties Leasing Framework Agreement

As mentioned above, under the New Properties Leasing Framework Agreement, the leasing term of the properties or land should not exceed three years with the exception that (i) there are special government and/or industry requirements on the duration of the tenure of the leased property(ies) or land; and (ii) custom built by the Group according to the requirements of the CNAHC Group, where the duration of the tenure shall not exceed to useful life of the leased property(ies) (collectively the "**Property(ies)**").

According to Rule 14A.52 of the Hong Kong Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration. Accordingly, the Company has engaged BaoQiao Partners as the Independent Financial Adviser. BaoQiao Partners has formulated its opinion based on its researches and analysis and its discussion with the management of the Company in respect of the lease terms of the Property(ies) as follows:

As both the Group and the CNAHC Group are operated in related business sectors, both groups have similar demands on certain type of properties and/or properties in specific areas (for example, properties within or adjacent to airports) owned by each other for their general and /or business operation purposes.

Based on BaoQiao Partners' discussion with the management of the Company, the Properties include (i) properties that may be subject to the oversight and administration of specific government or industrial authorities and the requirements of the corresponding government or industrial authorities with specific regulations/ requirements on the duration of the tenure, which may exceed three years when leased from time to time and it is normal business practice for the Group with regards to the compliance with applicable government/industrial regulations or requirements for leasing of Properties; (ii) properties that, if upon request of CNAHC Group, will be custom-built by the Group on the land to which the Group has the rights of use, and then lease out such Properties to CNAHC Group and commence the lease terms thereof following the completion of the construction of such Properties. As the design and construction costs of the such Properties will be borne by CNAHC Group, CNAHC Group (as the lessee) will be incurring substantial capital expenditure for building and construction of the Properties, it would be commercially justifiable for CNAHC Group to request for longer lease terms (which would be reference to the useful life of such Properties) to ensure stable and smooth operations and justifiable costs for building the Properties.

As advised by the management of the Company, although there is currently no leasing arrangement between the Group and CNAHC Group that is subject to special government and/or industry requirements, BaoQiao Partners has obtained and reviewed the relevant contracts on the existing leasing transactions of the Properties governed by the General Administration of Customs of the PRC ("**GAC**") and entered into between the Group and the ACC Group in January 2017 with an initial term of 6 years and renewed in 2023 for an additional 3 years ("**Existing Regulated Property Transactions**"). BaoQiao Partners understands that the initial lease term of 6 years was agreed between parties in compliance with the Rules of the General Administration of Customs of the People's Republic of China on Administration of Customs Control Premises (《中華人民共和國海關監管場所管理辦法》, the "**GAC Rules**") issued by the GAC on 30 January 2008, which required, among others, the lease term of property for the use of loading, unloading, storage, delivery and shipping of import and export goods in the areas that are subject to the oversight and supervision of GAC to be at least five years.

Despite the GAC Rules were superseded by the new rules issued by GAC on 1 November 2017 and there is no specific lease term requirement under the new rules, as advised by the management of the Company, the Company cannot rule out the possibility that the government or industrial authorities (including GAC) will require the lease term of such Properties to be more than 3 years during the term of the New Properties Leasing Framework Agreement. From the perspective of the Company, the entering into the New Properties Leasing Framework Agreement with flexibility on the leasing period to satisfy the regulatory compliance and industry requirements for the leasing of the Properties will not only allow the Group (as the lessee) to obtain the right of use of the Properties owned by CNAHC Group for the Group's operation, while also providing the flexibility for the Group (as the lessor) to lease out its vacant Properties for rental income, which aligns with the Group's long-term strategies and signifies the lasting cooperation commitment between the Group and the CNAHC Group.

In respect of the custom-built Properties by the Group under the New Properties Leasing Framework Agreement, BaoQiao Partners notes from the information provided by the Company that the Company intends to cooperate with an indirect wholly-owned subsidiary of CNAHC in relation to the construction of the Zhejiang Zhongyu catering building, a Property for the provision of catering service. The construction of the Zhejiang Zhongyu catering building will commence in 2025, and the lease term of which is expected to be 10 to 20 years. From the perspective of the Company as the lessor, such leasing arrangement will allow the Company to obtain the property rights of the Properties and thus, enhance the value of the idle land(s) and the asset base of the Company. In addition, it would be commercially reasonable to have the longer lease tenure (which would be reference to the useful life of such Properties) for such properties taking into account (i) the time of construction of the Properties (i.e. 1-2 years as advised by the management of the Company); and (ii) it would be difficult to lease the idle lands or such custom-built buildings to other external parties given the business nature of the Company and CNAHC Group.

Review of comparable transactions

In considering whether it is a normal business practice for the lease of the Properties under the New Properties Leasing Framework Agreement to have a duration longer than three years, BaoQiao Partners has identified and selected 18 comparable transactions (the "**Comparable Transactions**") based on the following selection criteria, (a) continuing connected transactions announcements related to leasing arrangements of land and properties for general and/or business operation purposes published by companies listed on the Hong Kong Stock Exchange since 2021; (b) the transactions with lease term longer than three years.

Based on BaoQiao Partners' review of the Comparable Transactions, it is not uncommon to enter into long-term leases for properties leasing in the PRC and 17 out of 18 of the Comparable Transactions were related to leasing arrangements for PRC land/properties. BaoQiao Partners also notes that the lease terms of these Comparable Transactions ranged from 5 years to 50 years, with an average of approximately 13 years. In addition, 3 out of 18 Comparable Transactions were similar with that of custom-built arrangements. Two of them involved properties for airline operations entered into by China Eastern Airlines Corporation Limited ("**CEA**"), a peer company within the Chinese aviation industry with lease term of 6 years in 2021 and 2022 and the other was leasing of land for construction of factory buildings/facilities with lease term of 20 years. The use of properties under these 18 Comparable Transactions included industrial production, commercial operation, hospital operation and offices for general and/or business operations purposes. Although there was no Comparable Transaction that involved leasing of regulated properties as the Company, BaoQiao Partners considers the Comparable Transactions can represent the general market practices of the property leasing arrangements for general and/or business operation purposes in the PRC, regardless the types of properties involved.

As such, based on BaoQiao Partners' review of the Comparable Transactions with lease terms ranged from 5 years to 50 years and the Existing Regulated Property Transactions with initial tenure of 6 years, BaoQiao Partners considers that the lease term of the Properties under the New Properties Leasing Framework Agreement, which requires lease term of more than 3 years, (i) if subject to special government and/or industry regulations/requirements, and (ii) will up to 10 to 20 years for purpose-built Properties, fall within the range of the Comparable Transactions and/or the Existing Regulated Property Transactions.

Having considered the principal factors discussed above, BaoQiao Partners is of the view that it is normal business practice for the Group and CNAHC Group to enter into leases for the Properties under the New Properties Leasing Framework Agreement with terms of more than three years and to be of such duration for agreements of this type.

2.3 Media Services

The Company and CNAMC entered into the Media Services Framework Agreement on 29 October 2021. At the 2021 EGM, the Independent Shareholders approved, among other things, the continuing connected transactions contemplated under the Media Services Framework Agreement and the relevant annual caps for the three years ended/ending 31 December 2022, 2023 and 2024 which are required to be approved by the Independent Shareholders under the Shanghai Listing Rules.

The current term of the Media Services Framework Agreement will expire on 31 December 2024. As the Company expects that the transactions contemplated under the Media Service Framework Agreement will continue to be conducted after 31 December 2024, on 30 October 2024, the Board resolved to renew the Media Services Framework Agreement for a term of three years commencing from 1 January 2025 to 31 December 2027, subject to the Independent Shareholders' approval at the EGM.

Description of the transaction:

Pursuant to the Media Services Framework Agreement,

- CNAMC has agreed to provide Media Services to the Group. Of which, the Company grants CNAMC an exclusive right to distribute in-flight reading materials, movies, TV series, music, sound track and other cultural contents.

- the Company has commissioned CNAMC as the general service provider with respect to the Media Services of the Company which CNAMC shall provide the Company with the following Media Services (the "**Entrusted Services**"):

  (1) in-flight entertainment system business and in-flight network platform business;

  (2) brand communication and product marketing business: including but not limited to brand research, consultation and planning, design and copywriting planning, print film and television production, public relation activities, media advertising, promotion materials and IP image production and management, social media operation and maintenance and intelligent property management;

  (3) news and publicity business, including but not limited to external media operation and maintenance and internal newspaper production;

  (4) advertisement management business and media cooperation and management business;

(5) other Media Services entrusted by the Company.

For abovementioned businesses, the Group will make reference to the service items and specific requirements, and (1) the parties shall determine the final transaction price through arm's length negotiations based on the quotations provided by CNAMC with reference to the market price (if any) for the same type of services available from at least two independent third parties after taking into account factors including the service standard, service scope, business volume and specific needs of the parties; and/or (2) the service fees shall be determined after arm's length negotiations between the parties based on the costs of CNAMC adding a reasonable service fee, and offering rewards or imposing penalty depending on the management of CNAMC, the final settlement of which shall be made on the basis of the actual transaction amount. CNAMC shall provide information including but not limited to costs, external procurement conditions and actual settlement conditions, and the service fee received by CNAMC shall not exceed 10% of the costs and shall be determined mainly with reference to the historical average prices in the relevant industries for similar products or services (where possible) and/or profit margin of the comparable products and services.

- In respect of the media products or services other than the Entrusted Services that are purchased by the Company from CNAMC, the Group shall determine and pay the relevant services fees in accordance with the following principles and the arm's length negotiations with CNAMC:

  (1) if government-set or guided price is available, government-set or guided price shall be adopted;

  (2) in the absence of government-set or guided price, the final transaction price shall be determined after arm's length negotiations between the parties based on the quotation provided by CNAMC with reference to the market price (if any) for the same type of services available from at least two independent third parties in the market after taking into account certain factors including the service standard, service scope, business volume and specific needs of the parties;

(3) if open market price is not available or there are no identical or similar business activities in the market, the parties shall settle the actual transaction amount based on the costs of CNAMC adding a reasonable service fee, and offering rewards or imposing penalties depending on the management of CNAMC. CNAMC shall provide information including but not limited to costs, external procurement and actual settlement conditions, and the service fee received by CNAMC shall not exceed 10% of the costs and shall be determined mainly with reference to the historical average prices in the relevant industry for similar products or services (where possible) and/or profit margin of the comparable products and services.

- In respect of the Company's media used by CNAMC in operating the Media Services, CNAMC shall pay the Company an annual media resource fee of RMB13.8915 million for each of the three years of 2025, 2026 and 2027.

The Company will enter into relevant business agreements with CNAMC in accordance with its business requirements. The Company is responsible for business implementation standards, business requirements, budgeting and evaluation, and CNAMC is responsible for the overall business implementation. If CNAMC provides the Media Services to subsidiaries of the Company, the parties shall enter into relevant business implementation agreements in accordance with the principles contemplated under the Media Services Framework Agreement.

The renewal of the Media Services Framework Agreement is subject to the approval by the Independent Shareholders at the EGM. If approved by the Independent Shareholders, the term of the Media Services Framework Agreement shall be renewed for three years commencing from 1 January 2025 and ending on 31 December 2027, and may be renewed automatically for successive terms of three years each, subject to the compliance with the requirements of the Hong Kong Listing Rules/the Shanghai Listing Rules and the approval procedures required under the Hong Kong Listing Rules/the Shanghai Listing Rules. During the term of the Media Services Framework Agreement, either party may terminate the Media Services Framework Agreement on any 31 December by giving the other party at least three months' prior written notice.

Reasons for the transaction:

CNAMC has extensive experience in in-flight advertising operations and has a wide range of advertising sponsorship channels. As a longstanding company having engaged in the aviation media business, CNAMC possesses professional qualifications and teams and has a profound understanding of the corporate culture and brand of the Company as well as extensive experience in aviation media business sectors such as entertainment programmes production and advertising agency, and has proven channels of advertising sponsors to draw upon, which has certain advantage.

Historical amounts and proposed caps:

Set forth below is a summary of the historical annual caps for and the actual amounts paid by the Group to CNAMC under the Media Services Framework Agreement, and the proposed annual caps for the amount payable by the Group to CNAMC under the Media Services Framework Agreement:

Unit: RMB million

	Historical Annual Cap			Historical Actual Amounts				Proposed Annual Caps		
	Annual cap for the year ended 31 December 2022	Annual cap for the year ended 31 December 2023	Annual cap for the year ending 31 December 2024	Actual annual amount for the year ended 31 December 2022	Actual annual amount for the year ended 31 December 2023	Unaudited historical amount for the period from 1 January 2024 to 30 June 2024	Estimated annual amount for the year ending 31 December 2024	Annual cap for the year ending 31 December 2025	Annual cap for the year ending 31 December 2026	Annual cap for the year ending 31 December 2027
Amount payable by the Group	400	500	600	115	109	64	195	400	500	600

The actual amount paid by the Group to CNAMC in the years from 2022 to 2024 in respect of receiving the Media Services was lower as compared to the annual caps of the respective years which was mainly attributable to the combined effect of the following factors: (i) the significant decrease in the procurement of aviation media business such as in-flight video and audio programmes and advertising agency by the Group as the scale of the international transport capacity has not yet recovered to pre-pandemic level (as of the end of 2023, the number of international and regional weekly flights was recovered to 74% of that in the same period of 2019); and (ii) the refined management strengthened by the Company in respect of costs and fees against the impact of the pandemic.

Basis for the annual caps for the next three years:

In arriving at the annual caps of the amounts to be paid by the Group to CNAMC under the Media Services Framework Agreement, the Directors have considered the historical transaction amounts, which were RMB115 million and RMB109 million for the years ended 31 December 2022 and 2023, respectively, and RMB64 million for the six months ended 30 June 2024, for the same type of transactions as set out in the table above, along with the following factors: (i) considering the transaction amounts for the first half of 2024 and the possibility of upgrading the in-flight entertainment system in the second half of 2024, as well as the addition of media services due to the introduction of new aircraft, the Group anticipates that the transaction amount payable to CNAMC in 2024 will be around RMB195 million; (ii) it is expected that the transport capacity of the Group will gradually return to the pre-pandemic level over the next three years, leading to an increased demand for aviation media services such as in-flight video and audio programs, as well as advertising agency services; and (iii) the Company's service development strategy emphasizes the continuous improvement of service quality, necessitating increased investment in the purchase, production, promotion and dissemination of aviation media material, which will result in a greater engagement of CNAMC for more Media Services. As a result of the above factors, it is expected that the transaction amounts from 2025 to 2027 will increase as compared to the historical actual transaction amounts. Based on the estimated transaction amount to be paid by the Group to CNAMC for 2024 and the expected business growth described above, it is expected that the transaction amount will not exceed RMB400 million, RMB500 million and RMB600 million for 2025 to 2027, respectively.

For each of the three years ending 31 December 2025, 2026 and 2027, the aggregate annual amount payable by CNAMC to the Group under the Media Services Framework Agreement is expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Hong Kong Listing Rules. Therefore, the above transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules for continuing connected transactions.

2.4 Comprehensive Services

The Company and CNAHC entered into the Comprehensive Services Framework Agreement on 29 October 2021. At the 2021 EGM, the Independent Shareholders approved, among other things, the continuing connected transactions contemplated under the Comprehensive Services Framework Agreement and the relevant caps for the three years ended/ending 31 December 2022, 2023 and 2024 which are required to be approved by the Independent Shareholders under the Shanghai Listing Rules.

The current term of the Comprehensive Services Framework Agreement will expire on 31 December 2024. As the Company expects that the transactions contemplated under the Comprehensive Services Framework Agreement will continue to be conducted after 31 December 2024, on 30 October 2024, the Company and CNAHC entered into the New Comprehensive Services Framework Agreement. ACC Group was excluded from the definition of CNAHC Group under the New Comprehensive Services Framework Agreement, and the service scope under the New Comprehensive Services Framework Agreement was expanded. The types of services differ, as the expertise of each of the Group and the CNAHC Group aligns with the needs of the other party.

Description of the transaction:

Pursuant to the New Comprehensive Services Framework Agreement,

- The Group accepts CNAHC Group's appointment to provide CNAHC Group with products or services including but not limited to retiree management services, human resources services (which refer to the provision of archival information management, social insurance management services etc. provided by the Group to the CNAHC Group), information technology services (mainly include information technology system maintenance), procurement services, training services, air passenger transportation and sales services, the comprehensive support services (mainly include support services for staff refectories and ground transportation services provided by the Group to CNAHC Group), entrusted operational management and provision of in-flight supplies.

For the relevant products or services provided by the Group to CNAHC Group, except as otherwise agreed in the agreement, the price to be charged by the Group will be determined after arm's length negotiations between the parties on the basis of the costs of the Group adding a reasonable service fee (generally ranging from 3% to 10% of the costs) and/or with reference to the price for the same type of products or services provided by the Group to other parties under non-related (non-connected) transactions, or as a percentage of the revenue/income of CNAHC Group for the relevant products or services. For the relevant products or services sold or provided through the Group's platform, the price to be charged by the Group will be determined as a percentage of the revenue/income of CNAHC Group for such products or services. The Group can obtain the revenue/income of CNAHC Group for the relevant products or services because these products or services are sold or provided through the Group's platform, granting the Group access to the necessary data.

- CNAHC Group was appointed by the Group as the provider of ancillary production services or the administrator of supply services of the Group for which CNAHC Group shall provide the following products or services to the Group including but not limited to (provided that the provider has obtained the relevant qualifications):

  (1) on-board catering and food supply management services on global flights;

  (2) catering and meal support and cleaning services (including but not limited to catering and meal support services for passengers and employees both board and on the ground and cleaning services for areas such as Air China lounges);

  (3) services for the delivery, placement and laundering of various in-flight supplies;

  (4) operation and management services of aircrew hotel;

  (5) property management services in office buildings and the regions at which the office buildings are located including but not limited to Beijing, Chengdu, Chongqing, Shanghai, Hangzhou, Guangzhou, Wuhan and Hohhot; and the services of which include but not limited to cleaning services, plantation services, laundry services, parking management services, procurement and repair services, energy management services;

(6) support services for resident group, support services for delayed flights passengers and venue usage services;

(7) information technology services (mainly include information technology system development);

(8) in-flight supplies and scenario mileage payment products; and

(9) labor services (which refer to temporary worker services provided by CNAHC Group according to the Group's needs), entrusted operational management and other commissioned services.

For the above mentioned products or services to be provided by CNAHC Group to the Group, the parties shall, except as otherwise agreed in the agreement, according to the service items and specific needs, determine the relevant service fees through arm's length negotiations in accordance with the following principles: (i) the final transaction price shall be determined after arm's length negotiations between the parties based on the quotations provided by CNAHC Group, with reference to the market price (if any) for the same type of services available from at least two independent third parties in the market and take into account factors including the service standard, service scope, business volume and specific needs of the parties; and/or (ii) the service fee shall be determined after arm's length negotiations between the parties based on the costs of CNAHC Group adding a reasonable service fee, and offering rewards or imposing penalties depending on the management of CNAHC Group, the final settlement of which shall be made on the basis of the actual transaction amount. In the case of item (ii), CNAHC Group shall provide information including but not limited to its own costs, external procurement and actual settlement conditions. The service fee received by CNAHC Group shall not exceed 10% of the costs, and shall be determined mainly by reference to the historical average prices in the relevant industry for similar products or services (where possible), and/or the profit margin of the comparable products or services disclosed by other listed companies.

- CNAHC Group was engaged by the Group as one of the providers of ancillary production or supply services of the Group, which CNAHC Group shall provide the Group with the following products or services including but not limited to (provided that the provider has obtained the relevant qualifications):

(1) Hotel accommodation and staff recuperation services; and

(2) Air ticket printing services and other printed materials.

For the above mentioned products or services to be provided by CNAHC Group to the Group, the Group will determine the relevant service fees through arm's length negotiations with CNAHC Group in accordance with the following principles:

(1) if government-set or guided price is available, government-set or guided price shall be adopted;

(2) in the absence of government-set or guided price, the final transaction price shall be determined after arm's length negotiations between the parties with reference to the market price (if any) for the same type of products or services available from at least two independent third parties in the market, by taking into account certain factors including the service standard, service scope, business volume and specific needs of the parties. If the service demand of the service recipient changes, the transaction price shall be adjusted appropriately through negotiations between the parties based on the extent of changes in relevant costs, service quality or other factors;

(3) if open market price is not available or there are no identical or similar business activities in the market, the parties shall settle the actual transaction amount based on the costs of CNAHC Group adding a reasonable service fee, and offering rewards or imposing penalties depending on the management of CNAHC Group. CNAHC Group shall provide information including but not limited to its own cost, external procurement and actual settlement conditions. The service fee received by CNAHC Group shall not exceed 10% of the costs, and shall be determined mainly by reference to the historical average prices in the relevant industry for similar products or services (where possible) and/or the profit margin of the comparable products or services disclosed by other listed companies.

- The Group and CNAHC Group commission each other for the human resources sharing business within the two groups. In principle, the transaction price shall be determined through arm's length negotiations between the parties based on the labor costs incurred, and the transaction price shall be fully borne by the worksite employer.

- CNACD Group is regarded by the Group as the primary service provider for its property management projects. In principle, the Company shall entrust the CNACD Group with project management work for all of its new construction and expansion projects (except for projects with a total investment of RMB5 million (inclusive) or less in certain regions), the construction and renovation of properties such as Air China lounges, and repair projects with a total cost of more than RMB5 million (inclusive) (excluding deductible value-added tax). The subsidiaries of the Company may choose to entrust the CNACD Group with project management work.

For the above mentioned services to be provided by CNACD Group, the service fees charged by CNACD Group will be determined based on the engineering and financial audit amounts of the specific entrusted projects in accordance with the entrusted management contracts. The fees will be calculated as follows: (i) 3% of the financial audit amount of the investment relating to the management entrusted by the Company (the 3% rate was determined based on historical data. On the basis upon the historical data, the 3% rate is considered fair and reasonable, as it aligns with established expectations of the Company), with penalties or bonuses applied based on project management progress and remaining funds as agreed by both parties in the specific project management contract; or/and (ii) based on the scale or investment of the project, the fees will be determined according to the labor input of CNACD Group verified by the Company, including the actual full labor cost and any associated penalties or bonuses (such as rewards for labor cost savings, rewards and penalties relating to project timeline management and rewards and penalties relating to investment control balance), with specific terms outlined in the relevant agreements. Subsidiaries of the Company may refer to these pricing principles and determine the service fees for entrusted management services with CNACD Group after arm's length negotiations.

- For the entrusted operational management services provided by the Group or CNAHC Group to the other party, both parties will (1) determine the service fees after arm's length negotiation and based on the service projects and specific requirements, considering the service provider's costs and reasonable service fee rates, with rewards given based on the entrusted management performance. The service fee rates mentioned above are primarily determined with reference to the historical average prices published for similar products or services in the relevant industry (where possible) and/or the profit margins for comparable products or services disclosed by other listed companies, with the service fee rate adopted by CNAHC Group not exceeding 10%; or (2) determine the relevant financial/business indicators (including but not limited to sales revenue, net profit, return on equity, etc.) based on the service projects and specific requirements, and determine the service fees using a fixed management fee plus a variable management fee approach through arm's length negotiation. The fixed management fee is calculated considering the overall scope of services and the resources allocated. The variable management fee, on the other hand, is determined based on variables which would be resulted from the entrusted operational management services provided. The circumstances under which the respective indicators will be used to adjust pricing will be agreed upon through arm's length negotiations between the parties. The Company has referenced several listed companies with comparable businesses, and the selection of indicators is tailored to the specific projects and requirements. For example, in entrusted sales operations, indicators may be based on sales revenue, whereas for entrusted enterprise management, indicators could be defined according to profit or equity metrics.

The New Comprehensive Services Framework Agreement shall take effect upon the approval by the Shareholders at the general meeting of the Company, and its initial term is from 1 January 2025 to 31 December 2027. Upon expiration of the initial term, the New Comprehensive Services Framework Agreement may be renewed automatically for successive terms of three years each, subject to the compliance with the requirements of the Hong Kong Listing Rules/the Shanghai Listing Rules and the approval procedures required under the Hong Kong Listing Rules/the Shanghai Listing Rules. During the term of the New Comprehensive Services Framework Agreement, either party may terminate the New Comprehensive Services Framework Agreement on any 31 December by giving the other party at least three months' prior written notice.

Reasons for the transaction:

As the Group possesses service qualification and excellent professional capabilities in professional fields such as retiree management and human resources services, CNAHC Group is willing to continue to cooperate with the Company in relevant businesses.

For the services to be provided by CNAHC Group, the Directors believe that CNAHC Group has strengths that independent third parties in the market do not possess, including (1) qualifications and specialized knowledge in the aviation industry, particularly in the areas of catering management and provisioning, in-flight supplies management and property management; and (2) a proven track record of quality and timely service provided in the past. In light of the aforementioned factors, the Directors believe that it is in the best interest of the Group to enter into the above transactions with CNAHC.

Historical amounts and proposed caps:

Set forth below is a summary of the historical annual caps for the total of and the actual amounts paid and received by the Group to and from CNAHC Group in accordance with the comprehensive services framework agreement and the proposed annual caps for the total amount payable and receivable by the Group to and from CNAHC Group in accordance with the New Comprehensive Services Framework Agreement:

Unit: RMB Million

	Historical Annual Cap			Historical Actual Amounts				Proposed Annual Caps		
	Annual cap for the year ended 31 December 2022	Annual cap for the year ended 31 December 2023	Annual cap for the year ending 31 December 2024	Actual annual amount for the year ended 31 December 2022	Actual annual amount for the year ended 31 December 2023	Unaudited historical amount for the period from 1 January 2024 to 30 June 2024	Estimated annual amount for the year ending 31 December 2024	Annual cap for the year ending 31 December 2025	Annual cap for the year ending 31 December 2026	Annual cap for the year ending 31 December 2027
Amount payable by the Group	2,650	2,750	2,780	825	1,920	1,052	2,571	3,200	3,300	3,400
Amount receivable by the Group	100	110	121	25	57	32	73	150	160	170

As the international transport capacity has not yet recovered to pre-pandemic level, and hence the supply of in-flight meals and amenities correspondingly decreased by a large extent. Furthermore, facing the impact of the pandemic, the Company enhanced refined management on rigid costs and controllable expenses. The interplay of the above factors has caused the actual amounts paid by the Group to CNAHC Group were lower than the annual caps.

Basis for the annual caps for the next three years:

In arriving at the annual caps for the amounts payable by the Group to the CNAHC Group under the New Comprehensive Services Framework Agreement, the Directors have considered the historical transaction amounts for the same type of transactions, which were RMB825 million and RMB1,920 million for the years ended 31 December 2022 and 2023, respectively, and RMB1,052 million for the six months ended 30 June 2024, as well as the expected growth of the Group's air passenger services in the next few years. Considering that (i) the transaction amount for the year 2023 was RMB1,920 million, and it is expected that the Group's transport capacity will gradually return to the pre-pandemic level over the next three years (as of the end of 2023, the number of international and regional weekly flights was recovered to 74% of that in the same period of 2019), leading to a corresponding increase in demand for ancillary production and supply services, such as in-flight supplies services, airline catering services and aviation ground services. Consequently, the transaction amount payable to the CNAHC Group is expected to increase, leading an estimated transaction amount of RMB2,571 million for the year 2024; and (ii) the expected increase in labour cost over the next three years will contribute to an increase in transaction amount. Additionally, the inclusion of entrusted property management services in the New Comprehensive Services Framework Agreement and the provision of services such as information technology services by the CNAHC Group will lead to an increase of transaction amount. Based on the above and considering a reasonable buffer to accommodate potential fluctuations, the growth rate from 2024 to 2025 is expected to be around 20%, resulting in an increase in the amount payable by the Group to the CNAHC Group to no more than RMB3,200 million in 2025. Thereafter, it is expected that the amount will increase by 3% per year from 2025 onwards (the 3% rate is derived with reference to the forecast of China's GDP growth by relevant institutions and also reflects effective cost management). As a result, the amounts payable by the Group to the CNAHC Group under the New Comprehensive Services Framework Agreement are expected to not exceed RMB3,300 million and RMB3,400 million in 2026 and 2027, respectively.

In arriving at the annual caps for the amount payable by CNAHC Group to the Group under the New Comprehensive Services Framework Agreement, the Directors have considered (i) the historical actual transaction amount was RMB57 million for the year 2023. It is expected that the Group will continue to provide services such as human resources management, which will result in a corresponding rise in the expenditure of transaction amount of the CNAHC Group under the New Comprehensive Services Framework Agreement, leading to an estimated transaction amount of RMB73 million for the year 2024; (ii) the expected increase in labour costs in the next three years, which will also result in an increase in the transaction amount of approximately RMB60 million. Taking into account the abovementioned factors, it is expected that the amount receivable by the Group from the CNAHC Group in 2024 under the New Comprehensive Services Framework Agreement will not exceed RMB150 million, and thereafter, the amount is expected to increase by 6.5% per year (such rate is determined with reference to the forecast of China's GDP growth by relevant institutions, and taking into consideration a reasonable growth in income), so that the amount receivable by the Group from the CNAHC Group will not exceed RMB160 million and RMB170 million in 2026 and 2027, respectively.

3. Internal Control

The Company has adopted the following measures to ensure that the above continuing connected transactions will be conducted on normal commercial terms and in accordance with their respective framework agreements and the pricing policies of the Company:

- Before entering into the above connected transactions, the Finance Department, the Legal Department, the Asset Management Department (which has a dedicated subdivision responsible for managing the connected transactions) and if applicable, certain other relevant departments of the Company will review the proposed terms for the individual transactions and discuss with the relevant business department of the Group to ensure that such transactions are conducted on normal commercial terms and the terms of applicable framework agreements and in compliance with the pricing policies of the Group before these relevant departments approve the finalized transaction agreements according to their authority within the Group.

- The Asset Management Department of the Company is responsible for supervising connected transactions. The Asset Management Department will regularly monitor and collect detailed information on relevant continuing connected transactions (including but not limited to the implementation of the pricing policies, duration of the agreement and the actual transaction amounts of the above continuing connected transactions) to ensure that such transactions are conducted in accordance with applicable framework agreements for continuing connected transactions. In addition, the Asset Management Department will be responsible for reviewing and evaluating the actual transaction amount and cap balance of the above continuing connected transactions on a monthly basis. If the relevant cap is expected to be exceeded, the Asset Management Department will report to the management of the Company and take appropriate measures in accordance with the relevant requirements of the Hong Kong Listing Rules and/or the Shanghai Listing Rules.

- The Internal Audit Department of the Company is responsible for carrying out annual assessment on the internal control procedures of the Group, including but not limited to information relating to the management of continuing connected transactions. In addition, the Internal Audit Department is responsible for preparing the annual assessment report on internal control and will submit the same to the Board for review and approval.

- The independent auditor and the independent non-executive Directors will conduct annual review on the non-exempt continuing connected transactions.

4. Hong Kong Listing Rules Implications

As each of the applicable percentage ratios (other than the profits ratio) of the continuing connected transactions (excluding the de minims continuing connected transactions) set out above, on an annual basis, is higher than 0.1% but less than 5%, they therefore fall under Rule 14A.76(2)(a) of the Hong Kong Listing Rules. Accordingly, these continuing connected transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but are exempted from the Independent Shareholders' approval requirement.

Mr. Ma Chongxian, Mr. Wang Mingyuan, Mr. Cui Xiaofeng and Mr. Xiao Peng, being the Directors of the Company also holding directorship in CNAHC, are considered to have material interests in each of the continuing connected transactions set out above and therefore have abstained from voting in the relevant Board resolutions in respect of the continuing connected transactions. Save as disclosed above, none of the Directors have a material interest in any of the continuing connected transactions and hence no other Director is required to abstain from voting in the relevant Board resolutions.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the above-mentioned continuing connected transactions are fair and reasonable. Such continuing connected transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and are in the interests of the Company and its Shareholders as a whole. The Board also considers that the annual caps for each of the three years ending 31 December 2025, 2026 and 2027 for the abovementioned continuing connected transactions are fair and reasonable.

5. Shanghai Listing Rules Implications

Pursuant to the Shanghai Listing Rules, the following agreements shall be approved by the Independent Shareholders at the EGM:

(1) the Government Charter Flight Service Framework Agreement;

(2) the New Comprehensive Services Framework Agreement;

(3) the New Properties Leasing Framework Agreement; and

(4) the Media Services Framework Agreement.

III. ACC TRANSACTIONS

Reference is made to the announcement of the Company dated 20 September 2022 and the circular of the Company dated 28 September 2022 in relation to, among other things, the ACC Transactions. The current term of the ACC Framework Agreement will expire on 31 December 2024. As the Company expects that the ACC Transactions will continue to be conducted after 31 December 2024, on 30 October 2024, the Board resolved to renew the ACC Framework Agreement for a term of three years commencing from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM.

1. Parties and the Relationship between the Parties

Air China Cargo is indirectly owned as to approximately 45.00% by CNAHC, the controlling Shareholder of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Air China Cargo is a joint stock company incorporated under the laws of the PRC with limited liability and is principally engaged in air cargo and mail transportation business.

CNAHC directly holds 39.57% of the Company's shares and holds 11.75% of the Company's shares through its wholly-owned subsidiary CNACG, and is the controlling Shareholder of the Company as at the Latest Practicable Date. As at the Latest Practicable Date, the State-owned Assets Supervision and Administration Commission of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

2. Description of the ACC Transactions

The ACC Transactions contemplated under the ACC Framework Agreement are as follows:

- **Exclusive operation of the Passenger Aircraft Cargo Business:** After arm's length negotiations between both parties, the Group and the ACC Group have determined to carry out a long-term collaboration for the Passenger Aircraft Cargo Business under an exclusive operating model. The entire Passenger Aircraft Cargo Business of the Group will be operated exclusively by the ACC Group, and the ACC Group shall undertake the overall responsibilities for transporting the cargos to the consignors with respect to the cargos which are transported through the passenger aircraft.

As the term of the exclusive operation of the Passenger Aircraft Cargo Business between the Company and the ACC Group commences from the effective date of the ACC Framework Agreement (i.e. 14 October 2022) and ends on 31 December 2034 pursuant to the ACC Framework Agreement, pursuant to Rule 14A.52 of the Hong Kong Listing Rules, the Company had engaged an independent financial adviser, Somerley Capital Limited ("**Somerley**"), to explain why a period exceeding three years for such agreements is required and the independent financial adviser had confirmed that it is in the normal business practice for contracts of these types to be of such duration. For details of the independent financial adviser's opinions, please refer to the circular of the Company dated 28 September 2022 (the "**2022 Circular**"). As disclosed in the 2022 Circular, "*Somerley is of the view that a term of longer than three years is required for the effective operation of the transactions relating to the Passenger Aircraft Cargo Business (the "**Cargo Transactions**") and is a normal business practice in the industry after having considered the factors (i) Air China Cargo intends to apply for the listing of A shares and to comply with the applicable guidelines on initial public offering and listing of shares issued by CSRC, the Cargo Transactions having a term more than three years is necessary for facilitating the potential listing of Air China Cargo; (ii) entering into of the Cargo Transactions could provide a clear delineation of business and thereby eliminating concerns associated with competition between the Company and Air China Cargo; (iii) Air China Cargo is the sole service provider for the Passenger Aircraft Cargo Business and in view of the shareholding structure of both the Group and Air China Cargo, it is not practical or commercially sensible for the Company to entrust such services with another party in the PRC as such counterparty would have to have a reasonable business scale to handle the Group's Passenger Aircraft Cargo Business and possible candidates with such business scale would normally be under control of an industry competitor; and (iv) Somerley considers the practice of having a term of longer than three years is not uncommon in the industry because Somerley noted that the similar exclusive passenger aircraft bellyhold space contractual operation arrangement of China Eastern Airlines Corporation Limited is also for a long term of 12 years*".

- **Ground support services and other services:** The ground support services and other services provided by the Group to the ACC Group include but are not limited to operation support services, IT sharing services, comprehensive support services (mainly include crew accommodation and meal support, ground transportation services and medical and health services provided by the Group to the ACC Group), engine and aircraft-related materials sharing services, retiree management services, training services, human resources services (including general, servicing and information services in respect of personnel employment, archival information, salaries and benefits, social insurance and employee services), and procurement and maintenance services. The ground support and other services provided by the ACC Group to the Group include but are not limited to ground support services (cargo terminal services and airport apron services), container and pallet management services, engine and aircraft-related materials sharing services.

In respect of the engine and aircraft-related materials sharing services between the Group and the ACC Group, they mainly involve the provision of common engine and aircraft-related materials by the other party when one party's own engine and aircraft-related materials could not be able to meet its respective needs (mainly involving high-priced reusable components on the aircraft), for the purpose of reducing the procurement costs and timeliness in the event of temporary needs of the parties, while, on the other hand, improve each of their inventory utilization efficiency, hence bringing certain source of revenue.

The difference between ground support services and other services provided by the Group and the ACC Group under the ACC Framework Agreement lies in the specific nature and expertise required for each type of service. As described above, the types of services differ, and based on expertise, the Group requires the specialised capabilities that the ACC Group offers. The mutual provision of services allows both parties to leverage their strengths and meet their needs effectively.

- **Property leasing:** The Group may rent out its own properties or land with legal right of use to ACC Group for its production and operation, office and storage use, and the Group may lease self-owned properties and land from the ACC Group in the event that its own properties could not be able to meet its business needs such as production and operation, office and storage.

  The properties leased to each other between the Group and the ACC Group differ in terms of aspects such as geographical location, area and purpose. Currently, the properties rent out by the Group to the ACC Group are mainly properties invested and built by the Group in the vicinity of the Beijing Capital International Airport for warehouse purpose, and the properties leased by the Group from the ACC Group at present are mainly properties owned by the ACC Group which are adjacent to the Group and were leased to the Group for its use under the circumstances that the Group's own properties could not be able to meet its office and operation needs.

  Generally, the leasing term of properties or land shall not exceed three years. If there are specific government or industry requirements, the leasing term of properties or land shall comply with such requirements. When the terms expired, the leasing terms could be extended with unanimous consent after negotiation between both parties. The Company will comply with Chapter 14A of the Hong Kong Listing Rules by then.

3. Pricing Policies for the ACC Transactions

The consideration of any specific ACC Transactions shall be determined after arm's length negotiations between the Group and the ACC Group and on normal commercial terms, and shall be determined in accordance with the pricing policies set forth below on a case-by-case basis.

- **Exclusive operation of the Passenger Aircraft Cargo Business:**

  During the exclusive operation term, the Group shall charge the ACC Group the transportation service fee regularly in each year. Such transportation service fee shall be determined based on the ACC Group's actual cargo revenue generated from the exclusive operation of the Group's Passenger Aircraft Cargo Business after deducting certain operating fee rate. The specific formulas are as follows:

  Transportation service fee = actual revenue from the Passenger Aircraft Cargo Business × (1 – operating fee rate)

  Operating fee rate = operation expense rate + reward/punishment rate

  Reward/punishment rate = (growth rate of yield level of the Passenger Aircraft Cargo Business of the current year – growth rate of yield level of the cargo business in the industry of the current year) × 50%

  Of which:

  (1) The actual revenue of the Passenger Aircraft Cargo Business represents the actual cargo revenue generated by ACC Group's exclusive operation of the Group's Passenger Aircraft Cargo Business.

  (2) The operation expense rate represents the ratio of operating expenses to actual revenue from the Passenger Aircraft Cargo Business. Operation expenses are determined by the parties through arm's length negotiation primarily based on the operation expenses in the historical years, with reference to factors such as the price level in the similar market and industry and its variation trend.

  (3) In order to enhance the operating results of the exclusive operation of the Passenger Aircraft Cargo Business, the both parties decide to apply the reward/punishment rate after negotiation. The basic index of reward/punishment rate represents 50% of the difference between the yield level growth rate of the Passenger Aircraft Cargo Business and the yield level growth rate of the cargo business in the industry of the current year. The parties may make reasonable adjustments according to the changes in the market environment and the operation direction of the Passenger Aircraft Cargo Business with unanimous consent after negotiation. The rate of 50% is determined by the Company and Air China Cargo through arm's length negotiation with reference to industry practice. The rate of 50% is the same as the relevant ratios of similar transactions of

comparable companies in the industry, which will encourage the ACC Group to enhance its capacity of the Passenger Aircraft Cargo Business, thereby boosting the operating efficiency of the Group's Passenger Aircraft Cargo Business, and hence the rate is fair and reasonable.

(4) The growth rate of yield level of the Passenger Aircraft Cargo Business of the current year represents the growth rate of the yield level of the Passenger Aircraft Cargo Business of the current year generated by ACC Group's exclusive operation of the Group's Passenger Aircraft Cargo Business as compared with that of the previous year.

(5) The growth rate of yield level of the cargo business in the industry of the current year represents the growth rate of the revenue of the cargo business in the industry of the current year as compared with that of the previous year.

(6) The yield level of the cargo business represents the revenue of cargo business divided by the investment amount for the cargo business. The investment amount for the cargo business represents the total available cargo and mail traffic measured by the capacity available for the carriage of the cargo and mail for every route, and the calculation formula of which is Σ (capacity available for the carriage of the cargo and mail of the route multiplied by the distance of the route).

- **Ground support services and other services:**

Both parties shall, according to the service items and specific needs, determine the relevant service fees of the ground support services and other service provided to or by the Group through arm's length negotiations in accordance with the following principles:

(1) Follow the government and industry pricing or guide price if it is available, including but not limited to the guidance from CAAC and the International Air Transport Association on the prices of ground support services and other terms, and the requirements on the pricing of navigation information stipulated by CAAC and Air Traffic Management Bureau (ATMB), and the transaction price shall be determined by the parties through arm's length negotiation with reference to factors such as comparable prices (if any) in the market, relevant laws and tax policies. Generally, CAAC and the International Air Transport Association will publish the guidance on their official websites from time to time (for the International Air Transport Association, the guidance may also be provided by selling to customers).

(2) If no government and industry pricing or guide price is available, the final transaction price shall be determined through arm's length negotiations between the parties with firstly making reference to the market prices offered by at least two independent third parties on the market for the same type of service, and

then taking certain factors into account such as the service standard, service scope, business volume and specific needs of the parties. If any service needs of the service recipient change, appropriate adjustment will be made to the transaction price after negotiation between both parties based on the extent of variation in relevant costs, service quality or other factors.

(3) If none of the above prices are applicable, the service price shall be determined by both parties on the basis of cost plus reasonable profit. The costs are mainly based on the costs and expenses of the service provider, including costs of human resources and costs of facility, equipment and materials. Reasonable profit margin will be determined with mainly making reference to the historical average prices on similar products or services (where possible) published regarding the relevant industry, and/or the profit margin of the comparable products and services disclosed by other listed companies. The reasonable profit margin of ACC Group shall not exceed 10%. The final transaction prices shall be determined on terms that to the Group are no less favourable than those provided by independent third parties to the Group or those provided by ACC Group to independent third parties. The Group generally obtains historical average prices of the reasonable profit margin of similar products or services of the relevant industry through official websites of other listed companies. Besides, prior to entering into transactions of various ground support services and other services, the Group will request the ACC Group to provide and hence obtain the terms of similar and comparable transactions between the ACC Group and independent third parties whenever possible as its reference for determining the transaction price. While making reference to the profit margin of comparable products and services disclosed by other listed companies, the Group will try to acquire comparable data as more as possible, and generally by referring to at least two listed companies' relevant data where practicable.

- **Property leasing services:**

The parties shall, according to the service items and specific needs, determine the relevant service fees of the property leasing services through arm's length negotiations in accordance with the following principles:

(1) The Group as lessor: First, the Group shall provide quotation of the leased properties or land to ACC Group after taking into account the factors including the relevant costs, tax and reasonable profit margin relating to the properties or land. The relevant costs include construction costs, depreciation costs, funding costs and maintenance costs. Reasonable profit margin will be determined with mainly making reference to the historical average prices on similar services (where possible) published regarding the property leasing industry, and/or the profit margin of the comparable services disclosed by other listed companies. Then, the rental prices for the leased properties or land shall be determined through arm's length negotiations between the Group and ACC Group after ACC Group takes into account the factors such as the location of the leased properties

or land and the service quality. Such rental prices shall not be lower than the rent offered by the Group to an independent third party (if any) in comparable circumstances.

(2) The Group as lessee: First, the Group shall conduct market research and collect, consolidate and analyze information in respect of provision of leasing services by independent third parties for the same type of properties or land (if any) in close proximity to the properties or land to be leased. Generally, the Group shall assign a department or an officer to verify the price and terms available from at least two independent third parties (if any) by email, fax or telephone. Then, (a) if there is comparable market of the same type identified through market research, the parties shall determine the rental prices for the leased properties or land through arm's length negotiations with reference to the market price for the same type of services available from at least two independent third parties after taking into account the relevant factors. The relevant factors include the geographical location, function and layout, furnishing, ancillary facilities and property services of the property or land as well as the specific needs of the lessee; and (b) if there is no comparable market of the same type found in the neighboring areas through market research, the price shall be determined by adopting the cost-plus approach: the rental price of the leased properties or land shall be determined through arm's length negotiations between the parties based on the relevant costs, tax and reasonable profit margin of the properties or land offered by ACC Group. The relevant costs include construction costs, depreciation costs, funding costs and maintenance costs. Reasonable profit margin will be determined with mainly making reference to the historical average prices on similar services (where possible) published regarding the property leasing industry and/or the profit margin of the comparable services disclosed by other listed companies, and the reasonable profit margin of ACC Group shall not exceed 10%. The abovementioned rental prices shall not be higher than those offered by ACC Group to the independent third parties (if any) in comparable circumstances.

The Group generally obtains historical average prices of the reasonable profit margin of similar products or services of the relevant industry through the official websites of other listed companies. Besides, prior to entering into transactions of various ground support services and other services, the Group will request the ACC Group to provide and hence obtain the terms of similar and comparable transactions between the ACC Group and independent third parties whenever possible as its reference for determining the transaction price. While making reference to the profit margin of comparable products and services disclosed by other listed companies, the Group will try to acquire comparable data as more as possible, and generally by referring to at least two listed companies' relevant data where practicable.

(3) The Group as lessee and lessor: When leasing each other's properties or land, as a separate matter, the parties may determine the quotation for the rental prices of their respective properties or land based on the above pricing principles, and then exchange the lease of properties and land use right in accordance with the principle of equivalent exchange.

(4) The payment method of rental fee shall be subject to specific agreement.

4. Term of the ACC Framework Agreement

The renewal of the ACC Framework Agreement is subject to the approval of Independent Shareholders at the EGM. If the approval of Independent Shareholders is obtained, the ACC Framework Agreement will be renewed for a term of three years commencing from 1 January 2025 to 31 December 2027, and may be renewed automatically for successive terms of three years each, subject to the compliance with the requirements of the Hong Kong Listing Rules/the Shanghai Listing Rules and the approval procedures required under the Hong Kong Listing Rules/the Shanghai Listing Rules. During the term of the ACC Framework Agreement, the agreement can be terminated upon the expiry on any 31 December by either party thereto by serving the other party a prior written notice of not less than three months. However, the exclusive operation term of the Passenger Aircraft Cargo Business between the Group and ACC Group under the ACC Framework Agreement shall not be terminated upon the termination of the ACC Framework Agreement, provided that the requirements (including but not limited to obtaining approval and fulfilling disclosure procedures for the annual caps) under the Hong Kong Listing Rules/Shanghai Listing Rules shall then be complied with.

5. Independent Financial Adviser's opinion on the leasing term of properties under the ACC Framework Agreement

As mentioned above, under the ACC Framework Agreement, the term of the leases of properties or land should not exceed three years with the exception where there are special government and/or industry requirements on the duration of the tenure of the leased property(ies) or land (the "**ACC Property(ties)**").

According to Rule 14A.52 of the Hong Kong Listing Rules, the term for the agreement for a continuing connected transaction shall not exceed three years except in special circumstances where the nature of the transaction requires a longer term. In this case, the listed issuer shall appoint an independent financial adviser to explain why the agreement requires a longer term and to confirm that it is normal business practice for the agreements of this type to be of such duration.

Accordingly, the Company has engaged BaoQiao Partners as the Independent Financial Adviser, and BaoQiao Partners has formulated its opinion as follows:

As both the Group and ACC Group are engaged in related business sectors, both groups have similar demands on certain type of properties and/or properties in specific areas (for example, properties within or adjacent to airports) owned by each other for their general and/or business operation purposes.

Based on BaoQiao Partners' discussion with the management of the Company, the ACC Properties represents properties (including properties that are custom-built by the Group, based on industry requirements and at the request of ACC Group) that may be subject to oversight and administration of government or industrial authorities with specific regulations/requirements on the duration of the tenure, which may exceed three years, when leased from time to time. As such, it is normal business practice for the Group with regards to the compliance with applicable government/ industrial regulations or observe the industry requirements for leasing of ACC Properties.

As advised by the management of the Company, there are existing leasing transactions of the ACC Properties entered into between the Group and the ACC Group (the "**Existing Transactions**") in January 2017 and BaoQiao Partners has obtained and reviewed the agreements of these Existing Transactions, which were governed by the GAC. The initial lease terms of these Existing Transactions were 6 years, which were renewed in 2023 for an additional 3 years to 2026. BaoQiao Partners understands that the initial lease terms of 6 years of the Existing Transactions were in compliance with the GAC Rules issued by the GAC on 30 January 2008, which required, among others, the lease term of property for the use of loading, unloading, storage, delivery and shipping of import and export goods in the areas that are subject to the oversight and supervision of GAC to be at least five years.

Despite the GAC Rules were superseded by the new rules issued by GAC on 1 November 2017 and there is no specific lease term requirement under the new rules, as advised by the management of the Company, the Company cannot rule out the possibility that any government or industrial authorities (including GAC) will require the lease term of the ACC Properties to be more than 3 years during the period of the ACC Framework Agreement. Based on BaoQiao Partners' discussion with the management of the Company, in order to maintain stable and smooth airline operation needs, both the Company and the ACC Group intend to continue the leasing arrangement of the Existing Transactions upon expiry in 2026 and there may be other new ACC Properties leasing arrangements between the Group and the ACC Group under the ACC Framework Agreement, which from the perspective of the Company, the entering into leases of ACC Properties will allow the Group (as the lessee) to obtain the right of use of ACC Properties owned by ACC Group for the Group's operation, while also providing the flexibility for the Group (as the lessor) to lease out its vacant ACC Properties for rental income. As such, the property leasing services with flexibility on leasing period to satisfy the regulatory compliance and industry requirements for the ACC Properties under the ACC Framework Agreement also align with the Group's long-term strategies and signifies the lasting cooperation commitment between the Group and the ACC Group.

Review of comparable transactions

In considering whether it is a normal business practice for the lease of the ACC Properties under the ACC Framework Agreement to have a duration longer than three years, BaoQiao Partners has identified and selected 18 Comparable Transactions based on the following selection criteria, (a) continuing connected transactions announcements related to leasing arrangements of land and properties for general and/or business operation purposes published by companies listed on the Hong Kong Stock Exchange since 2021; (b) the transactions with lease term longer than three years. Based on BaoQiao Partners' review of the Comparable Transactions, it is not uncommon to enter into long-term leases for properties leasing in the PRC and 17 out of 18 of the Comparable Transactions were related to leasing arrangements for PRC land/properties. BaoQiao Partners also notes that the lease terms of these Comparable Transactions ranged from 5 years to 50 years, with an average of approximately 13 years. In addition, 3 out of 18 Comparable Transactions were similar with that of custom-built arrangements. Two of them involved properties for airline operations entered into by CEA, a peer company within the Chinese aviation industry with lease term of 6 years in 2021 and 2022 and the other was leasing of land for construction of factory buildings/facilities with lease term of 20 years. The use of properties under these 18 Comparable Transactions included industrial production, commercial operation, hospital operation and offices. Although there was no Comparable Transaction that involved leasing of regulated properties as the Company, BaoQiao Partners considers the Comparable Transactions can represent the general market practices of the property leasing arrangements for general and/or business operation purposes in the PRC, regardless the types of properties involved.

As such, based on BaoQiao Partners' review of the Comparable Transactions with lease terms ranged from 5 years to 50 years and the Existing Transactions with initial tenure of 6 years, BaoQiao Partners considers the lease terms of the Properties under the ACC Framework Agreement, which based on the representation given by the management of the Company will not be over 20 years, fall within the range of the Comparable Transactions.

Having considered the principal factors discussed above, BaoQiao Partners is of the view that it is normal business practice for the Group and the ACC Group to enter into leases for the Properties under the ACC Framework Agreement with terms of more than three years and to be of such duration for agreements of this type.

6. Reasons for and Benefits of the ACC Transactions

The Directors believe that it is in the best interest of the Group to continue the ACC Transactions with the ACC Group having taken into account the following factors:

- In respect of the exclusive operation of the Passenger Aircraft Cargo Business, by placing the Passenger Aircraft Cargo Business of the Group exclusively with the ACC Group, the Group is able to better focus its resources on its core passenger transport business, which will result in a more efficient utilization of resources and enhance the management and operation capabilities of the passenger transport business. The collaboration between the Group and the ACC Group allows Air China Cargo to utilize its expertise in the cargo industry, providing the Group with a steady income from cargo business. The aforesaid collaboration maximizes the economies of scale for the Group and the ACC Group, while the Group's increased focus on the core passenger transport business will further strengthen the Group's brand image and competitiveness in the passenger transport market, thereby enhancing returns to the Shareholders.

- In respect of ground support services and other services, the long established successful cooperative relationship between the Company and Air China Cargo is able to provide streamlined and efficient cooperation and transaction between the Group and the ACC Group.

- In respect of properties leasing services, the Group has entered into similar property leasing transactions with various parties including both connected persons and independent third parties in the ordinary course of business. The leasing of the Group's properties to the ACC Group is beneficial to the Group in improving the efficiency of asset utilization and obtaining rental income. The properties leased by the ACC Group to the Group are generally located in the vicinity of the Group's office, and therefore can meet the Group's relevant needs in a more efficient and convenient way.

7. Historical Amounts and Proposed Caps

The table below sets out (i) the historical annual caps of the ACC Group or the Group for each of the three years ended/ending 31 December 2022, 2023 and 2024, respectively; (ii) the actual amounts for each of the two years ended 31 December 2022 and 2023 and for the six months ended 30 June 2024, and the estimated amounts payable for the year ending 31 December 2024; and (iii) the proposed annual caps for the next three years:

Unit: RMB Million

	Historical Annual Caps			Actual Historical Amounts			Estimated amounts	Proposed Annual Caps		
	For the year ended 31 December 2022	For the year ended 31 December 2023	For the year ending December 2024	For the year ended 31 December 2022	For the year ended 31 December 2023	For the six months ended 30 June 2024	for the year ending 31 December 2024	For the year ending 31 December 2025	For the year ending 31 December 2026	For the year ending 31 December 2027
Amounts Payable by the ACC Group to the Group										
In terms of the transportation service under the Passenger Aircraft Cargo Business	15,500	17,000	18,000	9,666	3,412	3,009	8,100	11,000	12,000	13,000
In terms of ground support services and other services	1,500	2,500	2,700	1,046	887	326	1,242	2,100	2,300	2,500
In terms of properties leasing services	250	250	250	137	134	70	149	250	250	250
Amounts payable by the Group to the ACC Group										
In terms of ground support services and other services	1,400	1,500	1,600	598	681	420	1,116	1,500	1,500	1,500

In respect of the passenger aircraft cargo services provided by the Group to the ACC Group, given that the transport capacity of passenger aircraft on the international routes of the Group has not yet recovered to pre-pandemic levels, the revenue of the Passenger Aircraft Cargo Business was lower than expected, resulting in a decrease in the amount of actual revenue from the transportation services under the Passenger Aircraft Cargo Business from 2022 to 2024 as compared with the annual cap for each of the respective year.

In respect of the ground support services and other services provided by the Group to the ACC Group, given that the ACC Group delayed its purchase of maintenance services from the Group based on the arrangement under the aircraft introduction plan, the corresponding revenue of the Group has decreased, resulting in a decrease in the amount of actual revenue from ground support services and other services from 2022 to 2024 as compared with the annual cap for each of the respective year.

In respect of the ground support services and other services provided by the ACC Group to the Group, given that the transport capacity of the passenger aircraft of the Group has not yet recovered to pre-pandemic levels, and that the business volumes of flight-related warehouse and airport apron operations both decreased accordingly, there was a corresponding decrease in the relevant fees paid by the Group to the ACC Group, resulting in a decrease in the amount of actual expenditure incurred for ground support services and other services from 2022 to 2024 as compared with the annual cap for each of the respective year.

8. Basis for the Annual Caps for the Next Three Years

Accounts Payable by the ACC Group to the Group

In arriving at the annual caps for the transportation service fees of the Passenger Aircraft Cargo Business payable by the ACC Group to the Group for each of the three years ending 31 December 2025, 2026 and 2027, the Company has considered, among other things, the historical transaction amounts, which were RMB9,666 million and 3,412 million for the years ended 31 December 2022 and 2023, respectively, and RMB3,009 million for the six months ended 30 June 2024, and the estimated transaction amounts for 2025 to 2027 along with the following factors:

(i) In 2023, the Group operated at 74% of its pre-pandemic capacity on international routes. It is expected that international flight operations may return to pre-pandemic levels by 2025. Based on the estimated revenue in the amount of RMB8,100 million from the Passenger Aircraft Cargo Business for the year 2024, assuming no reduction in pricing levels and a 30% increase in passenger aircraft deployment (mainly due to the recovery of international routes), the revenue from the Passenger Aircraft Cargo Business is expected to reach RMB11,000 million for the year 2025. For the year 2026 and 2027, an estimated growth rate of 7% has been adopted, with reference to the target growth rate of 6.5% of the guaranteed number of takeoff and landing as set out in the "14th Five-Year Plan" issued by CAAC. As a result, the revenue for the year 2026 and 2027 is estimated to be RMB11,700 million and RMB12,600 million, respectively;

(ii) The operating fee rate is estimated to be between 7% and 8%. In determining the estimated operating fee rate, the Company has taken into account the actual operating fee rates from the past years. It was observed that the actual operating fee rates were between 7% and 8% in 2018 and 2019 and ranged from 4% to 9.5% from 2020 to 2023, with an average of 6.3% during those years. Given the expectation that the Group's international flights will return to pre-pandemic levels in 2025, along with the anticipated growth in estimated revenue from the Passenger Aircraft Cargo Business in the coming years, the operating fee rate of 7% to 8% is considered fair and reasonable;

(iii) The maximum transportation service fee is calculated based on the formula contemplated under the ACC Framework Agreement (i.e. Transportation service fee = actual revenue from the Passenger Aircraft Cargo Business × (1 – operating fee rate)), and a reasonable buffer is included; and

(iv) Based on the above, it is estimated that the transportation service fees of the Passenger Aircraft Cargo Business payable by the ACC Group to the Group for year 2025 to 2027 will not exceed RMB11,000 million, RMB12,000 million and RMB13,000 million, respectively.

In arriving at the annual caps for the amounts payable by the ACC Group to the Group in connection with the ground support services and other services provided by the Group for each of the three years ending 31 December 2027, the Company has considered, among other things, (i) the historical transaction amounts which were RMB1,046 million and RMB887 million for the years ended 31 December 2022 and 2023, respectively, and RMB326 million for the six months ended 30 June 2024. The Group expects the transaction amount to be paid to the ACC Group in 2024 will be around RMB1,242 million, among which, the amounts payable by the ACC Group to the Group for the maintenance services provided by the Group to the ACC Group are expected to be around RMB600 million to RMB700 million; (ii) the estimated transaction amounts for 2025 to 2027 (especially taking into account the possible increase in demand of the ACC Group for pilots and aircraft and engines maintenance services, for which the Company can provide the corresponding personnel and services); and (iii) a reasonable buffer has been included. Based on the above and considering the peak historical annual cap was in the amount of RMB2,700 million, it is estimated that the amounts payable by the ACC Group to the Group in connection with the ground support services and other services provided by the Group for each of the three years ending 31 December 2027 will not exceed RMB2,100 million, RMB2,300 million and RMB2,500 million, respectively.

In arriving at the annual caps for the amounts payable by the ACC Group to the Group in connection with the properties leasing services provided by the Group for each of the three years ending 31 December 2027, the Company has considered, among other things, (i) the annual rentals of the properties currently leased by the Group to the ACC Group, and the peak historical transaction amount of which was RMB137 million over the past two years; (ii) the potential additional rentals from the possible new property lease projects from 2025 to 2027 are estimated to be approximately RMB50 million; and (iii) the peak historical annual cap proposed amounted to RMB250 million. Accordingly, it is estimated that the annual transaction amounts for 2025 to 2027 will not exceed RMB250 million.

Amounts payable by the Group to the ACC Group

In arriving at the annual caps for the amounts payable by the Group to the ACC Group in connection with the ground support services and other services provided by the ACC Group for each of the three years ending 31 December 2027, the Company has considered (i) the historical transaction amounts, which were RMB598 million and RMB681 million for the years ended 31 December 2022 and 2023, respectively, and RMB420 million for the six months ended 30 June 2024, (ii) the Group expects the amounts payable by the Group to the ACC

Group in connection with the ground support services and other services provided by the ACC Group for 2024 will be around RMB1,116 million; and (iii) the estimated transaction amounts for 2025 to 2027 (including the corresponding increase in the scale of ground support services as the number of flights increase after the end of the pandemic), and has included a reasonable buffer. Based on the above, it is estimated that the amounts payable by the Group to the ACC Group in connection with the ground support services and other services provided by the ACC Group for each of the three years ending 31 December 2027 will not exceed RMB1,500 million.

9. Internal Control Procedures

The Group has adopted the following internal control procedures to ensure that the ACC Transactions will be conducted on normal commercial terms, and in accordance with the ACC Framework Agreement and the pricing policies of the Group:

- Before entering into individual ACC Transactions, the Finance Department, Legal Department, Asset Management Department (which has a dedicated sub-division responsible for the management of connected transactions) and if applicable, certain other relevant departments of the Company will review the proposed terms for the individual ACC Transactions and discuss with the relevant departments of the Group to ensure that such transactions are conducted on normal commercial terms and in compliance with the pricing policies of the Group before these relevant departments approve the finalized transaction agreements according to their authority within the Group.

- The Asset Management Department of the Company is responsible for overseeing the connected transactions of the Company. The Asset Management Department will monitor and collect detailed information on the ACC Transactions on a regular basis, including but not limited to the implementation of pricing policies, the terms of the agreement and actual transaction amount to ensure that the transactions are conducted in accordance with the framework agreement. In addition, the Asset Management Department is responsible for monitoring and reviewing the balance amount of the annual cap for the ACC Transactions on a monthly basis and if the annual cap for the ACC Transactions is expected to be exceeded for a particular year, it will report to the management and take appropriate measures in accordance with the relevant requirements of the Hong Kong Listing Rules and/or the Shanghai Listing Rules.

- The Company's Internal Audit Department is responsible for performing annual assessment on the internal control procedures of the Group, including but not limited to the relevant information on the management of continuing connected transactions. In addition, the Internal Audit Department is responsible for compiling the annual internal control assessment report and submitting the report to the Board for examination and approval.

- The independent auditor of the Company and the independent non-executive Directors will conduct an annual review on the continuing connected transactions of the Group.

The Company considers that the above internal control procedures could function as effective measures to regulate continuing connected transactions. The Company also provides accurate materials in relation to continuing connected transactions as always to facilitate the annual review conducted by the independent non-executive Directors and the independent auditor. Therefore, the Directors consider that the above internal control procedures could ensure the continuing connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

10. Hong Kong Listing Rules Implications

As a non-wholly owned subsidiary of CNAHC, the Company's controlling Shareholder, Air China Cargo is a connected person of the Company as defined under the Hong Kong Listing Rules, and accordingly the ACC Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio in respect of the proposed annual caps of the transportation service fees of the Passenger Aircraft Cargo Business payable by the ACC Group under the ACC Transactions is, on an annual basis, higher than 5%, such transactions are therefore subject to the announcement, annual review, circular (including advice of independent financial adviser) and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In respect of ground support services and other services provided by the Group, as the highest applicable percentage ratio in respect of the proposed annual caps of amounts payable by the ACC Group is, on an annual basis, higher than 0.1% but less than 5%, these transactions are therefore subject to the announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirement.

In respect of ground support services and other services provided by the ACC Group, as the highest applicable percentage ratio in respect of the proposed annual caps of amounts payable by the Group is, on an annual basis, higher than 0.1% but less than 5%, these transactions are therefore subject to the announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirement.

In respect of properties leasing services provided by the Group, as the highest applicable percentage ratio in respect of the proposed annual caps of amounts payable by the ACC Group is, on an annual basis, higher than 0.1% but less than 5%, these transactions are therefore subject to the announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirement.

In respect of properties leasing services provided by the ACC Group, it is expected that the total amounts payable by the Group for each of the years 2025, 2026 and 2027 are below the de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Hong Kong Listing Rules, and therefore the transaction will be exempted from announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Mr. Ma Chongxian, Mr. Wang Mingyuan, Mr. Cui Xiaofeng, Mr. Patrick Healy and Mr. Xiao Peng, being the Directors of the Company also holding directorship in CNAHC and/or Cathay Pacific, are considered to have material interests in the ACC Transactions and therefore have abstained from voting in the relevant Board resolutions in respect of the continuing connected transactions.

Save as disclosed above, none of the Directors have a material interest in ACC Transactions and hence no other Director is required to abstain from voting in the relevant Board resolutions.

11. Shanghai Listing Rules Implications

According to the Shanghai Listing Rules, the renewal of the ACC Framework Agreement and the proposed annual caps thereunder shall be approved by the Independent Shareholders.

IV. THE EGM

The Company will convene the EGM at 11:30 a.m. on Thursday, 5 December 2024 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC, for the Independent Shareholders to consider and approve the CNAHC Framework Agreements, the CNAHC Transactions and the proposed annual caps for each of the CNAHC Transactions, and the ACC Framework Agreement, the ACC Transactions and the proposed annual caps for the ACC Transactions. Votes on the resolutions to be considered at the EGM 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) and the Company (www.airchina.com.cn). The notice of EGM is reproduced in this circular.

In respect of the CNAHC Transactions, pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the CNAHC Transactions is required to abstain from voting on the relevant resolutions at the EGM. As at the Latest Practicable Date, CNACG is a wholly-owned subsidiary of CNAHC. Therefore, CNAHC and CNACG are required to abstain from voting on the resolutions in respect of the CNAHC Transactions at the EGM. As at the Latest Practicable Date, CNAHC and CNACG, in aggregate, held 8,516,024,075 shares of the Company, representing approximately 51.32% of the issued share capital of the Company, controlled or were entitled to control over the voting right in respect of the shares held by them in the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as disclosed above, no Shareholder has a material interest in the resolutions in respect of the CNAHC Transactions or should be required to abstain from voting on the relevant resolutions at the EGM.

In respect of the ACC Transactions, pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the ACC Transactions is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, CNAHC, the controlling Shareholder of the Company, indirectly held approximately 45.00% equity interest in Air China Cargo. CNACG, a substantial shareholder of the Company, is a wholly-owned subsidiary of CNAHC. In addition, Cathay Pacific is a substantial shareholder of the Company and Air China Cargo. Therefore, CNAHC, CNACG, Cathay Pacific and their respective associates are required to abstain from voting on the resolution in respect of the ACC Transactions. As at the Latest Practicable Date, CNAHC and CNACG, in aggregate, held 8,516,024,075 shares of the Company, representing approximately 51.32% of the issued share capital of the

Company, controlled or were entitled to control over the voting right in respect of the shares held by them in the Company. As at the Latest Practicable Date, Cathay Pacific and its associates, in aggregate, held 2,633,725,455 shares of the Company, representing approximately 15.87% 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. As at the Latest Practicable Date, Cathay Pacific, through subsidiaries, held approximately 24% of the issued share capital of Air China Cargo. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as disclosed above, no Shareholder has a material interest in the resolution in respect of the ACC Transactions or should be required to abstain from voting on the relevant resolution at the EGM.

The register of members of H Shares will be closed from Monday, 2 December 2024 to Thursday, 5 December 2024 (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 EGM. H Shareholders of the Company whose names appear on the register of members of H Shares of the Company after the close of business on Friday, 29 November 2024 are entitled to attend the EGM after completing the registration procedures. In order to qualify for attendance at the EGM, 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 Friday, 29 November 2024.

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

V. RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the CNAHC Transactions and the ACC Transactions are on normal commercial terms or better, and are entered into in the ordinary and usual course of business of the Group, and the terms and conditions contained therein and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board considers that the annual caps for each of the three years ending 31 December 2025, 2026 and 2027 for the CNAHC Transactions and the ACC Transactions are fair and reasonable. The Board recommends the Independent Shareholders to vote in favour of the resolutions which will be proposed at the EGM.

VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee of this circular which contains its recommendation to the Independent Shareholders as to the voting in relation to the Non-exempt Transactions.

You attention is also drawn to the letter from the Independent Financial Adviser of this circular, which contains, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Transactions as well as the principal factors and reasons considered by it concluding its advice.

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

By order of the Board
Air China Limited
Ma Chongxian
Chairman

Beijing, the PRC

中國國際航空股份有限公司
AIR CHINA LIMITED

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

Independent Board Committee:
Mr. He Yun
Mr. Xu Junxin
Ms. Winnie Tam Wan-chi

18 November 2024

To the Independent Shareholders of the Company

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 18 November 2024 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 in this letter unless the context otherwise requires.

On 30 October 2024, the Board approved the ACC Framework Agreement in respect of the ACC Transactions and the proposed annual caps of the transactions contemplated thereunder for the three years ending 31 December 2027 as set out in the Circular. The Non-exempt Transactions are subject to the announcement, annual review, circular (including advice of independent financial adviser) and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The terms and the reasons for the ACC Framework Agreement are summarised in the Letter from the Board of the Circular.

We have been appointed to form the Independent Board Committee to make a recommendation to the Independent Shareholders as to whether the Non-exempt Transactions are fair and reasonable and whether such transactions 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 Transactions, their terms and the basis upon which the terms have been determined. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the above mentioned transactions and their proposed annual caps as set out in the Letter from the Independent Financial Adviser of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the advice of the Independent Financial Adviser, considers that the Non-exempt Transactions are conducted on normal commercial terms or on terms no less favourable than those available to independent third parties and are entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and that the proposed annual caps under those transactions are also fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant ordinary resolutions as set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee

Mr. He Yun	**Mr. Xu Junxin**	**Ms. Winnie Tam Wan-chi**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice from BaoQiao Partners Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of Passenger Aircraft Cargo Transactions, which has been prepared for the purpose of inclusion in this circular.

寶橋 BAOQIAO PARTNERS

BAOQIAO PARTNERS CAPITAL LIMITED

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

18 November 2024

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

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions relating to the Passenger Aircraft Cargo Business (the "**Passenger Aircraft Cargo Transactions**") under the ACC Framework Agreement, details of which are set out in the Letter from the Board ("**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 18 November 2024. Terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcements of the Company dated 30 October 2019 and 20 September 2022 and the circular of the Company dated 28 September 2022 in relation to, among other things, the ACC Transactions. As disclosed in the announcement (the "**Announcement**") of the Company dated 30 October 2024 in relation to, among others, the Passenger Aircraft Cargo Transactions, the current term of the ACC Framework Agreement will expire on 31 December 2024. As the Company expects that the ACC Transactions will continue to be conducted after 31 December 2024, on 30 October 2024, the Board resolved to renew the ACC Framework Agreement for a term of three years commencing from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM.

As a non-wholly owned subsidiary of CNAHC, the Company's controlling shareholder, Air China Cargo is a connected person of the Company as defined under the Hong Kong Listing Rules, and accordingly the ACC Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps of the transportation service fees of the Passenger Aircraft Cargo Business payable by the ACC Group under the ACC Framework Agreement is, on an annual basis, higher than 5%, such transactions are therefore subject to the announcement, annual review, circular (including advice of independent financial adviser) and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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 (a) the announcement and circular of the Company dated 30 March 2023 and 3 May 2023 respectively; and (b) the announcement of the Company dated 30 October 2024; (ii) to advise the independent board committee and independent shareholders of the Company in respect of the disclosable transaction and continuing connected transactions of the Company and the proposed revision of annual cap and entering into financial service agreements, as set out in the circular of the Company dated 3 May 2023; and (iii) to advise the independent board committee and the independent shareholders of the Company in respect of the connected transaction involving the proposed issuance of A Shares and H Shares to specific investor, as set out in the circular of the Company dated 9 January 2024.

As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company, 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 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 such, we consider that we are independent pursuant to 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 accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (collectively, the "**Management**"). We have reviewed, among others, the annual reports of the Company for each of the years ended 31 December 2022 ("**FY2022**") (the "**2022 Annual Report**") and 31 December 2023 ("**FY2023**") (the "**2023 Annual Report**"), the interim report of the Company for the six months ended 30 June 2024 ("**HY2024**") ("**2024 Interim Report**"), the ACC Framework Agreement, certain corporate and financial information of the Group and the ACC Group, and the information set out in the Announcement and the Circular. We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive 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 representations made by the Management in the Circular and/or discussed with/provided to us were reasonably made after due enquiries 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, 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, financial condition and future prospects of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into the ACC Framework Agreement. 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 the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement, and this letter, except for its inclusion in the Circular 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders with regard to the Passenger Aircraft Cargo Transactions, we have taken into consideration the following factors and reasons:

1. Background Information of the Parties

Information on the Company and Group

The Company is incorporated in the People's Republic of China with limited liability, the Shares of which have been listed on the Main Board of the Hong Kong Stock Exchange since 15 December 2004. As disclosed in the 2023 Annual Report, the Group is principally engaged in the provision of airline and airline related services, including aircraft engineering services and airport ground handling services.

According to the 2023 Annual Report, airline industry is recovering gradually from COVID-19 pandemic, the Group reported a revenue of approximately RMB141,100 million, representing a year-on-year increase of approximately 166.74%. For FY2023, the income from air passenger operation increased by 240.81% to RMB130,517 million, while the income from air cargo and mail business, decreased by 58.70% to RMB4,165 million. In line with the increase in revenue, the loss attributable to equity shareholders of the Company decreased to approximately RMB1,038 million for FY2023 as compared to loss of approximately RMB38,617 million for the year ended 31 December 2022.

Based on the 2024 Interim Report, the Group's revenue was RMB79,520 million, representing a year-on-year increase of RMB19,907 million or 33.39%. Among the revenues, air passenger revenue was RMB73,137 million, representing a year-on-year increase of RMB17,668 million or 31.85% and the income from air cargo and mail business was RMB3,328 million, representing a year-on-year increase of RMB1,919 million. In line with the increase in revenue, the loss attributable to equity shareholders of the Company decreased to approximately RMB2,779 million for HY2024 as compared to loss of approximately RMB3,447 million for the corresponding period last year.

During FY2022, FY2023 and HY2024, the Group introduced 36 aircraft, 23 aircraft and 16 aircraft, phased out 20 aircraft, 12 aircraft and 6 aircraft respectively. As at 30 June 2024, the Group operated a fleet of 915 aircraft in total, with an average age of 9.64 years, of which the Company operated a fleet of 496 aircraft with an average age of 9.38 years.

Information on Air China Cargo

Based on the information from the website of Air China Cargo, Air China Cargo was established in December 2003. Headquartered in Beijing, Air China Cargo takes Shanghai as its main long haul air freighter operation base and is primarily engaged in air cargo and mail transportation.

As at the Latest Practicable Date, Air China Cargo is a non-wholly owned subsidiary of CNAHC, a controlling Shareholder of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. 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.

CNAHC directly holds 39.57% of the Company's shares and holds 11.75% of the Company's shares through its wholly-owned subsidiary CNACG, and is the controlling shareholder of the Company. As at the Latest Practicable Date, the State-owned Assets Supervision and Administration Commission of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

2. Overview of Aviation Industry

According to the press release published by the International Air Transport Association ("**IATA**") on 31 January 2024, in respect of air passenger traffic, in 2023 (measured in revenue passenger kilometers or RPKs) rose 36.9% compared to 2022. Globally, full year 2023 traffic was at 94.1% of pre-pandemic (2019) levels. In respect of air cargo traffic, global full-year demand in 2023, measured in cargo tonne-kilometers (CTKs), reached a level slightly 1.9% below 2022 and 3.6% below 2019. Passenger demand continues to grow in 2024. Based on the press release published by IATA on 3 June 2024, the revenue passenger kilometers (RPKs) growth is expected to be 11.6% year-on-year. Air cargo traffic also shows strong growing demand in the first half of 2024, with volume exceeding the corresponding periods in each of the preceding three years. In addition, according to the press release published by IATA on 28 August 2024, it is expected that the air cargo business continues to benefit from growth in global trade, booming e-commerce and capacity constraints on maritime shipping.

China also witnessed growth in demand for air transport in 2023. According to the 2023 Statistical Bulletin (the "**CAAC Bulletin**") on the Development of the Civil Aviation Industry published by the Civil Aviation Administration of China ("**CAAC**"), China's full year air passenger traffic rose 142.2% versus 2022, and was at 93.2% of pre-pandemic (2019) level, of which domestic traffic recovered fast and rose 134.8% versus 2022 (at 100% of 2019 level), while international traffic has shown a recovery trend and rose 1,184.6% versus 2022, it remained at 34% of 2019 level. In respect of air cargo, aviation cargo is the backbone of global supply chain and has served an important role as an alternative revenue source when passenger flights ground to a halt during COVID-19 pandemic in China. Cargo transportation continued to grow and the total demand (measured by tonne) for 2023 increased by 15.8%, and was at 98.4% of 2019 level. In addition, with reference to the monthly statistics for September 2024 released by CAAC in October 2024, the total traffic volume for the nine months ended 30 September 2024 has reached 110.7 billion tonne kilometres, representing an increase of 27.4% as compared to the same period last year and the cargo volume also increased by 24.4% as compared to the same nine-months period ended 30 September 2024.

3. Background of and reasons for the Passenger Aircraft Cargo Transactions

As advised by the Management and as disclosed in the Letter from the Board, we note that the Company has developed its cooperation relationship with Air China Cargo for a long time. Air China Cargo is equipped with the level of qualification and experience required and such continuing relationship between the Company and Air China Cargo in relation to the Passenger Aircraft Cargo Business would allow the Company (i) to better focus its resources on its core passenger transport business, thereby enhancing resource efficiency and improving the management and operational capabilities of its passenger transport business; (ii) to enjoy a steady income from cargo business by utilizing Air China Cargo's expertise in the cargo industry; and (iii) to further strengthen the Group's brand image and competitiveness in the passenger transport market and increasing returns for the Shareholders with the view that the collaboration can maximize the economies of scale for both the Group and the ACC Group.

In light of the long-established cooperation relationship between the Company and Air China Cargo as well as Air China Cargo's proven track record, we concur with the Director's view that such collaboration would allow the Group as a whole to focus on devoting its resources to expanding its air passenger transportation business and, thus increasing returns for the Shareholders.

4. Principal Terms of the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement

Services

In order to further address the issue of business competition and optimize transaction structure, after arm's length negotiations between both parties, the Group and the ACC Group have determined to carry out a long-term collaboration for the Passenger Aircraft Cargo Business under an exclusive operating model. The entire Passenger Aircraft Cargo Business of the Group will be operated exclusively by the ACC Group, and the ACC Group shall undertake the overall responsibilities for transporting the cargos to the consignors with respect to the cargos which are transported through the passenger aircraft.

The term of the exclusive operation of the Passenger Aircraft Cargo Business between the Group and the ACC Group is commencing from the effective date of the ACC Framework Agreement and ending on 31 December 2034.

Pricing

During the exclusive operation term, the Group shall charge the ACC Group the transportation service fee regularly in each year. Such transportation service fee shall be determined based on the ACC Group's actual cargo revenue generated from the exclusive operation of the Group's Passenger Aircraft Cargo Business after deducting certain operating fee rate. The specific formulas are as follows:

Transportation service fee = actual revenue from the Passenger Aircraft Cargo Business x (1 – operating fee rate)

Operating fee rate = operation expense rate + reward/punishment rate

Reward/punishment rate = (growth rate of yield level of the Passenger Aircraft Cargo Business of the current year – growth rate of yield level of the cargo business in the industry of the current year) ×50%

Of which:

(1) The actual revenue of the Passenger Aircraft Cargo Business represents the actual cargo revenue generated by ACC Group's exclusive operation of the Group's Passenger Aircraft Cargo Business.

(2) The operation expense rate represents the ratio of operating expenses to actual revenue from the Passenger Aircraft Cargo Business. Operation expenses are determined by the parties through arm's length negotiation primarily based on the operation expenses in the historical years, with reference to factors such as the price level in the similar market and industry and its variation trend.

(3) In order to enhance the operating results of the exclusive operation of the Passenger Aircraft Cargo Business, the both parties decide to apply the reward/punishment rate after negotiation. The basic index of reward/punishment rate represents 50% of the difference between the yield level growth rate of the Passenger Aircraft Cargo Business and the yield level growth rate of the cargo business in the industry of the current year. The parties may make reasonable adjustments according to the changes in the market environment and the operation direction of the Passenger Aircraft Cargo Business with unanimous consent after negotiation. The rate of 50% is determined by the Company and Air China Cargo through arm's length negotiation with reference to industry practice. The rate of 50% is the same as the relevant ratios of similar transactions of comparable companies in the industry, which will encourage the ACC Group to enhance its capacity of the Passenger Aircraft Cargo Business, thereby boosting the operating efficiency of the Group's Passenger Aircraft Cargo Business, and hence the rate is fair and reasonable.

(4) The growth rate of yield level of the Passenger Aircraft Cargo Business of the current year represents the growth rate of the yield level of the Passenger Aircraft Cargo Business of the current year generated by ACC Group's exclusive operation of the Group's Passenger Aircraft Cargo Business as compared with that of the previous year.

(5) The growth rate of yield level of the cargo business in the industry of the current year represents the growth rate of the revenue of the cargo business in the industry of the current year as compared with that of the previous year.

(6) The yield level of the cargo business represents the revenue of cargo business divided by the investment amount for the cargo business. The investment amount for the cargo business represents the total available cargo and mail traffic measured by the capacity available for the carriage of the cargo and mail for every route, and the calculation formula of which is Σ (capacity available for the carriage of the cargo and mail of the route multiplied by the distance of the route).

We have discussed with the Management that in determining the pricing mechanism for the Passenger Aircraft Cargo Transactions, it has referenced the pricing mechanism used in similar transactions entered into by industry players, including that used by China Eastern Airlines Corporation Limited ("**CEA**") (Hong Kong stock code: 670), and considered the Group's own circumstances as well as the prevailing market conditions.

In this respect, we have compared the formulae for transportation fee against the pricing mechanism used in the similar transactions ("**CEA Transactions**") as disclosed in the circular published by CEA dated 26 October 2022 (the "**2022 CEA Circular**") to ascertain whether the pricing mechanism used by the Company is in line with those adopted by its industry peers. With reference to 2022 CEA Circular, we note that whilst CEA has adopted a similar concept, namely transportation service fee = actual income from Passenger Aircraft Cargo Business x (1- business fee rates), for the purpose of calculating the amount of transportation service fee payable by China Cargo Airlines under conventional business circumstances under the CEA Transaction. We note that such formulae are largely similar to that proposed under the Passenger Aircraft Cargo Transactions and both formulae are of similar calculation concept primarily with reference to historical revenue derived from the airlines' Passenger Aircraft Cargo Business and historical operating expenses.

We further note that in determining the transportation service fee payable, a reward/penalty factor is also considered for both the Passenger Aircraft Cargo Transactions and the CEA Transactions. The major difference being that under the CEA Transactions, the reward/penalty factor is determined based on comparisons made with revenue growth rate of passenger aircraft bellyhold space cargo businesses of the PRC's three major state-owned airlines, namely CEA itself, the Group and China Southern Airlines Company Limited ("**CSA**") (stock code: 1055) whereas under the Passenger Aircraft Cargo Transactions, performance is compared with the growth rate of yield level of the Passenger Aircraft Cargo Business and the growth rate of yield level of the cargo business industry published by CAAC. We have discussed and understand from the Management that the reference to yield level in this case is considered to be a more specific measurement of performance and efficiency as it measures revenue generated from the Passenger Aircraft Cargo Business per cargo capacity provided. Based on this understanding, we consider the use of the broader industry as a comparison benchmark is reasonable due to its wider industry coverage and hence it would be considered as representative of market conditions. We would also consider measuring reward/ punishment in terms of revenue generated per capacity of cargo business provided is reasonable because it is an appropriate measurement of efficiency in cargo space utilisation.

We understand from the Management that the purpose of Reward/punishment Rate is used as a mean of motivation for and to encourage Air China Cargo to continuously improve its Passenger Aircraft Cargo Business such that both the Company as well as Air China Cargo would be able to mutually benefit. In determining the Reward/punishment Rate, the Company considered the average growth rate of comparable companies' passenger aircraft cargo business within the same industry, which is an indication of fair pricing under continuing connected transactions. Based on the disclosures in the Letter from the Board, the rate of 50% is the same as the relevant ratios of similar transactions of comparable companies in the industry. Furthermore, with reference to the 2022 CEA Circular, the rate of 50% in the formulae, was also adopted by CEA. Therefore, we consider inclusion of this input in the pricing term is reasonable and in line with the market.

We also note from the 2022 CEA Circular that CEA's Passenger Aircraft Cargo Business has been categorised into two circumstances, namely conventional business which is the provision of cargo services by utilisation of bellyhold space of passenger aircraft, and the unconventional business which is the provision of cargo services by passenger aircraft which has been temporarily converted solely for the purpose of carrying cargoes (i.e. a cargo only passenger aircraft). Under the unconventional business circumstances, CEA has adopted a slightly different formulae, which involve, among other things, the use of a reasonable profit margin of the three major airlines in the PRC to arrive at the business fee rate, for calculating the transportation service fee, whilst the Group proposes to use the same a formulae for its Passenger Aircraft Cargo Business which essentially covers both the conventional and unconventional scenarios as referred by CEA.

Based on our discussion with the Management, since the unconventional business of CEA represents a special economic slump environment, resulting in (i) a decrease in passengers; and (ii) the Passenger-to-Cargo Conversion approach that helps to utilise the empty spaces in passenger aircraft by converting passenger aircraft into cargo aircraft, the abovementioned situation is a temporary measure, which was determined by CEA due to limited supply of the passenger aircraft bellyhold space cargo as a result of the COVID-19 pandemic, where historical data for calculation of revenue growth rate for the purpose of the "business fee rates" have yet been available, currently more relevant historical revenue growth rate data have become available since the outbreak of the COVID-19 pandemic almost four years ago, we consider the Management's view to consider all passenger aircraft cargo related transactions as one business unit (instead of dividing into "conventional" and "unconventional" business) and is equivalent to that of the "conventional business" described in the CEA Transactions is not without basis.

In light of the above, we consider that the pricing term of the Passenger Aircraft Cargo Transactions is fair and reasonable.

5. Proposed Annual Caps

Set out below are the historical transaction figures for the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement for FY2022, FY2023 and for HY2024 and the expected transaction amount of the Passenger Aircraft Cargo Transactions for the year ending 31 December 2024 ("**FY2024**") estimated by the Company and the Proposed Annual Caps for the three years ending 31 December 2025 ("**FY2025**"), 31 December 2026 ("**FY2026**") and 31 December 2027 ("**FY2027**") for the Passenger Aircraft Cargo Transactions to be contemplated under the ACC Framework Agreement:

Historical transaction figures and Historical Annual Caps

	FY2022	**FY2023**	**HY2024**	**FY2024**
In terms of the transportation service fees of the Passenger Aircraft Cargo Business payable by ACC Group to the Group:		*(in millions of RMB)*		
Historical transaction amounts	9,666	3,412	3,009	8,100 *Note 2*
Historical Annual Caps	15,500	17,000	N/A	18,000
Utilisation rate Note 1	*62.4%*	*20.1%*	*N/A*	*45.0%*

Notes:

1. The utilisation rate is calculated as the actual/expected transaction amount of Passenger Aircraft Cargo Transactions divided by the Historical Annual Cap for the respective year.

2. It represents the expected transaction amount for FY2024 estimated by the Company.

Proposed Annual Caps

	FY2025	FY2026	FY2027
		(in millions of RMB)	
In terms of the transportation service fees of the Passenger Aircraft Cargo Business payable by the ACC Group to the Group	11,000	12,000	13,000

With respect to the utilisation rate of the Historical Annual Caps of the Passenger Aircraft Cargo Transactions, we note that the actual amount of the transportation service fees of the Passenger Aircraft Cargo Business paid by the ACC Group to the Group amounted to approximately RMB9,666 million, RMB3,412 million and RMB3,009 million for FY2022, FY2023 and HY2024 respectively and the expected transaction amount for FY2024 estimated by the Company would be RMB8,100 million, representing a utilisation rate of approximately 62.4%, 20.1% and 45.0% (estimated) for FY2022, FY2023 and FY2024, respectively. We have discussed and understand from the Management that the relatively overall lower utilisation rate for the Historical Annual Caps for FY2022, FY2023 and FY2024 was principally due to the decline in international flights operated by the Company as a result of COVID-19 pandemic. Based on the disclosures in the 2022 Annual Report and the 2023 Annual Report, the number of international flights operated by the Group declined to 15,787 for FY2022 and 46,956 for FY2023, as compared with pre-COVID-19 pandemic levels of 94,783 in 2018 and 97,785 in 2019. Since 2024, as disclosed in the Letter from the Board, the Group's international flights operation begins to recover and, it operates at approximately 74% of its pre-pandemic level in 2024 and we note from the 2024 Interim Report that the number of international flights operated by the Group increased by 244.16% to 47,201 for HY2024 as compared to 13,715 for the corresponding period in 2023 ("**HY2023**") and the expected utilisation rate for FY2024 will be increased to 45% as compared to 20.1% for FY2023.

We also note that despite an increase in international flights operated by the Group in 2023 and as expected, for 2024, the actual amount/expected transaction amount (as the case may be) of the transportation service fees of the Passenger Aircraft Cargo Business paid/payable by ACC Group to the Group for 2023 and 2024 were RMB3,412 million and RMB8,100 million respectively, both lower than that of RMB9,666 million for FY2022, which is consistent with our review of the Group's operating data as shown in the 2023 Annual Report and 2024 Interim Report. We note that, although there was an upward trend of capacity, as measured by the available freight tonne kilometres ("**AFTK**"), of year-on-year increase of 15.88% in FY2023 and such trend continues for HY2024 with an 49.66% increase in AFTK as compared to that of HY2023, the lower yield of cargo and mail (measured by yield per revenue freight tonne kilometres ("**RFTK**")) of RMB1.3811 per RFTK and RMB1.4878 per RFTK for FY2023 and HY2024 respectively and cargo and mail load factor of 31.26% and 36.54% for FY2023 and HY2024 respectively as compared to that of RMB2.9644 per RFTK and 40.86% for FY2022 pull down the Group's air cargo and mail revenue and resulted in lower transportation service fees of the Passenger Aircraft Cargo Business for both FY2023 and HY2024 (and as expected for FY2024). We have also reviewed the annual reports of CEA and CSA, both the peer companies in the PRC airline industry, for FY2023, which the cargo and mail revenue of these two companies decreased by 53.23% and 26.86% respectively in 2023, indicating similar operating situations to the Group.

Basis for Determining the Proposed Annual Caps

As stated in the Letter from the Board, the Proposed Annual Caps for the three years ending 31 December 2027 for the Passenger Aircraft Cargo Transactions are determined with reference to the following primary factors:

(i) Estimated revenue of Passenger Aircraft Cargo Business – The Group operated at 74% of its pre-pandemic capacity on international routes in 2023 and it is expected by the Management that international flight operations will return to pre-pandemic level by 2025. As such, based on the estimated revenue in the amount of RMB8,100 million from the Passenger Aircraft Cargo Business for 2024 and assuming no reduction in pricing levels and a 30% increase in passenger aircraft deployment (mainly due to the recovery of international routes), the revenue from the Passenger Aircraft Cargo Business is expected to reach RMB11,000 million for 2025. As for 2026 and 2027, with an estimated growth rate of 7%, the revenue for 2026 and 2027 are estimated to be RMB11,700 million and RMB12,600 million, respectively;

(ii) The operating fee rate ("**Operating Fee Rate**") is estimated to be between 7% and 8%;

(iii) The maximum transportation service fee is calculated based on the formula contemplated under the ACC Framework Agreement (i.e. Transportation service fee = actual revenue from the Passenger Aircraft Cargo Business × (1 – operating fee rate)), and a reasonable buffer is included.

For our due diligence purpose, we have discussed with the Management and reviewed the basis adopted by the Company in determining the Proposed Annual Caps for the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement as follows.

Estimated revenue of Passenger Aircraft Cargo Business

Based on the information provided by the Management, the actual transaction amount of the Passenger Aircraft Cargo Business was RMB3,009 million for HY2024 and taking into account of the seasonal factors (i.e. income in the second half of the year, in particular the 4th quarter tend to be higher than the other three quarters of the year, is the peak season for traveling), the Company estimated the revenue for FY2024 will be RMB8,100 million. In addition, we note that the Company, mainly due to the recovery of international routes and the increasing yield per RFTK (as demonstrated by the operating data for HY2024 disclosed in the 2024 Interim Report), estimated a growth of approximately 69.19% in revenue from RMB3,009 million for HY2024 to RMB5,091 million for the second half of 2024 and a further increase of approximately 35.80% year-on-year to RMB11,000 million for FY2025.

Growth in international flights operations

According to the 2024 Interim Report, it is the Groups' strategy to promote the resumption of international flights and the opening of new routes, steadily increased the fleet capacity to expand the scale of international route operations and continuously improved the international fare product system.

Based on our review of the 2023 Annual Report and 2024 Interim Report, we note that the number of international flights operated by the Group increased by approximately 190.05% year-on-year for FY2023 and approximately 244.16% for HY2024 as compared to the same period last year and the Group's overall revenue contributed by international markets was RMB13,299 million, RMB24,208 million and RMB19,076 million for FY2022, FY2023 and HY2024 with increasing share of the Group's revenue from 17.16% for FY2023 to 23.99% for HY2024. Based on the Letter from the Board, we understand that the Management expects that the growth trend continues and the Group's international flights operations will return to its pre-pandemic level in 2025.

Growth in the Group's fleet of aircraft

We have discussed and understand from the Company that the expected growth in the Passenger Aircraft Cargo Business and in turn, the revenue, is positively co-related to the growth in the Group's fleet of aircraft. We also note that the Group have adopted an annual growth rate of 3.6% for FY2025 and roughly 7% for each of FY2026 and FY2027 in the expected growth in its fleet of aircraft and such growth rate was used for the purpose of estimating the proposed annual caps for Passenger Aircraft Cargo Transactions.

Based on our review of the Company's annual reports for the past ten years since 2014, we note that due to COVID-19 pandemic, the Company has been postponing/slowing its pace to acquire aircraft and equipment to update and/or replace its existing fleet and portfolio. Prior to FY2020, the Group has been acquiring on average, 56 aircraft per year, and phasing out, on average 20 aircraft per year. We also note that the average age of the Group's fleet prior to COVID-19 pandemic was approximately 6.48 years. However, for the years from 2020 to 2023, the average growth in total fleet dropped to 29 aircraft per year and phasing out only, on average 10 aircraft per year. We also note that the average age of the Group's fleet has also significantly increased to 9.36 years in 2023, which is much higher than the average age of around 6.48 years during the pre-COVID- 19 period.

In addition, based on our review of the annual reports of CEA and CSA for FY2023, the Company is currently operating a fleet with relatively higher average age amongst its peers, which the average fleet age of China Eastern Airlines and China Southern Airlines are 8.7 years and 9.2 years respectively. Nevertheless, we note that the Company has demonstrated its effort in acquiring aircraft in 2024, including but not limited to, the major transaction of aircraft acquisition conducted in April 2024. Furthermore, based on the 2024 Interim Report, the Group had introduced 16 aircraft and phased out 6 aircraft. In addition, the Group plans to introduce 48 aircraft, 40 aircraft and 76 aircraft for FY2024, FY2025 and FY2026 respectively, with an average of 54 aircraft per year, representing an average growth of 86% as compared to an average of 29 aircraft per year for the years from 2020 to 2023.

Furthermore, based on our discussion with the Management, we understand that the Group has reference to the target growth rate of 6.5% of the guaranteed number of taking-off and landing as set out in the "14th Five-Year Plan" issued by the CAAC ("**14th Five-Year Plan**") for the estimated annual growth rate of about 7% for each of FY2026 and FY2027.

As such, taking into account the Company's expected growth in the Group's international flights operations, its business plan to align with the national and industry development as set out in 14th Five-Year Plan, the growth prospects of the aviation industry as supported by the statistics published by IATA and CAAC as discussed in section headed "2. Overview of Aviation Industry" in this letter and the Group's plans to catch up on modernizing of its existing aircraft portfolio and the expansion of its fleet size in order to enhance its competitiveness among its closest peers, we consider the growth rate used for the purpose of estimating the annual caps for FY2025, FY2026 and FY2027 is also not without basis.

Operating Fee Rate

We note that the Company has considered the actual Operating Fee Rate for the past two years in determining the estimated Operating Fee Rate for the purpose of estimating the Proposed Annual Caps. We have obtained from the Management and reviewed the actual operating fee rates from years 2018 to 2023 taking into account the impact of COVID-19 pandemic. We note that the actual operating fee rates were between 7%-8% for 2018 and 2019 (the pre-pandemic level) and in a range of 4% to 9.5% from 2020 to 2023, with an average of 6.3% for years 2020-2023. As such, we note that the Operating Fee Rate adopted by the Company is slightly higher than the average for the years between 2020-2023 but similar to that of 2018 and 2019. As the Management expects that the Group's international flights will return to its pre-pandemic level in 2025 and in view of the expected growth in estimated revenue of Passenger Aircraft Cargo Business in the coming years, we consider using the proposed Operating Fee Rate as an input for the estimation of the Proposed Annual Caps to be not unreasonable.

As such, we consider the inputs used by the Company, namely expected revenue from the Passenger Aircraft Cargo Business and Operating Fee Rate for the purpose of estimating the Proposed Annual Caps to be fair and reasonable. Taking into account the above and the reasons discussed under paragraph headed "2. Overview of Aviation Industry", we consider the basis of determining the Proposed Annual Caps for the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement is fair and reasonable.

6. Internal Control

The Company has also adopted the measures as set out under the section headed "Internal Control Procedures" of the Letter from the Board for monitoring the ACC Transactions and to ensure that the ACC Transactions will be conducted on normal commercial terms and in accordance with the ACC Framework Agreement and the pricing policies of the Group.

Upon our enquiry, we note that 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 values of the ACC Transactions must be restricted by the applicable annual caps for the period concerned under the

ACC Framework Agreement; (ii) the terms of the ACC Transactions 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 ACC 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 ACC Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the applicable annual caps. We have obtained from the Company and reviewed the letters issued by the Company's external auditors in 2022 and 2023 and note that the auditors have confirmed that the internal control procedures implemented by the Company have been effective in all material aspects.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we concur with the view of the Directors that the Company has internal control in place to monitor the ACC Transactions including Passenger Aircraft Cargo 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 the Passenger Aircraft Cargo Transactions under the ACC Framework Agreement is conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

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 6 (advising on corporate finance) regulated activity 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 Hong Kong Stock Exchange pursuant to the SFO, or were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notifiable to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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 2023 (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.

As at the Latest Practicable Date, 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, 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 15.87% of the total issued shares of the Company) as at the Latest Practicable Date. Mr. Ma Chongxian and Mr. Wang Mingyuan, both are executive Directors, are concurrently non-executive directors of Cathay Pacific. Cathay Pacific competes or is likely to compete either directly or indirectly with some aspects of the business of the Company as it operates airline services to certain destinations, which are also served by the Company.

Save as disclosed 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.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors were aware, the following persons (not being a Director or Supervisor or chief executive of the Company or their associate) had an interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Name	Type of interests	Type and number of shares held	Approximate percentage of the total number of Shares in issue	Percentage of the total issued A Shares of the Company	Percentage of the total issued H Shares of the Company
CNAHC	Beneficial owner	6,566,761,847 (L) A Shares	39.57%	56.42%	–
CNAHC(1)	Equity attributable	1,332,482,920 (L) A Shares	8.03%	11.45%	–
CNAHC(1)	Equity attributable	616,779,308 (L) H Shares	3.72%	–	12.45%
CNACG	Beneficial owner	1,332,482,920 (L) A Shares	8.03%	11.45%	–
CNACG	Beneficial owner	616,779,308 (L) H Shares	3.72%	–	12.45%
Cathay Pacific	Beneficial owner	2,633,725,455 (L) H Shares	15.87%	–	53.15%
Swire Pacific Limited(2)	Equity attributable	2,633,725,455 (L) H Shares	15.87%	–	53.15%
John Swire & Sons (H.K.) Limited(2)	Equity attributable	2,633,725,455 (L) H Shares	15.87%	–	53.15%
John Swire & Sons Limited(2)	Equity attributable	2,633,725,455 (L) H Shares	15.87%	–	53.15%

Notes:

(1) By virtue of CNAHC's 100% interest in CNACG, CNAHC was deemed to be interested in the 1,332,482,920 A Shares and 616,779,308 H Shares directly held by CNACG.

(2) By virtue of John Swire & Sons Limited's 100% interest in John Swire & Sons (H.K.) Limited and their approximately 61.73% equity interest and 69.19% voting rights in Swire Pacific Limited, and Swire Pacific Limited's approximately 44.99% interest in Cathay Pacific as at the Latest Practicable Date, John Swire & Sons Limited, John Swire & Sons (H.K.) Limited and Swire Pacific Limited were deemed to be interested in the 2,633,725,455 H Shares of the Company directly held by Cathay Pacific.

(3) The letter "L" denotes a long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, no other persons (not being a Director or Supervisor or chief executive of the Company or their associate) had any interest or short position (if any) in the Shares or the underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

4. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or Supervisors 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).

5. 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:

Directors

Mr. Ma Chongxian, an executive Director, the chairman of the Board and the secretary of the Party Committee of the Company, serves as a director, the chairman, a member of the Party Leadership Group and the secretary of the Party Leadership Group of CNAHC. He is also the deputy chairman of the board of directors and a non-executive director of Cathay Pacific.

Mr. Wang Mingyuan, an executive Director, the vice chairman of the Board, the president and the deputy secretary of the Party Committee of the Company, serves as a director, the general manager, a member of the Party Leadership Group and the deputy secretary of the Party Leadership Group of CNAHC. He is also a non-executive director of Cathay Pacific.

Mr. Cui Xiaofeng, a non-executive Director of the Company, is a director, a member of the Party Leadership Group and the deputy secretary of the Party Leadership 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 of John Swire & Sons (H.K.) Limited.

Mr. Xiao Peng, the employee representative Director of the Company, serves as the chairman of the labour union and the employee representative director of CNAHC.

Supervisor

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

6. 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 2023, being the date to which the latest published audited financial statements of the Group have been made up.

7. LITIGATION

As at the Latest Practical Date, the Company was not involved in any significant litigation or arbitration and to the knowledge of the Company, there were no litigation or claims of material importance pending or threatened against any member of the Group.

8. EXPERT

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

Name	Qualification
BaoQiao Partners	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity 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 2023 (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, logo and qualification included herein in the form and context in which they respectively appear.

9. MISCELLANEOUS

a. The joint company secretaries of the Company are Mr. Xiao Feng 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, the address of which is Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

10. DOCUMENTS ON DISPLAY

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

a. the ACC Framework Agreement; and

b. this circular.

中國國際航空股份有限公司
AIR CHINA LIMITED

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Air China Limited (the "**Company**") will be held at 11:30 a.m. on Thursday, 5 December 2024 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC to consider and, if thought fit, to pass the following resolutions. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 18 November 2024 (the "**Circular**").

ORDINARY RESOLUTIONS

1. To consider and approve the resolutions on the continuing related (connected) transactions between the Company and CNAHC and its subsidiary:

   1.01 To consider and approve the resolution on the renewal of the Government Charter Flight Service Framework Agreement between the Company and CNAHC and the application for the annual transaction caps for 2025 to 2027.

   1.02 To consider and approve the resolution on the entering into of the New Properties Leasing Framework Agreement between the Company and CNAHC and the application for the annual transaction caps for 2025 to 2027.

   1.03 To consider and approve the resolution on the renewal of the Media Services Framework Agreement between the Company and CNAMC and the application for the annual transaction caps for 2025 to 2027.

   1.04 To consider and approve the resolution on the entering into of the New Comprehensive Services Framework Agreement between the Company and CNAHC and the application for the annual transaction caps for 2025 to 2027.

2. To consider and approve the resolution on the renewal of the ACC Framework Agreement between the Company and Air China Cargo and the application for the annual transaction caps for 2025 to 2027.

By order of the Board
Air China Limited
Xiao Feng Huen Ho Yin
Joint Company Secretaries

Beijing, the PRC, 18 November 2024

As at the date of this notice, the directors of the Company are Mr. Ma Chongxian, Mr. Wang Mingyuan, Mr. Cui Xiaofeng, Mr. Patrick Healy, Mr. Xiao Peng, 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 and eligibility for attending and voting at the EGM

Holders of H Shares of the Company are advised that the H Share register of members of the Company will be closed from Monday, 2 December 2024 to Thursday, 5 December 2024 (both days inclusive), during which time no transfer of shares will be effected and registered. In order to qualify for attendance and voting at the EGM, 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 Friday, 29 November 2024.

H Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 29 November 2024 are entitled to attend and vote at the EGM.

2. Proxy

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

A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointor or his attorney duly 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 EGM (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 EGM is expected to last for no more than a half of a business day. Shareholders and their proxies attending the meeting shall be responsible for their own traveling and accommodation expenses.

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

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