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中國國際航空股份有限公司
AIR CHINA LIMITED

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

SUPPLEMENTAL CIRCULAR TO SHAREHOLDERS RELATING TO
(I) RE-APPOINTMENT OF THE AUDITOR OF THE COMPANY FOR 2016;
AND
(II) THE REMEDIAL MEASURES TO THE DILUTIVE IMPACT OF THE NON-
PUBLIC A SHARE ISSUE ON IMMEDIATE RETURNS FOR SHAREHOLDERS
AND
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

A letter from the Board is set out on pages 1 to 16 of this circular.

A supplemental notice convening the AGM to be held at 2:00 p.m. on Wednesday, 25 May 2016 at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC, is set out on pages I-1 to I-2 of this circular. Whether or not you are able to attend the AGM, you are requested to complete and return the accompanying revised form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the AGM or any adjournment thereof. Completion and return of the revised form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment should you so wish.

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LETTER FROM THE BOARD



中國國際航空股份有限公司 AIR CHINA LIMITED

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

(Stock Code: 00753)

Directors

Non-Executive Directors:

Cai Jianjiang (*Chairman*)

Wang Yinxiang

Cao Jianxiong

Feng Gang

John Robert Slosar

Sai Cheung Shiu, Ian

Executive Directors:

Song Zhiyong (*President*)

Independent Non-Executive Directors:

Pan Xiaojiang

To Chi Keung, Simon

Hui Hon-chung, Stanley

Li Dajin

Registered Address:

Blue Sky Mansion

28 Tianzhu Road

Airport Industrial Zone

Shunyi District

Beijing, PRC

Principal Place of Business

in Hong Kong:

5th Floor, CNAC House

12 Tung Fai Road

Hong Kong International Airport

Hong Kong

10 May 2016

To the Shareholders

Dear Sir or Madam,

**(I) RE-APPOINTMENT OF THE AUDITOR OF THE COMPANY FOR 2016;
AND
(II) THE REMEDIAL MEASURES TO THE DILUTIVE IMPACT OF THE NON-
PUBLIC A SHARE ISSUE ON IMMEDIATE RETURNS FOR SHAREHOLDERS
AND
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

I. INTRODUCTION

In addition to the resolutions to be proposed at the AGM, details of which are set out in the notice of the AGM dated 8 April 2016, it is proposed that at the AGM, supplemental resolutions will be proposed to approve (i) the re-appointment of the auditor of the Company for 2016; and (ii) the remedial measures to the

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dilutive impact of the Non-public A Share Issue on immediate returns for Shareholders as set forth in this circular. The purpose of this circular is to provide you with further information relating to supplemental resolutions.

Unless the context requires otherwise, capitalised terms used herein shall bear the same meanings as defined in the circulars of the Company dated 5 January 2016 and 8 April 2016, respectively.

The supplemental notice of the AGM is set out on pages I-1 to I-2.

II. RE-APPOINTMENT OF THE AUDITOR OF THE COMPANY FOR 2016

Reference is made to the circular of the Company dated 2 April 2015 in relation to the re-appointment of KPMG as the Company's international auditor and KPMG Huazhen LLP as the Company's domestic auditor and internal control auditor respectively for the year ending 31 December 2015 and to authorise the management of the Company to determine their remunerations for the year 2015.

The appointment and authorisation were approved by the Shareholders at the 2014 annual general meeting of the Company held on 22 May 2015, with a term expiring upon the AGM.

Accordingly, an ordinary resolution will be proposed at the AGM to consider and approve the re-appointment of KPMG as the Company's international auditor and KPMG Huazhen LLP as the Company's domestic auditor and internal control auditor respectively for the year ending 31 December 2016 and to authorise the management of the Company to determine their remunerations for the year 2016.

III. THE REMEDIAL MEASURES TO THE DILUTIVE IMPACT OF THE NON-PUBLIC A SHARE ISSUE ON IMMEDIATE RETURNS FOR SHAREHOLDERS

Reference is also made to the (i) circular of the Company dated 5 January 2016, in relation to, among others, the Non-public A Share Issue; and (ii) poll results announcement of the Company dated 26 January 2016.

Pursuant to various regulations, including Certain Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guofa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》), the Opinions of the General Office of the State Council on Further Strengthening the Protection of Legal Rights and Interests of Minority Investors in the Capital Market (Guobanfa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and the Guidance on Matters Relating to Dilutive Impact on Immediate Returns due to Initial Public Offerings, Refinancing and Material Asset Reorganisation issued by CSRC (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the Company had carefully analysed the dilutive impact on the immediate returns for Shareholders upon the Non-public A Share Issue and adopted the following remedial measures and ensured the parties involved will properly implement the measures, so as to protect the information rights and interests of the minority Shareholders.

An ordinary resolution will be proposed at the AGM to consider and approve the proposed remedial measures to the dilutive impact of the Non-public A Share Issue on immediate returns for Shareholders.

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(I) The dilutive impact on the immediate returns upon the Non-public A Share Issue on the major financial metrics of the Company

The number of A Shares to be issued under the Non-public A Share Issue shall not exceed 1,520,912,547 A Shares, and the proceeds to be raised shall not exceed RMB12 billion. Prior to the Non-public A Share Issue, the total number of the issued and outstanding shares of the Company is 13,084,751,004 shares. As at 31 December 2015, the equity interests attributable to the Shareholders of the Company were RMB59,820.396 million. Upon the completion of the Non-public A Share Issue, the total number of the issued and outstanding shares and the scale of the net assets of the Company will increase accordingly. The proceeds from the Non-public A Share Issue (after deducting the fees and expenses relating to the Non-public A Share Issue) will be used for the purchase of 15 Boeing B787 aircraft (including supplemental in-cabin facilities, such as seats), upgrade of e-commerce direct sales platforms, on-board WIFI (first phase) project and replenishment of working capital. The investment projects to be financed by the proceeds from the Non-public A Share Issue is not expected to generate revenue and profit for a certain period of time. Therefore, given that the total number of issued and outstanding shares and the net assets will be increased in the fiscal year when the Company consummates the Non-public A Share Issue, the immediate earnings per share and the return on equity of the Company after the dilution may decrease accordingly.

1. *Assumptions on the dilutive impact of the Non-public A Share Issue on immediate return of the Shareholders on the major financial metrics of the Company*

- (1) Assuming that the Non-public A Share Issue will be completed in August 2016, taking into account of the time necessary for the approval and implementation of the Non-public A Share Issue.
- (2) The number of A Shares to be issued under the Non-public A Share Issue shall not exceed 1,520,912,547 A Shares. The Issue Price shall not be lower than RMB7.89 per A Share. Assuming the number of A Shares to be issued under the Non-public A Share Issue be 1,520,912,547 A Shares, the total number of issued and outstanding shares of the Company after the completion of the Non-public A Share Issue shall be 14,605,663,551 shares.
- (3) The timing and the number of A Shares to be issued under the Non-public A Share Issue are our estimation only. The actual timing to complete the Non-public A Share Issue and the final number of A Shares to be issued shall be approved by the CSRC.
- (4) Assuming that the total amount of proceeds from the Non-public A Share Issue will be RMB12 billion, without deducting the fees and expenses relating to the Non-public A Share Issue.
- (5) The amount of cash distribution by the Company in 2014 was RMB683.417 million, representing 18.07% of the net profits attributable to the Shareholders of the Company in 2014. In the 32nd Meeting of the fourth term of the Board held on 30 March 2016 by the Company, the Proposal on the 2015 Profit Distribution

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Plan was considered and approved. The amount of cash distribution of the Company was approximately RMB1,400 million and RMB1.0700 (including applicable tax) for every ten shares, based on the total issued shares of 13,084,751,004 shares of the Company. The resolution is subject to the approval by the Shareholders at the AGM. Assuming the amount of cash distribution for the year of 2015 was RMB1,400 million, the distribution will be completed in June 2016.

- (6) Assuming the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 shall be the same as the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2015, or with a growth rate of 10% or 20%, respectively. This assumption is for illustrative purpose only, and does not represent the profit forecast and guarantee for the profit of the Company in 2016. The realisation of such profit depends on a number of factors with uncertainty, such as the change in market conditions and the capabilities of the operations team. Investors shall not make investment decisions in reliance on such information and the Company assumes no liability to any investor who sustains loss from making investment decisions in reliance on such information.
- (7) As at 31 December 2015, the Company held 29.99% of the equity interest in Cathay Pacific Airways Limited (hereinafter referred to as “**Cathay Pacific**”), and Cathay Pacific held the 20.13% of the equity interest in the Company. In light of such mutual shareholding structure, the 29.99% of the equity interest in Cathay Pacific was accounted into the consolidated financial statements as treasury shares by way of deducting the share capital. In the current calculations for earnings per share and the net asset per share, the effect on the mutual shareholding had also been taken into account.
- (8) The impact on the production, operation and financial position (such as economic efficiency of the projects, financial costs and return on investment) after receiving the proceeds from the Non-public A Share Issue is not taken into consideration.
- (9) The equity attributable to the Shareholders of the Company as at the end of the Non-public A Share Issue is estimated without taking into consideration of the effects of factors other than the proceeds from the Non-public A Share Issue, net profits and profit distribution that may affect the net assets of the Company.

2. The dilutive effect on the immediate return of the Shareholders upon the Non-public A Share Issue on the major financial of the Company

Based on the above assumptions, the dilutive effect of the Non-public A Share Issue on the immediate return of the Shareholders is illustrated by the major financial metrics of the Company as follows:

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- (1) Assuming that the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 shall be the same as the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2015, i.e., RMB6,343.842 million.

Items	For the year of 2015/ As at 31 December 2015	The net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 equal to the year of 2015	
		For the year of 2016/ As at 31 December 2016	
		Prior to the Non- public A Share Issue	After the Non-public A Share Issue
Total number of issued and outstanding shares	13,084,751,004	13,084,751,004	14,605,663,551
Net profit attributable to the Shareholders of the Company (RMB in millions)	6,774.008	6,774.008	
Net profit attributable to the Shareholders of the Company after deducting non-recurring profits or losses (RMB in millions)	6,343.842	6,343.842	
Cash distribution for the period (RMB in millions)	683.417	1,400.068	
Total proceeds from the Non-public A Share Issue (RMB in millions)	12,000		
Equity attributable to Shareholders of the Company at the beginning of the period (RMB in millions)	54,635.489	59,820.396	
Equity attributable to Shareholders of the Company at the end of the period (RMB in millions)	59,820.396	65,194.336	77,194.336
Basic earnings per share (RMB/share)	0.55	0.55	0.53
Diluted earnings per share (RMB/share)	N/A	N/A	N/A
Basic earnings per share after deducting non-recurring gains or losses (RMB/share)	0.52	0.52	0.49
Diluted earnings per share after deducting non-recurring gains or losses (RMB/share)	N/A	N/A	N/A
Net asset value per share (RMB/share)	4.87	5.30	5.57
Weighted average return on net assets	11.84%	10.84%	10.19%
Weighted average return on net assets after deducting non-recurring gains or losses	11.09%	10.15%	9.54%

Notes:

Equity attributable to the Shareholders of the Company at the end of the period (estimated) = Equity attributable to the Shareholders of the Company at the beginning of the period – cash distribution for the period + net profit attributable to the Shareholders of the Company for the period (+ amount of proceeds from the Non-public A Share Issue);

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The basic earnings per share, diluted earnings per share, basic earnings per share after deducting extraordinary gains or losses and weighted average return on equity after deducting extraordinary gains or losses are calculated in accordance with the provisions of the “Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share” (《公開發行證券公司信息披露編報規則第9號－淨資產收益率和每股收益的計算及披露》).

- (2) Assuming that the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 increased by 10% from the year of 2015, i.e., RMB6,978.2262 million.

Items	For the year of 2015/ As at 31 December 2015	The net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 increased by 10% from the year of 2015	
		For the year of 2016/As at 31 December 2016	
		Prior to the Non- public A Share Issue	After the Non-public A Share Issue
Total number of issued and outstanding shares	13,084,751,004	13,084,751,004	14,605,663,551
Net profit attributable to the Shareholders of the Company (RMB in millions)	6,774.008	7,451.4088	
Net profit attributable to the Shareholders of the Company after deducting non-recurring profits or losses (RMB in millions)	6,343.842	6,978.2262	
Cash distribution for the period (RMB in millions)	683.417	1,400.068	
Total proceeds raised from the Non-public A Share Issue (RMB in millions)	12,000		
Equity attributable to Shareholders of the Company at the beginning of the period (RMB in millions)	54,635.489	59,820.396	
Equity attributable to Shareholders of the Company at the end of the period (RMB in millions)	59,820.396	65,871.7368	77,871.7368
Basic earnings per share (RMB/share)	0.55	0.61	0.58
Diluted earnings per share (RMB/share)	N/A	N/A	N/A
Basic earnings per share after deducting non-recurring gains or losses (RMB/share)	0.52	0.57	0.54
Diluted earnings per share after deducting non-recurring gains or losses (RMB/share)	N/A	N/A	N/A
Net asset value per share (RMB/share)	4.87	5.36	5.61
Weighted average return on net assets	11.84%	11.86%	11.15%
Weighted average return on net assets after deducting non-recurring gains or losses	11.09%	11.10%	10.44%

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Notes:

Equity attributable to the Shareholders of the Company at the end of the period (estimated) = Equity attributable to the Shareholders of the Company at the beginning of the period – cash distribution for the period + net profit attributable to the Shareholders of the Company for the period (+ amount of proceeds from the Non-public A Share Issue);

The basic earnings per share, diluted earnings per share, basic earnings per share after deducting extraordinary gains or losses and weighted average return on equity after deducting extraordinary gains or losses are calculated in accordance with the provisions of the “Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share” (《公開發行證券公司信息披露編報規則第9號－淨資產收益率和每股收益的計算及披露》).

- (3) Assuming that the net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 increased by 20% from the year of 2015, i.e., RMB8,128.8096 million.

Items	For the year of 2015/As at 31 December 2015	The net profit attributable to the Shareholders of the Company after deducting the extraordinary profits or losses for the year of 2016 increased by 20% from the year of 2015	
		For the year of 2016/As at 31 December 2016	
		Prior to the Non-public A Share Issue	After the Non-public A Share Issue
Total number of issued and outstanding shares	13,084,751,004	13,084,751,004	14,605,663,551
Net profit attributable to the Shareholders of the Company (RMB in millions)	6,774.008	8,128.8096	
Net profit attributable to the Shareholders of the Company after deducting non-recurring profits or losses (RMB in millions)	6,343.842	7,612.6104	
Cash distribution for the period (RMB in millions)	683.417	1,400.068	
Total proceeds from the Non-public A Share Issue (RMB in millions)	12,000		
Equity attributable to Shareholders of the Company at the beginning of the period (RMB in millions)	54,635.489	59,820.396	
Equity attributable to Shareholders of the Company at the end of the period (RMB in millions)	59,820.396	66,549.1376	78,549.1376
Basic earnings per share (RMB/share)	0.55	0.66	0.63
Diluted earnings per share (RMB/share)	N/A	N/A	N/A
Basic earnings per share after deducting non-recurring gains or losses (RMB/share)	0.52	0.62	0.59
Diluted earnings per share after deducting non-recurring gains or losses (RMB/share)	N/A	N/A	N/A
Net asset value per share (RMB/share)	4.87	5.41	5.66
Weighted average return on net assets	11.84%	12.87%	12.10%
Weighted average return on net assets after deducting non-recurring gains or losses	11.09%	12.05%	11.33%

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Notes:

Equity attributable to the Shareholders of the Company at the end of the period (estimated) = Equity attributable to the Shareholders of the Company at the beginning of the period – cash distribution for the period + net profit attributable to the Shareholders of the Company for the period (+ amount of proceeds from the Non-public A Share Issue);

The basic earnings per share, diluted earnings per share, basic earnings per share after deducting extraordinary gains or losses and weighted average return on equity after deducting extraordinary gains or losses are calculated in accordance with the provisions of the “Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share” (公開發行證券公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露).

As estimated above, upon the completion of the Non-public A Share Issue, it is anticipated that the basic earnings per share and the weighted average return on equity will be diluted to a certain extent. In the meantime, upon the completion of the Non-public A Share Issue, the gearing ratio of the Company will decrease. The decrease in the gearing ratio shall be beneficial to enhance to mitigation capabilities of the Company and the stability in its financial structure.

(II) Risk warning on the dilutive effect on the immediate returns for the Shareholders upon the Non-public A Share Issue

Upon the implementation of the projects with the proceeds from the Non-public A Share Issue, it is anticipated that the net profit of the Company in the next few years will be increased. However, the projects to be financed by the proceeds from the Non-public A Share Issue may not derive efficiency until after the operation for a period of time. Before these projects derive efficiency, the attainment of profit and returns for Shareholders of the Company will remain depend on the existing businesses of the Company. As the total number of issued and outstanding shares and the net assets will increase, the financial metrics such as the earnings per share and the weighted average return on equity will decrease in the short term. We urge the investors to make rational investment decisions and note the risks on the dilutive effect on the immediate returns upon the Non-public A Share Issue.

(III) The necessity and rationality of this financing selected by the Board

Gross proceeds to be raised in the Non-public A Share Issue will not be more than RMB12,000 million. After deduction of the fees and expenses relating to the Non-public A Share Issue, the proceeds will be utilised in the following manner:

No.	Name of Project	Investment amount of the Project (RMB in millions)	Proceeds to be utilised (RMB in millions)
1	Purchase of 15 Boeing B787 aircraft (including supplemental in-cabin facilities, such as seats)	24,000	7,450
2	Upgrade of e-commerce direct sales platforms	890	800
3	On-board WIFI (first phase) project	158	150
4	Replenishment of working capital	3,600	3,600
Total		28,648	12,000

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1. *Purchase of 15 Boeing B787 aircraft (including supplemental in-cabin facilities, such as seats)*

The Boeing B787 is a new-generation medium-to-long-haul, medium-size, wide-body, twin-engine airliner developed by Boeing. Known for its high fuel efficiency, excellent travelling comfort and low maintenance cost, the Boeing B787 is capable of covering more point-to-point long-haul nonstop routes in an efficient manner. The 15 Boeing B787 aircraft will be deployed mainly to routes originating from the Beijing hub of the Company, in an effort to increase the route coverage and flight frequency from the Beijing hub to North America and Europe. Upon inauguration, the deployment of the 15 Boeing B787 aircraft will further optimise the Company's fleet structure and increase the Company's influence at the Beijing hub. Pursuant to the purchase agreement entered into between the Company and The Boeing Company, it is expected that the Company would take delivery of seven, six and two Boeing B787 aircraft in 2016, 2017 and 2018, respectively. Upon preliminary forecast, with the commissioning of the 15 Boeing B787 aircraft, it is expected to contribute RMB7,215 million of revenue per annum to the Company.

2. *Upgrade of e-commerce direct sales platforms*

In order to further support the change to direct sales model, the Company plans to implement the integration and upgrading of e-commerce platforms for direct sales with proceeds raised in the Non-public A Share Issue. This project is the key IT infrastructure for the future development of e-commerce of the Company, with an aim to increase its proportion of direct sales and reduce marketing costs. This project is designed to unify the order data and user data from various e-commerce channels (including the official website, call centres and mobile apps), ensuring consistency in user experience across all e-commerce channels. In the meantime, the Company plans to integrate user data and order data by upgrading its e-commerce platforms, thereby equipping the Company with the technology required for analysing big data of passengers in the future. With an increased proportion of direct sales, the Company can also broaden the e-commerce platforms with other sources of income, such as seat selection for fees, pre-paid baggage, upgrade at boarding gate and pre-ordering onboard duty-free goods and thus securing new sources of revenue and growth of profit from tapping into the potential demand of passengers.

3. *On-board WIFI (first phase) project*

With the integration of the aviation industry and the Internet industry, onboard WIFI projects are characterised by prominent "cross-industry" and "cross-platform" operation features. Firstly, the inflight Internet is the only "blue ocean" that has not been dominated by the Internet giants and that enjoys exclusive and tremendous access advantages and Internet giants need to cooperate with aviation companies to expand into the in-flight business area. Secondly, the Chinese aviation industry boasts an annual passenger traffic volume of almost 400 million travellers, with nearly 1.0 billion flight hours each year. Such exclusive time provides strong potential for the in-flight Internet business. In addition, most of the air travellers in China are the young- and middle-aged, who highly rely on the Internet and typically fall within the most high-end consumer group. The consumption potential of these

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high net worth customers are far higher than general Internet customers. Lastly, aviation companies can also provide regular push contents based on the big data, including passengers' real name personal travel information, preferences and behaviour, so as to enhance the precision of marketing and extend the in-flight cooperation relationship with the Internet providers into provision of ground services, developing a wide range of business opportunities for ground services.

4. *Replenishment of working capital*

With the proceeds from the Non-public A Share Issue, the Company can improve its solvency and achieve a more reasonable debt structure, so as to further optimise the financial structure, and lay the foundation for sound and rapid development in the future. The Company intends to utilise RMB3.60 billion of proceeds from the Non-public A Share Issue to replenish its working capital, with a view to improve short-term solvency of the Company and optimise the debt structure, which help to ensure that the Company can fulfill its funding requirements from business development purposes of the Company in the future and mitigate the pressure for working capital arising from the course of operation of the Company.

As discussed above, the proceeds from the Non-public A Share Issue by the Company are intended to be used to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities, such as seatback), upgrade the e-commerce platforms for direct sales, carry out the Onboard WIFI Project (first phase) and replenish the Company's working capital, which will further expand the Company's scale of operation and market coverage, improve its hub network, reduce marketing costs, improve passenger satisfaction and enhance the Company's capital strength and financing capabilities, which, in turn, will help the Company capture market opportunities in a timely manner and secure funds through diversified financing channels to support the Company's operation and development, thereby laying a solid foundation for enhancement of the Company's economies of scale and promotion of the Company's strategic transformation.

(IV) Relationships between the projects to be invested with the proceeds from the Non-public A Share Issue and the existing businesses, and preparations in terms of human resources, technologies and market made by the Company for the projects to be invested with the proceeds from the Non-public A Share Issue

1. *Relationships between the projects to be invested with the proceeds from the Non-public A Share Issue and the existing businesses of the Company*

The proceeds from the Non-public A Share Issue by the Company are intended to be used to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities, such as seatback), upgrade the e-commerce platforms for direct sales, carry out the Onboard WIFI Project (first phase) and replenish our working capital. The projects to be invested with these proceeds raised are closely related to our principal operations, and consistent with the future development strategies and goals. Upon the completion of the Non-public A Share Issue, the Company will optimise internal allocation of resources according to overall strategies and market demand, to promote the construction of hub network, to enhance the competitive advantages of the Company, to further consolidate and enhance the principal operations of the Company, and to achieve sustainable development with finalisation of strategies. With the

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purchase of aircraft, the Company shall expand the size of its fleet, and the fleet structure will be effectively optimised, which will gradually increase the capacity whilst improving the quality of services and enhancing passenger satisfaction. Through upgrading the e-commerce platforms for direct sales, the proportion of direct sales will increase. Marketing expenses will decrease and this will lay the foundation for exploring big data. Through the Onboard WIFI Project, passenger service experiences will be enhanced, and additional service revenue will be derived therefrom. At the same time, certain proceeds from the Non-public A Share Issue will be used to replenish our working capital, which will effectively improve the financial structure of the Company, improve the Company's ability to mitigate risks and provide a strong protection to further develop the advantages of the principal operations by the Company that is conducive to the development goals of the Company in the future.

2. *Preparations in terms of human resources, technologies and market made by the Company for the projects to be invested with the proceeds from the Non-public A Share Issue*

As to staffing, the Company places emphasis to the cultivation and retention of talents, persists in adhering to combining incentives with control and aligning the improvement in performance with the increase in wages, sticks to the policy of “paying salary with reference to the value of job, personal ability and performance appraisal” in developing and implementing the remuneration policies, and timely adjusts the remuneration package and welfare benefits for flight crew members. As such, we have laid a solid foundation of staffing, which contribute to the implementation of the investment projects.

As to technology, as at the end of 31 December 2015, the Company had been operating a total of 590 aircraft. The vast majority of these aircraft are modern airplanes produced by Airbus and Boeing. At the same time, since 2010, the Company has been the market leader in the innovation and reform of onboard WIFI, which had been actively exploring a mean of service that can fulfill the needs of the majority of air travellers. As of to date, the Company had completed the modification work for onboard WIFI on 24 aircraft (including four narrow-body aircraft), which have been providing WIFI services to passengers through almost 80 flights a day. The Company has the relevant technologies and experiences to operate, control and manage the provision of onboard WIFI on large-size wide-body aircraft and the modification work for onboard WIFI system.

As to the market, in the recent years, with improvement in spending by household, outbound travel continues to grow. According to the 2014 World Tourism Barometer recently released by the United Nations World Tourism Organisation, China maintained its position as the world's largest outbound tourism market from 2012 to 2014. The number of China's outbound tourists reached 109 million in 2014, up from 98 million in the previous year, and is expected to jump to 250 million by 2020, with an annual growth rate of over 15%. We optimised our hub network coverage and continued to enhance the hub commercial value. The Company continued to strengthen the hub, launched international and regional routes covering a global network, such as Beijing-Minsk-Budapest, and also increased the frequencies of international long-haul routes, such as routes from Beijing to New York, Vancouver, Dusseldorf and Sydney. The projects to be utilised with the proceeds raised will assist the

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Company to capture the opportunities for growth arising from the domestic and international market. We will leverage on the momentum to expand our operation in the relevant market, improve our plane model, and match the routes with market of sound outlook.

(V) Remedial Measures adopted by the Company in response to the dilution on immediate returns for Shareholders upon the Non-public A Share Issue

1. *Strengthening the management of the proceeds raised to mitigate the risks in relation to improper utilisation of proceeds*

In order to govern the administration and utilisation of proceeds raised, and to ensure the proceeds raised in the Non-public A Share Issue shall be utilised for the said purposes, the Company had formulated the “System of Utilisation and Administration of Proceeds Raised” pursuant to the provisions and requirements of the laws and regulations such as the Company Law of the PRC, the Securities Law of the PRC, No.2 Guideline for the Supervision of Listed Companies – Regulatory Requirements for the Management and Use of Funds Raised by Listed Companies and the Listing Rules of the Shanghai Stock Exchange, taking into account of the actual situation of the Company. It was expressly specified that the Company will deposit such proceeds into a separate account so as to facilitate the administration and utilisation of the proceeds raised. The Company will collaborate with the sponsors and the custodian bank in monitoring the utilisation of proceeds, so as to ensure that the proceeds are utilised according to the committed purposes and amount. Upon receiving the proceeds raised from the Non-public A Share Issue, the Board of the Company shall continuously monitor the deposit of such proceeds into a separate account and will collaborate with the sponsors and the custodian bank in examining and monitoring the utilisation of proceeds, so as to ensure that the Company will utilise the proceeds in a rational and compliance manner and mitigate the risks in relation to the improper utilisation of the proceeds raised.

2. *Speed up the commissioning of new aircraft acquired so as to attain the expected efficiency as soon as possible*

Certain portion of the proceeds raised will be utilised to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities, such as seats), which is in line with the relevant industrial policies of China, the development trend of the industry and overall strategic direction for the development of the Company in the future. The project has sound market prospects and economic benefits. The Company prudently judges the market, seizes the favorable opportunity to purchase aircraft, and expands into the international market. The introduction of new aircraft and the retirement of old aircraft will further optimise the fleet structure, and contribute to the Company’s “balanced development of domestic and international, to domestic support international” and the construction of strategic hub networks. The introduction of new aircraft can effectively reduce fuel consumption and maintenance costs and improve the competitiveness of the company’s air transport operations, and further consolidate the Company’s business in the shipping market leading position, and on this basis to achieve strategic transformation, expanding profit margins, usher in more business opportunities. After the proceeds of this offering in place, the Company will accelerate as new aircraft into use progress to achieve the project proceeds as soon as possible.

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3. In-depth implementation of the Company's development strategy, to achieve the transformation and upgrading

With the Chinese economy entering into the “new normal” situation, civil aviation will also be entering the “new normal” growth drivers shift, the future growth will be focused on efficiency, reform and innovation, enhanced management with delicacy, mobile Internet leading to the innovation and reform of the business model of airline companies, and the effects of direct marketing, charges for value-added services, C2B, etc. will affect the development of the industry. Cost control has become a key factor for airline profitability. The aviation value chain will continue to develop with industrialisation and specialisation.

In the context of the new environment, the Company is actively seeking to upgrade and expand its fleet and optimise the fleet structure, while the integration and upgrade projects of direct e-commerce platforms and the onboard WIFI projects will enhance the proportion of direct sales of the Company, lower marketing costs, lay a sound foundation for exploring big data, seize opportunities inflight Internet services, enhance passenger experience and satisfaction, increase the value of our services, thereby contributing to the achievement of the Company's strategy.

4. Optimising the Company's capital structure and improving the financial situation

As at 31 December 2015, the gearing ratio of the consolidated financial statement of the Company was 68.84%. The proceeds raised in the Non-public A Share Issue by the Company are intended to be used to purchase 15 Boeing B787 aircraft (including other inflight ancillary facilities, such as seats), upgrade the e-commerce platforms for direct sales, carry out the onboard WIFI project (first phase) and replenish our working capital. The introduction of aircraft will bring a higher scale capital expenditure, and expanding the fleet will also bring increased working capital requirements with a higher level of financial pressure. Upon completion of the Non-public A Share Issue, the Company's capital will be an effective complement to help the Company reduce the debt-to-equity ratio, improve the Company's capital structure, and optimise the financial situation, reduce the risk of insolvency, enhance the Company's ability to resist risks thereby laying a solid foundation for stable development.

5. Improving the profit distribution system and strengthening investor dividend return mechanism

In order to establish and improve the scientific, sustainable and stable dividend policy-making and oversight mechanisms of the Company, provide positive return to investors, and guide investors to establish long-term investment and rational investment strategies, the Company amended the provisions in the Articles of Association relating to cash dividends and profit distribution policy pursuant to Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (Zheng Jian Fa [2012] No. 37) (《關於進一步落實上市公司現金分紅有關事項的通知》) published by CSRC and Listed Companies Regulatory Guidance No.3 – Cash Dividends Distribution of Listed Companies (CSRC Notice [2013] No. 43) (《上市公司監管指引第3號—上市公司現金分紅》) published by CSRC. Resolution regarding the amendments to the Articles of Association and resolution regarding the

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formulation of Shareholders' return plan of the Company for the three years from 2015 to 2017 were considered and approved in the first extraordinary general meeting of 2015 held on 22 December 2015. The Company has formulated sustainable, steady and scientific planning and return mechanisms for investors, which strengthened the minority investor rights protection mechanism. After the completion of this Non-public A Share Issue, the Company will strictly enforce the relevant provisions of the Articles of Association and earnestly fulfill obligations dividends, profit distribution, subject to conditions, and actively promote the distribution of profits to Shareholders, and strive to enhance returns to Shareholders.

6. *Continuing to improve corporate governance to facilitate the development of the Company*

The Company will strictly follow the Company Law of the PRC, Securities Law of the PRC, Corporate Governance Guidelines for Listed Companies (《上市公司治理準則》) and other laws, regulations and regulatory documents, and constantly improve the corporate governance structure to ensure that Shareholders can fully exercise their rights, to ensure that the Board exercise their powers and responsibilities in accordance with laws, regulations and the Articles of Association, to make a scientific, timely and prudent business decisions, to ensure that independent directors earnestly perform their duties, and safeguard the overall interests of the Company, especially the legitimate interests of minority Shareholders, to ensure that the Supervisory Committee can independently and effectively exercise supervision and inspection rights to directors, managers and other senior management personnel and corporate finance, and lay a foundation for the development of the Company.

(VI) Undertakings made by all Directors and senior management as to the implementation of remedial measures against the dilution of immediate return for Shareholders upon the Non-public A Share Issue

All Directors and senior management of the Company will faithfully and diligently perform their duties, safeguard the legitimate rights and interests of the Company and all shareholders. Pursuant to the relevant provisions of the CSRC, the following undertakings have been made to ensure the Company shall practically implement remedial measures:

- (1) it was committed that no interests shall be transferred to other entities or individuals without just compensation or in an unfair way, and not to hamper the interests of the Company by other means;
- (2) it was committed that the corporate spending by the Company's employees will be strictly regulated;
- (3) it was committed that the assets of the Company shall not be utilised in any investment or consumption activities irrelevant with the performance of their duties;
- (4) it was committed that the remuneration system formulated by the Board or the Nomination and Remuneration Committee shall be linked to the implementation of remedial measures for the return by the Company;

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- (5) it was committed that if the Company launches any equity motivation policies in the future, the exercise conditions for the intended equity motivation policies of the Company shall be linked to the implementation of remedial measures for the return of the Company;
- (6) since the provision of the undertakings to the completion of the Non-public A Share Issue, if the CSRC publishes other new regulatory provisions on remedial measures for the return and the undertakings, and such that the above undertakings cannot fulfill those provisions of the CSRC, it was committed that supplementary undertakings shall be provided in accordance with the latest provisions of the CSRC by that time.

As one of the main responsible entities for the remedial measures of the return, in the event if the above undertakings are breached or not to be implemented, our Directors and senior management agree that penalties or relevant administrative measures shall be taken in accordance with the relevant provisions and rules as formulated or published by competent securities regulatory authorities such as the CSRC and the Shanghai Stock Exchange.

IV. AGM

The Company will convene the AGM at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 2:00 p.m. on Wednesday, 25 May 2016 for the purpose of considering, and if thought fit, approving the ordinary resolutions in respect of (i) re-appointment of the auditor of the Company for 2016; and (ii) the remedial measures to the dilutive impact of the Non-public A Share Issue on immediate returns for Shareholders.

In accordance with the Listing Rules, a notice of the AGM, a form of proxy and an attendance notice have been despatched to the Shareholders on Friday, 8 April 2016 and a supplemental notice of the AGM and a revised form of proxy (the **“Revised Proxy Form”**) will be despatched to the Shareholders on Tuesday, 10 May 2015. The supplemental notice of the AGM is reproduced on pages I-1 to I-2 of this circular.

Whether or not you intend to attend the AGM, you are requested to complete and return the Revised Proxy Form in accordance with the instruction printed thereon. If you intend to attend the AGM, you are required to complete and return the notice of attendance to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, on or before Thursday, 5 May 2016.

Completion and return of the Revised Proxy Form will not preclude you from attending and voting in person at the meetings or at any adjourned meetings should you so wish and completion and return of the notice of attendance do not affect the right of a shareholder to attend the respective meeting.

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V. RECOMMENDATION OF THE BOARD

The Directors consider that the proposed resolutions set out in the supplemental notice of the AGM are in the best interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of all the resolutions at the AGM.

By order of the Board

Cai Jianjiang

Chairman

Beijing, 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)

SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

Reference is made to the notice of the annual general meeting of Air China Limited (the “**Company**”) dated 8 April 2016 (the “**Former AGM Notice**”) which sets out the resolutions to be considered by shareholders at the annual general meeting to be held at 2:00 p.m. on Wednesday, 25 May 2016 at The Conference Room One, 29/F, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC (the “**AGM**”).

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the AGM, which will be held as originally scheduled, will consider and, if thought fit, pass the following ordinary resolutions in addition to the resolutions set out in the Former AGM Notice:

ORDINARY RESOLUTIONS

5. To consider and approve the re-appointment of KPMG as the Company’s international auditor and KPMG Huazhen LLP as the Company’s domestic auditor and internal control auditor respectively for the year ending 31 December 2016 and to authorise the management of the Company to determine their remunerations for the year 2016;
6. To consider and approve the proposed remedial measures to the dilutive impact of the non-public A share issue on immediate returns for shareholders.

The special resolutions numbered 5 and 6 set out in the Former AGM Notice shall be re-numbered and referred to as special resolutions numbered 7 and 8.

By order of the Board
Air China Limited
Cai Jianjiang
Chairman

Beijing, PRC, 10 May 2016

APPENDIX I SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (1) A revised form of proxy is enclosed with this notice. Whether or not you are able to attend the AGM, you are requested to complete the accompanying revised form of proxy in accordance with the instructions printed thereon and return the same to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the AGM or any adjournment thereof (as the case may be). Completion and return of the revised form of proxy will not preclude the shareholders of the Company from attending and voting in person at the AGM or any adjournment thereof.
- (2) Please refer to the Former AGM Notice for details in respect of the eligibility for attending the AGM, proxy, registration procedures, closure of register of members and other relevant matters.
- (3) Please refer to the notice of attendance of the AGM of the Company in respect of the timing and address for attending the AGM and other relevant matters.

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Ms. Wang Yinxiong, Mr. Cao Jianxiong, Mr. Feng Gang, Mr. John Robert Slosar, Mr. Ian Sai Cheung Shiu, Mr. Song Zhiyong, Mr. Pan Xiaojian, Mr. Simon To Chi Keung*, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

** Independent non-executive director of the Company*