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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)

**CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION:
PURCHASE OF EQUITY INTEREST
IN AIR CHINA CARGO FROM CITIC PACIFIC LIMITED**

SUMMARY

On 3 January 2008, CNAC, a wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Gold Leaf and CITIC Pacific, pursuant to which CNAC has agreed to purchase from Gold Leaf the entire issued share capital of Fine Star, which in turn holds 25% equity interest in the registered capital of Air China Cargo. The aggregate consideration payable by CNAC for the Transaction is equal to approximately RMB857 million. The Transaction has been completed on 3 January 2008 as well.

Air China Cargo operates air cargo services. Immediately prior to the completion of the Transaction, the Company held 51% equity interest of the registered capital of Air China Cargo. Upon the completion of the Transaction, the Company's interest in Air China Cargo (including indirect interest through CNAC) increases from 51% to 76%.

As Air China Cargo is a subsidiary of the Company within the meaning of the Listing Rules, Fine Star, Gold Leaf, and CITIC Pacific are therefore regarded as connected persons of the Company within the meaning of the Listing Rules. The Transaction constitutes a connected transaction and discloseable transaction of the Company under the Listing Rules. Currently, CNAHC directly owns approximately 40.40% of the total issued share capital of the Company and CNAHC through its wholly-owned subsidiary CNACG indirectly owns approximately 11.26% of the total issued share capital of the Company. Pursuant to Rule 14A.43 of the Listing Rules, the Transaction has been approved by CNAHC and CNACG by way of a written approval in lieu of a shareholders meeting of the Company.

The Company shall, pursuant to the Listing Rules, dispatch a circular containing the information required under the Listing Rules in relation to the Transaction within 21 days after the publication of this announcement.

DESCRIPTION OF THE TRANSACTION

On 3 January 2008, CNAC, a wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Gold Leaf and CITIC PACIFIC, pursuant to which CNAC has agreed to purchase from Gold Leaf the entire issued share capital of Fine Star, which in turn holds 25% equity interest in the registered capital of Air China Cargo. The Transaction has been completed on 3 January 2008 as well.

The details of the Transaction are summarized as follows:

Parties to the Transaction

- (i) CNAC, a wholly-owned subsidiary of the Company, as the purchaser, the principal business activity of which is investment holding;
- (ii) Gold Leaf, a wholly-owned subsidiary of CITIC Pacific, as the vendor, the principal business activity of which is investing holding; and
- (iii) CITIC PACIFIC, which is engaged in a diversified range of businesses, including manufacturing of special steel, iron ore mining, property development and investment, infrastructure, marketing and distribution.

Immediately prior to the completion of the Transaction, Gold Leaf wholly owned Fine Star, which in turn owns 25% equity interest in Air China Cargo. As Air China Cargo is a subsidiary of the Company within the meaning of the Listing Rules, Fine Star, Gold Leaf, and CITIC Pacific are therefore regarded as connected persons of the Company within the meaning of the Listing Rules. Accordingly, the Transaction between CNAC and Gold Leaf and CITIC Pacific constitutes a connected transaction of the Company within the meaning of the Listing Rules.

Assets to be acquired by the Company under the Transaction

Pursuant to the Sale and Purchase Agreement, one share, being all the issued share capital, of Fine Star shall be transferred from Gold Leaf to CNAC. Fine Star is an investment holding company, which holds 25% equity interest in Air China Cargo. Consequently, upon completion of the Transaction the 25% equity interest of the registered capital of Air China Cargo held by Fine Star is indirectly transferred to CNAC and the Company's interest in Air China Cargo (including indirect interest through CNAC) increases from 51% to 76%.

Air China Cargo operates general cargo services, special cargo services for goods and materials that require special handling, and mail and express services, through scheduled and unscheduled cargo flights and rented bellyhold space of the Company's passenger aircraft.

Consideration

Upon the incorporation of Air China Cargo, CITIC Pacific made a capital contribution in aggregate of RMB550,000,000 equivalent, which represents 25% of the total share capital of Air China Cargo. CITIC Pacific subsequently transferred its shareholding of the 25% equity interest in Air China Cargo to its wholly-owned subsidiary Fine Star in November 2004.

Pursuant to the Sale and Purchase Agreement, the aggregate consideration payable by CNAC for the Transaction is equal to approximately RMB857 million and has been settled by cash upon the completion of the Transaction.

The aggregate consideration comprises (i) HK\$518,213,209 being the purchase price of the Shareholder Loan, and (ii) the purchase price of the one share, being the entire issued share capital, of Fine Star, which is equal to the aggregate consideration less the purchase price of the Shareholder Loan.

The consideration for the Transaction is determined through arm's length negotiation and reflects the mutually agreed valuation of Fine Star. The consideration for the Transaction also represents a multiple of Air China Cargo's net assets amount and that multiple represents a discount to prevailing multiples for airline company acquisition deals in developed markets of Asia Pacific region.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Directors expect further growth in Chinese air cargo business and plan to increase the Company's investment in that sector as a strategic move with a view to bringing into Air China Cargo more aviation industry related expertise possessed by the Company. Upon the completion of the Transaction, the Company's interest in Air China Cargo (including indirect interest through CNAC) increases from 51% to 76% and the Company expects to account Air China Cargo as a consolidated subsidiary of the Company for accounting purpose while Air China Cargo was treated as a joint venture of the Company for accounting purpose prior to the completion of the Transaction.

The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

WRITTEN APPROVAL BY INDEPENDENT SHAREHOLDER

As the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Transaction are above 2.5%, the Transaction constitutes a connected transaction of the Company subject to independent shareholders approval. Currently, CNAHC directly owns approximately 40.40% of the total issued share capital of the Company and CNAHC through its wholly-owned subsidiary CNACG indirectly owns approximately 11.26% of the total issued share capital of the Company. Each of CNAHC and its associates (as defined in the Listing Rules, including CNACG) does not have any interest in the Transaction other than as a shareholder of the Company (where applicable). To the best knowledge of the Directors of the Company, no shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting for the approval of the Transaction. Pursuant to Rule 14A.43 of the Listing Rules, the Transaction has been approved by CNAHC and CNACG by way of a written approval in lieu of a shareholders meeting of the Company.

The Transaction also constitutes a discloseable transaction for the Company under the Listing Rules.

Pursuant to the Listing Rules requirements in respect of connected transactions and discloseable transactions, the Company shall dispatch a circular containing the information required under the Listing Rules, including a letter from the independent board committee of the Company and a letter from the independent financial advisor of the Company, in relation to the Transaction within 21 days after the publication of this announcement.

DEFINITION

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“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
“Air China Cargo”	Air China Cargo Co., Ltd., a company with limited liability incorporated in the PRC, the registered share capital of which was owned by the Company, CITIC Pacific (through Fine Star) and the Capital Airport Holding Company by 51%, 25% and 24%, respectively, immediately prior to the completion of the Transaction and is owned by the Company and the Capital Airport Holding Company by 76% and 24% upon completion of the Transaction
“CITIC Pacific”	CITIC Pacific Limited, a company incorporated in Hong Kong
“CNAC”	China National Aviation Company Limited, a company incorporated in Hong Kong
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAHC as at the date of this announcement
“CNAHC”	China National Aviation Holding Company, a company incorporated under the laws of the People’s Republic of China
“Company”	Air China Limited, a company incorporated in the People’s Republic of China, whose H Shares are listed on The Stock Exchange of Hong Kong Limited as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A Shares are listed on the Shanghai Stock Exchange
“Director(s)”	the director(s) of the Company
“Fine Star”	Fine Star Enterprises Corp., a company incorporated in the British Virgin Islands, which holds 25% equity interest in the registered capital of Air China Cargo
“Gold Leaf”	Gold Leaf Enterprises Holdings Ltd., a company incorporated in the British Virgin Islands
“H Shares”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau and Taiwan
“Sale and Purchase Agreement”	an agreement relating to the sale and purchase of the share in and the shareholder’s loan to Fine Star dated 3 January 2008 entered into among CNAC, Gold Leaf and CITIC Pacific pursuant to which, among other things, CNAC has agreed to purchase and Gold Leaf has agreed to sell the entire issued share capital of Fine Star
“Shareholder Loan”	all the loans made by CITIC Pacific Limited to Fine Star as at the close of business on the completion date for the Transaction, of which the amount as at 30 September, 2007 was HK\$ 518,213,209, and Gold Leaf undertakes in the Sale and Purchase Agreement to keep the responsibility of Fine Star regarding to the shareholder loan unchanged in any and all aspects until that completion date
“Transaction”	the transactions contemplated under the Sale and Purchase Agreement

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

Beijing, 3 January 2008

As at the date of this announcement, the Directors of the Company are Messrs Kong Dong, Wang Shixiang, Yao Weiting, Christopher Dale Pratt, Chen Nan Lok Philip, Ma Xulun, Cai Jianjiang, Fan Cheng, Hu Hung Lick, Henry, Wu Zhipan*, Zhang Ke* and Jia Kang*.*

* *Independent non-executive Director of the Company*