
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

If you are in doubt as to any aspect of this circular, you should consult your 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 in Air China Limited, you should at once hand this circular and the accompanying form of proxy and the notice of attendance to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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中國國際航空股份有限公司 AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 753)

PROPOSED OFFERING OF ADDITIONAL A SHARES

It is important to note that the purpose of distributing this circular is to provide the shareholders of Air China Limited (the "Company") with information on the proposed issue of additional A Shares by the Company, so that the shareholders of the Company may make an informed decision on voting in respect of certain resolution(s) to be tabled at the extraordinary general meeting of the Company. This circular does not constitute, or form part of, an offer or invitation, or solicitation or inducement of an offer, to subscribe for or purchase any of the A Shares or other securities of the Company, nor is this circular calculated to invite offers for any shares or other securities of the Company.

A letter from the Board is set out on pages 3 to 9 of this circular.

This circular also contains the notice convening the extraordinary general meeting of the Company which is to be held at the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, China at 1:30 p.m. on 17 December 2007.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying proxy form in accordance with the instructions printed thereon. For holders of H Shares, the proxy form should be returned to Computershare Hong Kong Investor Services Limited not less than 24 hours before the time appointed for the meetings or any adjourned meetings thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.

For holders of H Shares, if you intend to attend the EGM in person or by proxy, you are required to complete and return the notice of attendance to Computershare Hong Kong Investor Services Limited on or before 27 November 2007.

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DEFINITIONS

In this circular, unless otherwise indicated in the context, the following expressions have the meaning set out below:

“A Shares”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in RMB on the Shanghai Stock Exchange
“Additional A Shares”	not more than 400 million A Shares that the Board resolved to authorize the Company to issue and offer, subject to obtaining the necessary approvals by the shareholders of the Company and relevant PRC authorities
“Board”	the board of Directors of the Company
“Company”	Air China Limited, a joint stock limited company incorporated in the PRC
“CSRC”	China Securities Regulatory Commission
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened at the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 1:30 p.m. on 17 December 2007 to approve, inter alia, the Offering
“H Shares”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars and admitted to the Official List of the UK Listing Authority and are traded on the market for listed securities of the London Stock Exchange
“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
“Offering”	the proposed issue and offering of the Additional A Shares

DEFINITIONS

“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Proposed Projects”	the acquisition of 15 Boeing 787 aircraft, 24 Airbus 320 series aircraft and 15 Boeing 737 series aircraft by the Company, which the Board proposes to apply the proceeds of the Offering to part finance
“Registration Date”	the date for ascertaining the entitlement of such holders of A Shares to apply for the Additional A Shares under the Offering on a preferential basis, which will be determined and announced by the Company in due course
“RMB”	Renminbi, the lawful currency of the PRC

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: 753)

Executive Directors:

Mr. Cai Jianjiang
Mr. Fan Cheng

Non-executive Directors:

Mr. Li Jiayang
Mr. Kong Dong
Mr. Wang Shixiang
Mr. Yao Weiting
Mr. Ma Xulun
Mr. Christopher Dale Pratt
Mr. Chen Nan Lok Philip

Independent non-executive Directors:

Mr. Hu Hung Lick, Henry
Mr. Wu Zhipan
Mr. Zhang Ke
Mr. Jia Kang

Registered office:

9/F, Blue Sky Mansion
8 Tianzhu Road Zone A
Tianzhu 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

2 November 2007

To the Shareholders

Dear Sir or Madam,

PROPOSED OFFERING OF ADDITIONAL A SHARES

A. INTRODUCTION

The Company announced on 31 October 2007 that at the meetings of the Board held on 30 October and 31 October 2007, the Board resolved to authorize the Company to issue and offer not more than 400 million A Shares representing approximately 5.10% of the A Shares and approximately 3.26% of the total shares of the Company currently in issue, respectively, subject to obtaining the necessary approvals from the shareholders of the Company at an extraordinary general meeting to be convened and approvals from the relevant PRC authorities.

The purpose of this circular is to give you details of the Offering.

LETTER FROM THE BOARD

B. THE PROPOSED OFFERING

1. General

Subject to obtaining shareholders' approval at the EGM to be held on 17 December 2007, the Company will apply to the relevant authorities in the PRC for regulatory approval for the allotment and issue of not more than 400 million A Shares to public investors in the PRC and other investors as approved by the CSRC (unless otherwise prohibited by applicable laws, regulations and policies) and also for the listing of such A Shares on the Shanghai Stock Exchange. At present, the A Shares of the Company are listed on the Shanghai Stock Exchange and the H Shares of the Company are listed on the main board of the Hong Kong Stock Exchange and are traded on the market for listed securities on the London Stock Exchange.

2. Details of the Offering

The details of the proposed Offering are set out below:

Type of securities to be issued:	A Shares
Number of A Shares to be issued:	Not more than 400 million A Shares, representing approximately 5.10% of the existing A Shares and approximately 3.26% of the total shares of the Company currently in issue, respectively.
Nominal value:	RMB1.00 each
Target subscribers:	Public investors having maintained shareholders' account for RMB-denominated ordinary shares at the Shanghai Stock Exchange and other investors as approved by the CSRC unless otherwise prohibited by applicable laws, regulations and policies.
Offering structure:	The Offering will be conducted via a combination of "online" and "offline" offerings (within the meaning of relevant PRC laws and regulations), pursuant to which the Additional A Shares will be offered through the trading system of the Shanghai Stock Exchange and through placement by the underwriter(s) for the Offering, respectively. The Offering will contain two tranches, namely the Domestic Rights Issue and the Domestic Public Offering (as defined below). Part of the Additional A Shares under the Offering (the size of which is to be determined by the Board and the lead underwriter for the Offering) will be made available to all registered holders of A Shares, whose names appear on the register of members of the Company on the Registration Date, on a pro rata basis in terms of the number of A Shares which are not subject to lock-up as stipulated by the PRC laws and regulations for their preferential subscription (the "Domestic Rights Issue").

LETTER FROM THE BOARD

The remaining portion of the Additional A Shares and the portion not taken up in the Domestic Rights Issue will be issued to public investors and other investors as approved by the CSRC unless otherwise prohibited by applicable laws, regulations and policies (the “Domestic Public Offering”).

The actual size of the Domestic Rights Issue and the Domestic Public Offering will be announced by the Company when it is determined in due course. According to the proposed terms of the Offering, the Company expects that 6,206,678,909 A Shares currently directly and indirectly held by the China National Aviation Holding Company, the controlling shareholder of the Company, are not entitled to participate in the Domestic Rights Issue as these shares are subject to a three-year controller’s lock-up until mid 2009 imposed by applicable PRC regulations.

Offer price:

The offer price of the Additional A Shares will be determined by the agreement between the Board on behalf of the Company and the lead underwriter for the Offering but in any event shall not be less than the lower of (i) the average price of the existing shares of the Company for the 20 trading days immediately prior to the publication of the offering document in respect of the Offering; and (ii) the average price of the existing shares of the Company for the trading day immediately prior to the publication of such offering document. When determining the offer price, the view of prospective investors in the securities markets will also be considered.

Listing venue:

The Additional A Shares are expected to be listed on the Shanghai Stock Exchange.

Use of proceeds:

Assuming the completion of the Offering, the Company intends to utilize the proceeds from the Offering part finance the Proposed Projects and also to utilize up to RMB1.5 billion out of the proceeds to supplement the working capital of the Company.

The Board proposes that the EGM shall authorize that the proceeds from the Offering shall also be applied to any payment due in relation to the Proposed Projects or to repay any outstanding bank loan in relation to the Proposed Projects that occurred before the completion of the Offering. The Board also proposes that the EGM shall authorize the Board to determine the particular projects, priority and fund allocation when applying the proceeds to the Proposed Projects.

LETTER FROM THE BOARD

The Company has entered into respective aircraft purchase agreement in connection with the Proposed Projects. Further information on the purchases of the 15 Boeing 787 aircraft, 15 Boeing 737 series aircraft and 24 Airbus 320 series aircraft of the Proposed Projects is set out in the announcements made by the Company dated 8 August 2005, 19 April 2006 and 14 June 2006, respectively.

Others:

Upon the completion of the Offering, both existing and new shareholders of the Company will be entitled to the accumulative distributable profits of the Company.

The Board proposes the EGM shall authorize the Board to determine matters relating to the Offering at its discretion and with full authority, including but not limited to the timing, exact amount of offer shares, offering mechanism, pricing mechanism, offer price, scope of offerees and allocation basis, etc.

The Board also proposes that the shareholders' approval of the Offering, if granted at the EGM, shall be valid for 12 months from the date of granting the approval as long as the underlying general mandate continues in force or has been renewed. If the renewal of the current general mandate is needed in the future for the purpose of the Offering, the Company will state in the relevant circular that part of the renewed general mandate may be exercised to issue A Shares for the purpose of the Offering.

3. Information on the Proposed Projects

Assuming the completion of the Offering, the Company intends to utilize the proceeds from the Offering part finance the Proposed Projects and also to utilize up to RMB1.5 billion out of the proceeds to supplement the working capital of the Company.

The Company believes that the Offering will provide the Company with funds required for further increasing the operation capacity and strengthening the core competency of the Company.

The Boeing 787 aircraft to be acquired under the Proposed Projects will be deployed to serve the Company's international routes with a view to supporting the growth in flights to the Europe, the America and other international destinations. In particular, these Boeing 787 aircraft are expected to replace the Boeing 747 aircraft that are currently serving routes to the United States, to replace A330-200 aircraft on the Shanghai-Europe routes and to serve long-haul flights such as Beijing-Sydney routes.

LETTER FROM THE BOARD

The Airbus 320 series aircraft to be acquired under the Proposed Projects will be principally based in Beijing to serve Beijing-departing domestic routes and international routes to neighboring destinations such as Osaka, Tokyo, Hong Kong, etc.

The Boeing 737 series aircraft to be acquired under the Proposed Projects are expected to further strengthen the Company's Beijing hub by increasing the number of flights for Beijing-departing domestic routes.

The feasibility of the above proposed investment to be funded by the proceeds from the Offering and a report from the Board on the use of proceeds from previous issue of shares by the Company are set out in Appendix I and Appendix II to this circular, respectively, and are proposed by the Board for shareholders' approval at the EGM. For shareholders' reference only, a report from Ernst & Young Hua Ming on use of proceeds from previous issue of shares is set out in Appendix III to this circular.

4. Shareholders' approval and other approvals

The shareholders of the Company have granted a general mandate (within the meaning of the Hong Kong Listing Rules) to the Board at the annual general meeting held on 30 May 2007. Pursuant to that general mandate, the Board has the powers to allot and issue and deal with such amount of additional shares of the Company that does not exceed 20% of each of the existing domestic shares and H Shares in issue at the date of the grant of the general mandate. To date, the Company has not issued any shares of the Company pursuant to the general mandate. However, when the Board exercises the general mandate to issue the Additional A Shares, the relevant PRC laws and regulations require that a further shareholders' approval in respect of the Offering be given by way of a special resolution at a shareholders' general meeting. Accordingly, the EGM will be held to approve matters relating to the Offering as disclosed above.

It should be noted that, in addition to the approval being sought from the shareholders of the Company, the Offering is also subject to approvals by the CSRC and other relevant regulatory authorities including but not limited to the approval by the Shanghai Stock Exchange as far as the listing of and dealings in the Additional A Shares on the Shanghai Stock Exchange is concerned.

If any connected person of the Company (within the meaning of the Hong Kong Listing Rules) subscribes any of the Additional A Shares under the Offering, the Company will comply with the relevant requirements under the Hong Kong Listing Rules.

There is no assurance that the Offering will proceed. Investors are advised to exercise caution in dealing in the H Shares.

LETTER FROM THE BOARD

5. Effect of the Offering on the Company's shareholding structure

The following table sets out the shareholding structure of the Company as at the date of this announcement and immediately after the completion of the Offering, assuming that in aggregate 400 million Additional A Shares are issued under the Offering and no other changes to the share capital of the Company:

	As at the date of this announcement		Immediately after the completion of the Offering	
	<i>Number of shares in issue</i>	<i>%</i>	<i>Number of shares in issue</i>	<i>%</i>
A Shares	7,845,678,909	64.04	8,245,678,909	65.18
H Shares	<u>4,405,683,364</u>	<u>35.96</u>	<u>4,405,683,364</u>	<u>34.82</u>
Total	<u><u>12,251,362,273</u></u>	<u><u>100.00</u></u>	<u><u>12,651,362,273</u></u>	<u><u>100.00</u></u>

C. THE EGM

The EGM will be convened at the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 1:30 p.m. on 17 December 2007. Notice of the EGM are set out on pages 10 to 13 in this circular. Notice of attendance and forms of proxy for use in connection with the EGM are enclosed with this circular.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying proxy form in accordance with the instructions printed thereon. For holders of H Shares, the proxy form should be returned to Computershare Hong Kong Investor Services Limited not less than 24 hours before the time appointed for the meetings or any adjourned meetings thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the notice of attendance to Computershare Hong Kong Investor Services Limited for holders of H Shares at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 27 November 2007.

LETTER FROM THE BOARD

D. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 84 of the existing Articles of Association of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required by applicable securities regulations or listing rules or is (before or after any vote by the show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any shareholder or shareholders (including proxy) holding individually or holding in aggregate of 10% or more of the shares carrying the right to vote at the meeting.

E. RECOMMENDATION

The Directors consider that the Offering is in the best interests of the Company and its shareholders. Accordingly, the Directors recommend the shareholders to vote in favour of the resolutions that will be proposed at the EGM.

Yours faithfully,
For and on behalf of
Air China Limited
Li Jiaxiang
Chairman

NOTICE OF EGM



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: 753)

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 the Conference Room, Air China Building, 36 Xiaoyun Road, Chaoyang District, Beijing, PRC at 1:30 p.m. on 17 December 2007 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 shareholders circular dated 2 November 2007 issued by the Company (“Circular”):

SPECIAL RESOLUTIONS

1. **“THAT** the offering of additional A Shares by the Company (the “Offering”) and each of the following items and conditions for the Offering be and are hereby approved one by one:
 - (1) Class of shares: RMB denominated ordinary shares (i.e. A Shares);
 - (2) Nominal value: RMB1.00 each;
 - (3) Total number of A Shares to be issued: Not more than 400 million A Shares (the “Additional A Shares”);
 - (4) Target subscribers: Public investors having maintained shareholders’ account for RMB-denominated ordinary shares at the Shanghai Stock Exchange and other investors as approved by the CSRC (unless otherwise prohibited by applicable laws, regulations and policies);
 - (5) Offering structure: The Offering will be conducted via a combination of “online” and “offline” offerings (within the meaning of relevant PRC laws and regulations) at fixed price. Part of the Additional A Shares under the Offering (the size of which is to be determined by the Board as authorized by the shareholders and the lead underwriter for the Offering) will be made available to all registered holders of A Shares, whose names appear on the register of members of the Company at the close of a record date for ascertaining the entitlement of such holders of A Shares, on a pro rata basis in terms of the number of A Shares which are not subject to lock-up as stipulated by the PRC laws and regulations for their preferential subscription;

NOTICE OF EGM

- (6) Offer price: The offer price of the Additional A Shares will be determined by the agreement between the Board on behalf of the Company and the lead underwriter for the Offering but in any event shall not be less than the lower of (i) the average price of the existing shares of the Company for the 20 trading days immediately prior to the publication of the offering document in respect of the Offering; and (ii) the average price of the existing shares of the Company for the trading day immediately prior to the publication of such offering document;
- (7) Place of listing: Shanghai Stock Exchange;
- (8) Upon the completion of the Offering, both existing and new shareholders of the Company will be entitled to the accumulative distributable profits of the Company;
- (9) validity period: the shareholders' approval of the Offering shall be valid for 12 months from the date of passing this resolution."

Please note, the implementation of this Special Resolution is subject to the approval by the China Securities Regulatory Commission (the "CSRC").

2. **"THAT** the projects for which the proceeds from the Offering (the "Proceeds") will be utilized (the "Projects") and each of the following items and conditions for the use of the Proceeds be and are hereby approved:

- (1) the Projects are set out as follows:
 - (a) the acquisition of 15 Boeing 787 aircraft;
 - (b) the acquisition of 24 Airbus 320 series aircraft;
 - (c) the acquisition of 15 Boeing 737 series aircraft;
 - (d) supplementing the working capital of the Company with no more than RMB1.5 billion out of the Proceeds;
- (2) before the Proceeds is available, the Company is authorized to use internal funds or bank loans to finance the Projects according to the actual payment schedule of the Projects; when the Proceeds is available, the Company is authorised to apply the Proceeds to any payment due in relation to the Projects or to repay any outstanding bank loan in relation to the Projects that occurred before the completion of the Offering; if in addition to the Proceeds further financing is needed by the Projects, the Company is authorized to explore other funding sources; and
- (3) the Board is hereby authorized to determine and adjust with full authority the projects, the priority and the actual investment amounts and bank loan repayment amounts to which the Proceeds shall be applied subject to the scope of the Projects as approved above."

NOTICE OF EGM

Please note, the implementation of this Special Resolution is subject to the approval by the CSRC.

3. “**THAT** the Board be and is authorised to determine matters relating to the Offering at its discretion and with full authority, including:
- (1) the Board is authorised to determine all matters relating to the Offering, including but not limited to, the offering structure, offer size, offer price, pricing mechanism, scope of offerees, size of rights issue to existing shareholders, application method and timing of the Offering;
 - (2) the Board, the chairman of the Board (“Chairman”) and the attorney of the Chairman are authorised to determine the intermediaries to be retained for the Offering, handle application and submission matters in relation to the Offering, produce, prepare, amend, improve and sign all documents in relation to the Offering and sign all contracts, agreements and documents in relation to the Offering;
 - (3) the Board, the Chairman and the attorney of the Chairman are authorised to handle capital verification formalities upon completion of the Offering;
 - (4) the Board, the Chairman and the attorney of the Chairman are authorised to apply to Shanghai Stock Exchange for the listing of the Additional A Shares under the Offering and deliver relevant documents;
 - (5) the Board, the Chairman and the attorney of the Chairman are authorised to handle the deposit and registration matters in relation to the Offering;
 - (6) the Board, the Chairman and the attorney of the Chairman are authorised to amend relevant provisions of the Articles of Association of the Company, handle relevant approval formalities and handle various registration formalities in relation to the change in the registered capital of the Company upon completion of the Offering;
 - (7) the Board is authorised, in the event of changes in the policies of the relevant securities regulatory authorities in respect of offering of additional shares or changes in market condition, to make corresponding adjustments to the matters in relation to the Offering such as the terms set out in the above resolutions, unless any matter is subject to further approval by shareholders’ meeting of the Company as required by relevant laws, regulations and/or the Articles of Association of the Company;
 - (8) the Board be authorised to determine all other matters relating to the Offering; and
 - (9) the above various authorisation shall be valid for one year from the date of passing this Special Resolution.”

NOTICE OF EGM

ORDINARY RESOLUTIONS

4. To consider and, if thought fit, approve the “Feasibility of Proposed Investment Projects to Be Funded by the Proceeds from the Offering”, which is set out in Appendix I to the shareholders circular dated 2 November 2007 in relation to the Offering.
5. To consider and, if thought fit, approve the “Report from the Board on Use of Proceeds from Previous Issue of Shares” which is set out in Appendix II to the Circular.

By order of the Board
Huang Bin Li Man Kit
Joint Company Secretaries

Beijing, the PRC
2 November 2007

Notes:

1. Closure of register of members and eligibility for attend the EGM

Holders of H Shares of the Company are advised that the register of members of the Company’s H Shares will close from 19 November 2007 to 17 December 2007 (both days inclusive), during which time no transfer of H Shares of the Company will be effected and registered. In order to qualify for attendance at the EGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company’s H Share registrar, Computershare Hong Kong Investor Services Limited by 4:30 p.m. on or before 16 November 2007.

2. Notice of attendance

For holders of H Shares, if you intend to attend the EGM in person or by proxy, you are required to complete and return the notice of attendance to Computershare Hong Kong Investor Services Limited on or before 27 November 2007.

3. Proxy

- i. Any Shareholder entitled 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 at the meeting on his behalf.
- ii. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a legal person, either under seal or under the hand of a director or a duly authorised attorney. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised. In order to be valid, for holders of H Shares, the above document must be delivered to Computershare Hong Kong Investor Services Limited no later than 24 hours prior to the commencement of the EGM. The completion and return of a proxy form will not preclude a shareholder from attending and voting at the EGM. In such event, the instrument appointing a proxy shall be deemed to be revoked.
- iii. If more than one proxy is appointed, such proxies shall only be entitled to vote by poll.
- iv. Shareholders or their proxies shall produce their identification documents when attending the EGM.

4. Miscellaneous

- i. The EGM is expected to last for approximately two hours. All attending shareholders shall arrange for their transportation and accommodation and shall bear all expenses in this connection.
- ii. The address of Computershare Hong Kong Investor Services Limited is:

Room 1712-1716
Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong
Tel No.: (852) 2862 8628
Fax No.: (852) 2865 0990

In respect of the proposed offering of additional A shares, the Company has made analysis on the feasibility of the proposed investment projects to be funded by the proceeds from the additional issuance (the “Proceeds”), details of which are set out as follows:

I. PROCEEDS AFTER DEDUCTION OF THE OFFERING EXPENSES WILL MAINLY BE USED IN THE FOLLOWING AREAS**1. Purchase of aircraft**

- (1) Purchase of 15 Boeing 787 aircraft;
- (2) Purchase of 24 Airbus 320-series aircraft;
- (3) Purchase of 15 Boeing 737-series aircraft.

2. For the use as additional working capital

In order to support its daily operation, the Company shall have sufficient working capital to settle its operating expenses payable in cash. Such expenses mainly include jet fuel charges, landing fee, airway fee and expenses on the purchase of aircraft spare parts and aircraft maintenance. The Company will use not more than 1.5 billion of the Proceeds as working capital to satisfy the above operation needs or for the repayment of working capital loan.

II. BRIEF DESCRIPTION ON THE AIRCRAFT TO BE PURCHASED**1. Purchase of 15 Boeing 787 aircraft**

According to the aircraft delivery schedule of the Company, the B787 aircraft under the relevant purchase arrangement will be delivered in stages to the Company as follows: one in 2008, three in 2009, eight in 2010 and three in 2011.

As stated in the product catalogue provided by Boeing to the Company, the market price for the 15 B787 aircraft is USD1.825 billion in aggregate. After arm’s length negotiation between the parties, the actual price for the 15 B787 aircraft is lower than the market price as stated in the product catalogue of Boeing.

These B787 aircraft will mainly serve long-range international route, such as to replace aircraft B747 on some of the US routes, to replace aircraft A330-200 of the Shanghai-Europe route as well as to serve the newly added long-range Beijing-Sydney route. It is expected that the additional aircraft will cater for the needs of the rapidly developed Europe-US and other international flight routes.

2. Purchase of 24 Airbus 320 series aircraft

According to the aircraft delivery schedule of the Company, the A321 aircraft under this purchase arrangement will be delivered in stages to the Company as follows: two in 2007, six in 2008, eight in 2009 and eight in 2010.

As stated in the product catalogue provided by Airbus to the Company, the market price for the 24 A321 aircraft is USD1.744 billion in aggregate. After arm's length negotiation between the parties, the actual price for the 24 A321 aircraft is lower than the market price as stated in the product catalogue of Airbus.

The A321 aircraft to be purchased under this arrangement will be stationed in Beijing (including two standby aircraft) and served key domestic courses departing originally from Beijing to: Guangzhou, Shenzhen, Haikou, Kunming, Shanghai, Shenyang, Urumchi and Xian; and some of the Japan lines: Nagoya, Osaka, Tokyo; as well as Hong Kong, Hu Chi Ming City and Bangkok. The aim is to make up for the transportation capacity of key domestic flight courses and nearby international flight courses.

3. Purchase of 15 Boeing 737 series aircraft

According to the aircraft delivery schedule of the Company, the 15 B737-800 aircraft under this purchase arrangement will be delivered in stages to the Company as follows: ten in 2009 and five in 2010.

As stated in the product catalogue provided by Boeing to the Company, the market price for the 15 B737-800 aircraft is USD983 million in aggregate. After arm's length negotiation between the parties, the actual price for the 15 B737-800 aircraft is lower than the market price as stated in the product catalogue of Boeing. The Company will use its best endeavor to secure the most privileged price so as to lower the aircraft purchase cost.

The 15 B737-800 aircraft to be purchased are scheduled to commence operation in 2009. The aircraft will mainly serve domestic and nearby international lines especially those originating from Beijing, so as to increase the frequency of flights of our existing 23 key domestic flight courses and gradually increase the frequency of flights from Beijing to 19 less developed provinces and cities as well as famous tourist destinations.

Upon receiving of the Proceeds from this share issue, if the actual amount being raised is less than the total investment amount as mentioned above, any difference will be funded out of the Company's internal resources.

The raise of fund under this share issue has been widely discussed through market research and scientific argumentation and a feasibility report was prepared therefor. The abovementioned arrangements are all in compliance with the State's policies for specific industry as well as the development needs of the Company, and are closely related to the existing core businesses of the Company. The implementation of such arrangements will further strengthen the Company's scale and its core competitive power and allow for the continuing development of the Company.

For the consideration and approval of all shareholders.

Pursuant to the approval of China Securities Regulatory Commission (“CSRC”) dated 27 July 2006 (Zheng Jian Fa Xing No. [2006]57), Air China Limited (the “Company”) was allowed to conduct an initial public offering of A shares in the PRC and the Company has issued a total of 1,639,000,000 A shares of par value of RMB1 each to the public at an issue price of RMB2.80 per share in August 2006. The gross proceeds from the issue was RMB4,589,200,000 and the net proceeds was RMB4,513,195,722 after deduction of the issuance expenses. The above proceeds was credited to the bank account of the Company on 15 August 2006.

Pursuant to the approval of CSRC dated 15 September 2006 (Zheng Jian Guo He No.[2006]19), the Company issued 1,179,151,364 H shares of par value of RMB1 each to Cathay Pacific Airways Limited (“Cathay”) at an issue price of HK\$3.45 per share (the “Additional Issue”). The gross proceeds from the Additional Issue was HK\$4,068,072,206 (equivalent to RMB4,126,245,638) and net proceeds after deduction of issuance expenses was HK3,999,952,998 (equivalent to RMB4,057,152,326). The above proceeds was credit to the bank account of the Company on 28 September 2006.

As at 30 September 2007, RMB4,513,195,722 out of the proceeds from the initial issue of A shares was utilized, which represents 100% of the total fund being raised. The Company has applied the proceeds strictly in compliance with the intended use of proceeds as disclosed in the Prospectus relating to the initial public offering of A shares and there has not been any change on the use of proceeds.

As at 30 September 2007, the Company has applied RMB4,057,152,326 out of the proceeds from the Additional Issue of H shares, representing 100% of the total proceeds being raised.

**I. COMPARISON OF ACTUAL USE OF PROCEEDS FROM THE PREVIOUS
ISSUANCE AGAINST UNDERTAKINGS DISCLOSED IN THE PROSPECTUS****1. Projects funded by proceeds from the initial A shares issue***(in RMB ten thousand)*

Projects	As disclosed in A shares prospectus and other documents	Intended investment amount	Payment made from fund-raising account		
			Year 2006	For the nine months ended 30 September 2007	Accumulated as at 30 September 2007
Purchase of 20 Airbus A330-200 aircraft			103,347	206,927	310,274
Purchase of 15 Boeing B787 aircraft			12,116	5,855	17,971
Purchase of 10 Boeing B737-800 aircraft			39,027	24,254	63,281
Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport		59,793	59,793	–	59,793
Total			<u>214,283</u>	<u>237,036</u>	<u>451,319</u>

2. Projects funded by proceeds from Additional Issue of H shares*(in RMB ten thousand)*

Project	Projects to be funded by proceeds from the H shares issue	Intended investment amount	Amount paid by the proceeds		
			Year 2006	For the nine months ended 30 September 2007	Accumulated as at 30 September 2007
Acquisition of Cathay shares		405,715	405,715	–	405,715

II. PROGRESS OF ACTUAL INVESTMENT PROJECTS AND STATUS OF USE OF PROCEEDS**1. Purchase of 20 Airbus A330-200 aircraft**

As stated in the Prospectus for the initial public offering of A shares, the Company intended to use the proceeds from the A shares issue to purchase 20 A330-200 aircraft at a total consideration of not more than USD2.86 billion. From October 2004 to 30 September 2007, a total of USD1,381,947,016 (equivalent to RMB10,785,083,546) was paid by the Company according to the payment schedule, of which RMB3,102,748,164 was funded out of the proceeds being raised. Pursuant to the agreement, three aircraft namely B6079, B6068 and B6081 were delivered to the Company in January, February and March 2007 respectively and put into operation on 30 September 2007.

2. Purchase of 15 Boeing B787 aircraft

As stated in the Prospectus for the initial public offering of A shares, the Company intended to use the proceeds from the A shares issue to purchase 15 B787 aircraft at a total consideration of not more than USD1.825 billion. From May 2004 to 30 September 2007, a total of USD217,632,450 (equivalent to RMB1,744,708,773) was paid by the Company according to the payment schedule, of which RMB179,708,578 was funded out of the proceeds being raised. As at 30 September 2007, the aircraft had not been delivered.

3. Purchase of 10 Boeing B737-800 aircraft

As stated in the Prospectus for the initial public offering of A shares, the Company intended to use the proceeds from the A shares issue to purchase 10 Boeing B737-800 aircraft at a total consideration of not more than USD655 million. From January 2006 to 30 September 2007, a total of USD168,523,250 (equivalent to RMB1,325,000,133) was paid by the Company according to the payment schedule, of which RMB632,808,980 was funded out of the proceeds being raised. As at 30 September 2007, the aircraft had not been delivered.

Currently the Company has a fleet of over two hundred aircraft.

4. Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport Phase III

As stated in the Prospectus for the initial public offering of A shares, the Company will apply the proceeds from the A shares issue to fund the ground service facilities, common and other facilities and related land requisition and demolition program for Beijing Capital International Airport Phase III expansion project. As at 30 September 2007, a total of RMB597,930,000 out of the proceeds was used in the above expansion project. It is the intention of the Company to relocate to Terminal 3 of the Beijing Airport in 2008 and commence operation of the above project.

5. Acquisition of Cathay shares

On 8 June 2006, the Company entered into a shareholding restructuring agreement with Cathay, China National Aviation Company Limited (“CNAC Limited”), CITIC Pacific Limited (“CITIC Pacific”) and Swire Pacific Limited (“SPAC”). Pursuant to the agreement, the Company issued 1,179,151,364 H shares at HK\$3.45 per share to Cathay and acquired 40,128,292 shares and 359,170,636 shares in Cathay held by SPAC and CITIC Pacific respectively at HK\$13.50 per share. As at 30 September 2007, the Company issued 1,179,151,364 H shares to Cathay and the proceeds (after deduction of issuance expenses) in the amount of HK\$3,999,952,998 (equivalent to RMB4,057,152,326) was fully used to acquire 40,128,292 shares and 359,170,636 shares in Cathay from SPAC and CITIC Pacific respectively at a total consideration of HK\$5,390,535,528 (equivalent to RMB5,452,922,479), with the differences funded by loan or by the internal resources of the Company. The equity transaction was completed by the Company on 31 December 2006 and between 1 January 2007 and 30 September 2007 respectively.

III. PROFITABILITY OF THE PROJECTS FUNDED BY THE PROCEEDS

According to the Company’s future market analysis and flight arrangement, the daily utilization rate of the 20 Airbus A330-200 is 11.22 hours. Based on the passenger load factor of 75% and charge per passenger calculated at RMB3300-3400 for long distance flight and RMB2600 for medium distance flight, the revenue for each aircraft for the initial period (Year 2006 to 2008) is RMB322 million. Among the 20 A330-200 aircraft, there are three aircraft already in operation, which have an operation time of twenty months in aggregate for the period from January to September. It was estimated that the three aircraft would generate a revenue of RMB537 million for the first nine months of 2007. The actual revenue generated by the three aircraft for that period was RMB594,460,000, exceeding approximately 11% of the original forecast revenue.

The largest operation base of the Company is situated at the Beijing Airport, which has initially formed a complete inbound and outbound air transportation network with Beijing as its hub. To strengthen and develop the competitiveness of Beijing headquarter has become an important strategy of the Company. Beijing Airport expansion project – the construction of Passenger Terminal 3, has provided an opportunity for the Company to realize its strategic development. The Company expects to relocate to Terminal 3 in March and April 2008 which provides the condition for Air China to realize its potential earnings.

Through acquisition of Cathay's equity interests, the Company has realized further cooperation with Hong Kong airliner, increased its revenue and further enhanced its leading position in the PRC as well as its competitiveness within and outside the PRC. As at 31 December 2006, the Company had recognized an investment income of RMB127,260,000 by using the equity accounting method to account for the equity interests in Cathay. As Cathay is a listed company on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and according to the relevant provisions of the Stock Exchange, main board listed companies are not required to disclose their first and third quarter results except the annual and interim results, and Cathay did not disclose its third quarter results, so this report does not disclose the investment income recognized through the equity accounting method from holding Cathay's equity interest for the nine-month accounting period ended 30 September 2007. For the six months ended 30 June 2007, the Company recognized an investment income of RMB250,800,000 by applying the equity method to its equity interests in Cathay.

Board of directors of
Air China Limited

30 October 2007

(The report below represents a direct translation of the original Chinese document. Should there be any difference in interpretation, the Chinese version would prevail.)

Ernst & Young Hua Ming (2007) Zhuan Zi No.60468040-A05

To the Board of Directors of Air China Limited

We were appointed to conduct a special review on the use of proceeds from the previous issue of shares by Air China Limited (the “Company”) for the period up to 30 September 2007. This report was issued based on the resolution passed by the Board of Directors of the Company on 31 October 2007 for the Company’s proposed public offering of additional A Shares (the “Offering of Additional A Shares”) to serve as an application document for the Offering of Additional A Shares. It is the responsibility of the Board of Directors of the Company (the “Board”) to provide true, legal and complete original written documents, copies of documents or verbal testimony, etc. We are responsible to express our opinion on the special review and to issue the report thereon. This report was issued in accordance with the requirements of the *Administration Measures for the Issuance of Securities by Listed Companies* and *Guidelines to the Report on the Use of Proceeds from the Previous Issue of Shares* promulgated by the China Securities Regulatory Commission (the “CSRC”). The opinion expressed herein was judgment based on the documents obtained during the review process, after our due investigation conducted and necessary review procedures executed.

Based on our review, the use of the proceeds from the previous issue of shares was as follows:

I. AMOUNT OF PROCEEDS FROM THE PREVIOUS ISSUE OF SHARES AND TIME OF RECEIPT

According to the approval issued by the CSRC on 27 July 2006 (Zheng Jian Fa Xing Zi No.[2006] 57), the Company was allowed to conduct an initial public offering of A Shares (the “A Shares”) in the PRC and to apply for listing on the Shanghai Stock Exchange upon completion of issuance. The Company issued 1,639,000,000 A Shares of par value of RMB1 each through the Shanghai Stock Exchange in August 2006 at an issue price of RMB2.80 per share. The proceeds from the issuance totaled RMB4,589,200,000. The actual net proceeds after deduction of underwriting commission paid to underwriters and other issuing expenses were RMB4,513,195,722.

According to the capital verification report issued by Beijing Tian Hua Certified Public Accountants (Tian Hua (Yan) Zi No.[2006]023-46), as at 15 August 2006, the aforesaid proceeds of RMB4,513,195,722 was received by the Company.

According to the approval issued by the CSRC on 15 September 2006 (Zheng Jian Guo He Zi No.[2006]19), the Company issued an additional 1,179,151,364 H shares (“H shares”) of par value of RMB1 to Cathay Pacific Airways Limited (“Cathay”) at an issue price of HK\$3.45 per share. The proceeds from the issuance totaled HK\$4,068,072,206 (equivalent to RMB4,126,245,638), and the net proceeds were HK\$3,999,952,998 (equivalent to RMB4,057,152,326) after the deduction of issuing expenses.

According to the capital verification report issued by Tian Hua Zhongxing Certified Public Accountants (Tian Hua Zhongxing (Shen) Zi No.[2007]1023-15-d), as at 28 September 2006, the aforesaid proceeds of HK\$3,999,952,998 (equivalent to RMB4,057,152,326) was received by the Company.

II. USE OF PROCEEDS FROM THE PREVIOUS ISSUE OF SHARES

(1) Comparison of actual use of proceeds from the previous issue of shares against undertakings disclosed in the prospectus and other documents

Comparison of investment projects and investment amounts

(in RMB ten thousand)

As disclosed in A Shares prospectus and other documents	Actual investment amount and payment made from designated account for proceeds from issue of shares	For the accounting			Status of completion	Notes	Traffic revenue or investment income generated	
		*For the year ended 31 December 2006	period of nine months ended 30 September 2007	Accumulated as at 30 September 2007			*For the year ended 31 December 2006	period of nine months ended 30 September 2007
Investment projects	Intended investment amount							
Purchase of 20 Airbus A330-200 aircraft	Unspecified	103,347	206,927	310,274	Three of which were received before 30 September 2007	1	–	59,446
Purchase of 15 Boeing B787 aircraft	Unspecified	12,116	5,855	17,971	Not yet received	2	–	–
Purchase of 10 Boeing B737-800 aircraft	Unspecified	39,027	24,254	63,281	Not yet received	3	–	–
Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport	59,793	59,793	–	59,793	Under construction	4	–	–
Subtotal of payments from the use of proceeds from the issue of A shares		214,283	237,036	451,319				
Proceeds from H shares issuance paid for acquisition of Cathay Shares	405,715	405,715	–	405,715	Completed	5	12,726	N/A
Total		619,998	237,036	857,034				

* For the period from the date of receipt of the relevant proceeds to 31 December 2006.

Notes:

1. As at 30 September 2007, the proceeds for the purchase of 20 Airbus A330-200 aircraft had been applied as follows:

As stated in the Prospectus for the Initial Public Offering of A Shares, the Company intended to use the proceeds from the issue of domestic A Shares to purchase 20 Airbus A330-200 aircraft (Contract Ref No.04HJB1019FR) at an aggregate consideration not exceeding USD2.86 billion. From October 2004 to 30 September 2007, the Company paid totally USD1,381,947,016 (equivalent to RMB10,785,083,546) as according to the repayment schedule in the contract, among which RMB3,102,748,164 was paid out of the proceeds raised. According to the agreement, three aircraft namely B6079, B6080 and B6081 were delivered in January, February and March 2007 respectively and put into operation before 30 September 2007. For the nine months ended 30 September 2007, traffic revenue of approximately RMB594,460,000 in aggregate was generated.

2. As at 30 September 2007, the proceeds for the purchase of 15 Boeing B787 aircraft had been applied as follows:

As stated in the Prospectus for the Initial Public Offering of A Shares, the Company intended to use the proceeds from the issue of domestic A Shares to purchase 15 Boeing B787 aircraft (Contract Ref No. 05HJB1023US) at an aggregate consideration not exceeding USD1.825 billion. From May 2004 to 30 September 2007, the Company paid totally USD217,632,450 (equivalent to RMB1,744,708,773) according to the repayment schedule in the contract, among which RMB179,708,578 was paid out of the proceeds raised. As at 30 September 2007, these aircraft had not been delivered.

3. As at 30 September 2007, the proceeds for the purchase of 10 Boeing B737-800 aircraft had been applied as follows:

As stated in the Prospectus for the Initial Public Offering of A Shares, the Company intended to use the proceeds from the issuance of domestic A Shares to purchase 10 Boeing B737-800 aircraft (Contract Ref No.06HJB1024U) at an aggregate consideration not exceeding USD655 million. From January 2006 to 30 September 2007, the Company paid totally USD168,523,250 (or RMB1,325,000,133) according to the repayment schedule in the contract, among which RMB632,808,980 was paid out of the proceeds raised. As at 30 September 2007, these aircraft had not been delivered.

4. As at 30 September 2007, the proceeds for Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport had been applied as follows:

As stated in the Prospectus for the Initial Public Offering of A Shares, the Company intended to use the proceeds from the issuance of the domestic A shares of RMB597,300,000 to fund the ground service facilities, common and other facilities and related land requisition and demolition program for Beijing Capital International Airport Phase III expansion project. As at 30 September 2007, the Company had actually used RMB597,930,000 out of the proceeds from domestic offering for the above-mentioned expansion project.

5. On 8 June 2006, the Company entered into a shareholding restructuring agreement with Cathay, CNAC Limited, CITIC Pacific Limited ("CITIC Pacific") and Swire Pacific Limited ("SPAC"). According to this agreement, the Company issued additional 1,179,151,364 H shares to Cathay at an issue price of HK\$3.45 per share, and acquired 40,128,292 and 359,170,636 Cathay shares respectively from SPAC and CITIC Pacific at a price of HK\$13.50 per share.

As at 30 September 2007, the Company had issued additional 1,179,151,364 H shares to Cathay, and had used the total proceeds of HK\$3,999,952,998 (equivalent to RMB4,057,152,326) net of issuing expenses to acquire 40,128,292 and 359,170,636 Cathay shares respectively held by SPAC and CITIC Pacific at a total consideration of HK\$5,390,535,528 (equivalent to RMB5,452,922,479), with the differences funded by loan or by internal resources of the Company.

The Company had recognized an investment income of RMB127,260,000 by using the equity accounting method from the date of completion of the acquisition of Cathay shares to 31 December 2006. As Cathay is a listed company on the Hong Kong Stock Exchange (the "Stock Exchange"), and according to the relevant provisions of the Stock Exchange, main board listed companies are not required to disclose their first and third quarter results except the annual and interim results. Cathay did not disclose its third quarter results and therefore this report has not disclosed the investment income recognized using equity accounting method from holding Cathay's equity interest through the above transaction for the nine-month accounting period ended 30 September 2007. For the six-month accounting period ended 30 June 2007, the Company had recognized an investment income of RMB250,800,000 by using the equity accounting method for the equity interests in Cathay through transaction as stated above.

(2) The comparison of the actual use of the proceeds against the information disclosure documents

Having compared the actual use of the abovementioned proceeds with the relevant information disclosed in the Reports of the Directors set out in the Company's Annual Report of 2006 and its Interim Report for the first half year of 2007, on an item by item basis, and a detailed reconciliation of the information about the investment projects disclosed by the Company against the results of our review are set out below:

(in ten thousand RMB)

Investment projects	Accumulated at the end of 2006			Accumulated as at 30 June, 2007			Notes
	Actual use	Disclosure in the Annual Report	Differences	Actual use	Disclosure in the Interim Report	Differences	
Purchase of 20 Airbus A330-200 aircraft	103,347	77,970	25,377	310,274	312,771	(2,497)	1
Purchase of 15 Boeing 787 aircraft	12,116	12,193	(77)	17,971	18,125	(154)	2
Purchase of 10 Boeing B737-800 aircraft	39,027	26,415	12,612	63,281	63,825	(544)	3
Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport	59,793	40,097	19,696	59,793	60,350	(557)	4
Subtotal of payments from the use of proceeds from the issue of A Shares	214,283	156,675	57,608	451,319	455,071	(3,752)	
Proceeds from H share issuance paid for acquisition of Cathay Shares	405,715	405,715	–	405,715	–	405,715	5
Total	619,998	562,390	57,608	857,034	455,071	401,963	

* The Company is not required to disclose the information related to the use of the proceeds in the Third Quarter Report of 2006 and the First Quarter Report of 2007.

Notes:

1. As stated in the Directors' Report of the Company's 2006 annual report relating to the use of proceeds, as at 31 December 2006, the Company had applied RMB779,700,000 from the proceeds of the A shares issuance to purchase 20 Airbus A330-200 aircraft. Due to timing differences, the difference with actual amounts used was RMB253,770,000. As at 31 December 2006, the actual amounts used by the Company from the proceeds of the A shares issuance to purchase the aircraft was RMB1,033,470,000 in aggregate.

The difference between the use of proceeds as stated in the Directors' Report of the Interim Report of the Company 2007 and the actual amount being paid was primarily due to the use by the Company of part of the interest accrued from the proceeds of A shares issuance to finance the purchase of these aircraft and was disclosed accordingly.

2. As stated in the Directors' Report of the Company's 2006 annual report relating to the use of proceeds, as at 31 December 2006, the Company had applied RMB121,930,000 from the A shares issuance to purchase 15 Boeing B787 aircraft, the difference with actual amounts used was RMB770,000. The difference was primarily due to the use by the Company of part of the interest accrued from the proceeds of A shares issuance to purchase these aircraft. As at 31 December 2006, the actual amount used by the Company from the proceeds of A shares issuance to purchase these aircraft was RMB121,160,000 in aggregate.

The difference between the use of proceeds as stated in the Directors' Report of the Interim Report of the Company 2007 and the actual amount being paid was primarily due to the use by the Company of part of the interest accrued from the proceeds of A shares issuance to finance the purchase of these aircraft and was disclosed accordingly.

3. As stated in the Directors' Report of the Company's 2006 annual report relating to the use of proceeds, as at 31 December 2006, the Company had applied RMB264,150,000 from the A shares issuance to purchase 10 Boeing B737-800 aircraft. Due to timing differences, the difference with actual amounts being used was RMB126,120,000. As at 31 December 2006, the actual amount applied by the Company to the purchase these aircraft was RMB390,270,000 in aggregate.

The difference between the use of proceeds as stated in the Directors' Report of the Interim Report of the Company 2007 and the actual amount being paid was primarily due to the use by the Company of part of the interest accrued from the proceeds of A shares issuance to finance the purchase of these aircraft and make disclosure accordingly.

4. As stated in the Directors' Report of the Company's 2006 annual report relating to the use of proceeds, as at 31 December 2006, the Company had applied RMB400,970,000 from A shares issuance to fund Air China's project relating to the expansion of existing operating support facilities at the Beijing Capital International Airport. Due to timing differences, the difference with the actual amounts being used was RMB196,960,000. As at 31 December 2006, the actual amount being used by the Company from A shares issuance to fund the expansion project amounted to RMB597,930,000 in aggregate.

The difference between the use of proceeds as stated in the Directors' Report of the Interim Report of the Company 2007 and the actual amount being paid was primarily due to the use by the Company of part of the interest accrued from the proceeds of A shares issuance to finance the expansion project and was disclosed accordingly.

5. As stated in the Directors' Report of the Company's annual report 2006 relating to the use of proceeds, the Company had applied RMB4,057,152,300 from the additional issue of H shares in September 2006 to acquire Cathay shares. As at 31 December 2006, the transaction was completed, therefore the Company did not disclose the matter in the 2007 interim report.

- (3) Having compared, item by item, the actual use of the abovementioned proceeds with the relevant information disclosed by the Board of Directors in the Report on the Use of Proceeds from the Previous Issue of Shares, we are satisfied that they are consistent with each other.

III. THE CONCLUSION RELATING TO THE REPORT ON THE USE OF PROCEEDS FROM THE PREVIOUS ISSUE OF SHARES

In our opinion, the Report on the Use of Proceeds from the Previous issue of Shares prepared by the Board of Directors of the Company disclosed in the application documents for the Offering of Additional A Shares and other relevant disclosure documents are substantially in line with actual use of proceeds from the previous issue of shares in all material aspects.

This special report is prepared for the Company's Offering of Additional A Shares only, but not for other purposes. We agreed that this special report will form part of the essential documents for the Offering of Additional A Shares of the Company, and will be submitted together with other application documents.

Ernst & Young Hua Ming

Jin Xin

Certified Public Accountant, PRC

Yang Shujuan

Certified Public Accountant, PRC

Beijing, the PRC

31 October 2007