Opus Capital Limited
創富融資有限公司

31 July 2025

To: The Independent Board Committee and the Independent Shareholders of China Eastern Airlines Corporation Limited

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS;
DISCLOSEABLE TRANSACTIONS; AND
MAJOR TRANSACTION**

INTRODUCTION

We refer to our appointment by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with:

(i) the transactions and the proposed annual caps for the three years ending 31 December 2028 relating to:

(1) the provision of deposit services under the Financial Services Agreement;

(2) the transactions of expenditure items in respect of the catering related services and aircraft on-board supplies support related services under the Catering and Aircraft On-board Supplies Support Agreement; and

(3) the transactions of expenditure items in respect of the Aircraft and Engines Lease and Related Services Agreement; and

(ii) the proposed annual caps for the transactions contemplated under the Exclusive Operation Agreement for the three years ending 31 December 2028.

The details of the above are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 31 July 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

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As stated in the Letter from the Board, CEA Holding is the controlling shareholder of the Company and each member of the CEA Holding Entities (the "**Connected Persons**"), being an associate of CEA Holding, is therefore a connected person of the Company under the Hong Kong Listing Rules. Transactions entered into between each of them on one part and members of the Group on the other under (i) the Financial Services Agreement; (ii) the Catering and Aircraft On-board Supplies Support Agreement; (iii) the Aircraft and Engines Lease and Related Services Agreement; and (iv) the Exclusive Operation Agreement constitute continuing connected transactions of the Company under the Hong Kong Listing Rules, which are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratio(s) with respect to the proposed annual cap for each of (i) the provision of deposit services under the Financial Services Agreement exceeds 5% but is less than 25%; (ii) the transactions of expenditure items in respect of the catering related services and aircraft on-board supplies support related services under the Catering and Aircraft On-board Supplies Support Agreement exceeds 5% but is less than 25%; (iii) the transactions of expenditure items in respect of total rental fee payable by the Company and total value of right-of-use assets in relation to the finance and operating leases entered into by the Company as lessee under the Aircraft and Engines Lease and Related Services Agreement exceeds 25% but is less than 100%; and (iv) the exclusive operation transportation services fees payable under the Exclusive Operation Agreement exceeds 5% but is less than 25%, the transactions under these agreements are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

The proposed annual caps for the three years ending 31 December 2028 for each of (i) the provision of deposit services under the Financial Services Agreement; (ii) the transactions of expenditure items in respect of the catering related services and aircraft on-board supplies support related services under the Catering and Aircraft On-board Supplies Support Agreement; and (iii) the transactions contemplated under the Exclusive Operation Agreement for the three years ending 31 December 2028 are also subject to the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules. The transactions of expenditure items under the Aircraft and Engines Lease and Related Services Agreement also constitute major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

Certain Directors, namely Mr. Wang Zhiqing, Mr. Liu Tiexiang, Mr. Cheng Guowei and Mr. Jie Xiaoqing, are members of board of directors of CEA Holding, which may be regarded as having a material interest in the Renewed Non-exempt Continuing Connected Transactions and therefore they have abstained from voting at the meeting of the Board convened for the purpose of approving the Renewed Non-exempt Continuing Connected Transactions. Save as disclosed above, none of the Directors has a material interest in the Renewed Non-exempt Continuing Connected Transactions.

CEA Holding and its associate(s) (i.e. CES Finance and CES Global) will abstain from voting on the ordinary resolutions in relation to the Renewed Non-exempt Continuing Connected Transactions and the respective proposed annual caps at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Sun Zheng, Mr. Lu Xiongwen, Mr. Luo Qun, Ms. Fung Wing Yee Sabrina, and Mr. Zheng Hongfeng, has been established by the Company for the purpose of advising the Independent Shareholders in respect of the Renewed Non-exempt Continuing Connected Transactions on: (i) whether the entering into of the agreements relating to the Renewed Non-exempt Continuing Connected Transactions is on normal commercial terms, in the interests of the Company and its Shareholders as a whole and was entered into in the ordinary and usual course of business of the Company; (ii) whether the terms of the Renewed Non-exempt Continuing Connected Transactions (including the relevant proposed annual caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iii) how they should vote on the relevant resolutions at the EGM. Our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, CEA Holding, Eastern Air Finance Company, Eastern Air Catering Company, CES Leasing, China Cargo Airlines or other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately prior to this appointment, we have not (i) acted in the capacity as financial adviser or independent financial adviser to the Company; (ii) provided any services to the Group; or (iii) had any relationship with the Group. Apart from normal independent financial advisory fees paid or payable to us in connection with this appointment, no arrangements existed whereby we had received or will receive any fees or benefits from the Group, CEA Holding, Eastern Air Finance Company, Eastern Air Catering Company, CES Leasing, China Cargo Airlines or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Hong Kong Listing Rules.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the Financial Services Agreement;

(ii) the Catering and Aircraft On-board Supplies Support Agreement;

(iii) the Aircraft and Engines Lease and Related Services Agreement;

(iv) the Exclusive Operation Agreement;

(v) the Company's annual report for the financial year ended 31 December ("**FY**") 2024 ("**2024 Annual Report**"); and

(vi) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms and the proposed annual caps for three years ending 31 December 2028 in relation to the Renewed Non-exempt Continuing Connected Transactions, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

A. RENEWED NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms and proposed annual caps in relation to the Renewed Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

The Company is principally engaged in the business of civil aviation.

2. Information of CEA Holding and the Connected Persons

CEA Holding, which is a controlling shareholder of the Company, holding approximately 54.25% equity interests in the Company, and thus a connected person of the Company.

Eastern Air Finance Company is a non-bank finance company approved and regulated by the relevant PRC regulatory authorities including the PBOC and the National Financial Regulatory Administration. Eastern Air Finance Company is principally engaged in providing financial services to the group companies of CEA Holding.

Eastern Air Catering Company is a holding company, and its subsidiaries are mainly engaged in the business of providing catering and related services for airline companies, and have established subsidiaries at various airports located in Yunnan, Shaanxi, Shandong, Jiangsu, Hubei, Zhejiang, Jiangxi, Anhui, Gansu, Hebei, Shanghai, Sichuan and Beijing.

CES Leasing is principally engaged in the provision of leasing and other leasing services, purchase of domestic and foreign finance lease assets, handling salvage value and maintenance of finance lease assets, and provision of advisory services and guarantee for lease transactions, and engaged in commercial factoring related to principal businesses etc.

China Cargo Airlines is principally engaged in international (regional) and domestic air cargo and mail transport services. China Cargo Airlines is the non-wholly owned subsidiary of Eastern Logistics, which in turn is a non-wholly owned subsidiary of CEA Holding (the controlling shareholder of the Company).

3. Provision of deposit services under the Financial Services Agreement

3.1 Reasons for and benefits of the transactions

As set out in the Letter from the Board, through the long-term cooperation between the Company and Eastern Air Finance Entities in respect of deposit services, comprehensive credit line services and other financial services, the transactions under the Financial Services Agreement will satisfy the operational needs of the Company and ensure effective development of the Company's business.

Our comment

As advised by the Management, by entering into the Financial Services Agreement, the Group will be able to enjoy the following advantages:

(i) it will receive interest on its money deposited with the respective Eastern Air Finance Entities at rates which are not less than the relevant rates set by the major domestic commercial banks, with an aim to maximise the Company's returns;

(ii) it is able to obtain comprehensive credit line from the respective Eastern Air Finance Entities at interest rates for loans which are not higher than the relevant rates set by the major domestic commercial banks. In addition, it being treated as a priority client will enable the Company to obtain funds in a prompt and cost-effective manner and reduce its financial expenses;

(iii) it is able to utilise the fund clearing platform services which will help to strengthen the funds management centralisation and increase the utilisation of funds to better meet the Company's operating capital needs since it is familiar with the capital needs of the aviation industry and the Company;

(iv) it is reasonable for the Company to deposit idle cash to Eastern Air Finance Company in consideration for fund security and convenience of fund allocation, which is also in the interest of the Shareholders. With vast number of suppliers of the Company scattered around the world, the Company would engage depository financial institutions that are capable of offering convenience, timeliness and safety when meeting the global demand of cash flow;

(v) the Company expects to increase in earnings due to interest income from the funds deposited by Eastern Air Finance Company; and

(vi) given the Company directly holds 25% of the shares in Eastern Air Finance Company and CEA Holding holds in aggregate the balance of the 75%, Eastern Air Finance Company undertakes that it has higher initiatives to protect the interests of the Company than external entities.

We take note that the Company is not restricted under the Financial Services Agreement to approach, and in fact may choose, any bank or financial institution to satisfy its financial service needs. Its major criteria in selecting the banks or financial institutions for provision of financial services are costs and quality of services. Therefore, the Group may, but is not obliged to, continue to use the Eastern Air Finance Entities' services if the service quality provided by other financial institutions is equally competitive. Furthermore, as a non-bank finance company, Eastern Air Finance Company is regulated by National Financial Regulatory Administration and is required to strictly adhere to the rules and regulations promulgated, giving the Company the trusted assurance of its financial stability and historical track record.

We take cognisant of the fact that given the close relationship between the Group and Eastern Air Finance Company, and the Eastern Air Finance Entities have been providing good quality professional financial services to the Group for over 18 years, the Financial Services Agreement to be entered into with Eastern Air Finance Company not only provides an alternative option for the Group to choose Eastern Air Finance Entities over other independent financial institutions that will result in the Group getting the most competitive terms and services, it also enables the Group to use it as a leverage to bargain for better terms with other financial institutions, which will be beneficial to the Group. With such flexibility accorded to the Company under the Financial Services Agreement, the Group is able to better manage its current capital and cash flow position.

In view of the above, we concur with the Directors that the entering into of the Financial Services Agreement, with the provision of deposit services, is in the interests of the Company and the Shareholders as a whole.

3.2 Principal terms

On 4 July 2025, the Company entered into the Financial Services Agreement with Eastern Air Finance Company in relation to the renewal of the Existing Financial Services Agreement. The major terms of the Financial Services Agreement are as follows:

Parties	:	(i) Easter Air Finance Company; and (ii) the Company
Nature of the transaction	:	(i) deposit services; (ii) comprehensive credit line services; and (iii) other financial services

Duration	:	From 1 January 2026 to 31 December 2028
Pricing	:	*Deposit services*

The deposit interest rate shall be in line with the requirements by the PBOC with regard to that of similar deposits and be determined by the parties by market principles, i.e. the Company and Eastern Air Finance Company will further negotiate on an arm's length basis to determine the deposit interest rate prior to entering into any of the transactions with reference to the quotation by financial institutes that are independent third parties which meets the Company's internal control requirements for similar services in respect of the relevant types and content of the relevant services. The deposit interest rate offered by Eastern Air Finance Company to the Company shall not be lower than that available to the Company from major domestic commercial banks for deposits of same grade in same period.

Comprehensive credit line services

The interest rate for the loan shall be determined based on the Loan Prime Rate, which is released by the National Interbank Funding Center as the designated issuer with the authorisation from the PBOC, by the parties after arm's length negotiations by market principles with reference to the quotation by financial institutes that are independent third parties. The interest rate of the loan granted to the Company by Eastern Air Finance Company shall not be higher than that is available to the Company from other domestic financial institutes for the same amount of loan for the same period.

Other financial services

Eastern Air Finance Company will charge service fees for other financial services, in compliance with the regulations on charging standards, which are publicly available information, formulated by the PBOC or National Financial Regulatory Administration; in addition to the abovementioned requirements, the amount of service fees charged by Eastern Air Finance Company to the Company for its provision of financial services shall not exceed the charging standard for the same services provided by major domestic commercial banks.

Our assessment

We have obtained and reviewed the quotations of the term deposit interest rates obtained by the Company from three (3) independent third party banks for similar term deposits for FY2023, FY2024 and 5 months ended 31 May 2025 ("**5M2025**") and the relevant rates set by the PBOC during the corresponding period. We consider the 3 quotations obtained from independent third party banks are sufficient to determine the fairness and reasonableness of the deposit interest rates as they are the 3 largest state-owned banks in the PRC which we consider provide a representable reference to the Group. We noted that the term deposit rates provided by Eastern Air Finance Entities were no less favourable than those offered by the independent third party banks and are above the relevant rates set by the PBOC in the corresponding period. For FY2023, FY2024 and 5M2025, the tenures of the term deposits offered by the Eastern Air Finance Entities ranged from three months to one year and the corresponding interest rates ranged from 1.1% to 2.0%. With reference to the respective website of the 3 independent third party banks, the interest rates offered by these independent third party banks for similar term deposits ranged from 0.65% to 1.65%, which are identical to the relevant rates set by the PBOC during the corresponding period. We noted that when the Group decided to place deposits with Eastern Air Finance Entities, the actual comparable rates offered by these independent third party banks were less favourable than those offered by Eastern Air Finance Entities. The Group would place deposit with independent third party banks if the rates they offered were better than Eastern Air Finance Entities. Based on the above, we are of the view that deposits placed with Eastern Air Finance Entities in the past have been in compliance with the pricing basis under the Financial Services Agreement.

We have also cross checked all the daily deposit balance of the Company placed with the Eastern Air Finance Entities against the existing annual caps set out in the Existing Financial Services Agreement for the period from 1 January 2023 to 31 May 2025. We considered this full coverage of sample size is sufficient to determine the fairness and reasonableness of the terms of the Financial Services Agreement. We noted that daily deposit balance did not exceed the existing annual caps during such period. Given that the term deposit interest rates under the Financial Services Agreement are no less favourable than those offered by independent third parties, we are of the view that the provision of deposit services under the Financial Services Agreement are on normal commercial terms and are fair and reasonable.

3.3 Annual caps

Set out below are the historical transaction figures for the transactions contemplated under the Existing Financial Services Agreement for FY2023, FY2024 and 5M2025, and the proposed annual caps for the three years ending 31 December 2028:

Table 1: Historical transaction figures and existing and proposed annual caps

RMB million	**Year ended 31 December 2023**	**2024**	**Five months ended 31 May 2025**
Historical maximum daily outstanding deposit balance	13,703	13,975	7,537
Existing annual caps	15,000	16,000	17,000*(Note)*
Utilisation rate (%)	*91.4*	*87.3*	*44.3*

Note: The amount of RMB17,000 million represents the existing annual cap for FY2025.

RMB million	**Proposed annual caps Year ending 31 December 2026**	**2027**	**2028**
Provision of deposit services – maximum daily outstanding balance of deposits contemplated under the Financial Services Agreement	18,500	19,500	20,500

Our assessment

As set out in the above table, the proposed annual caps for the three years ending 31 December 2028 have gradually increased by approximately 5.4% from FY2026 to FY2027, and 5.1% to FY2028, compared to the historical annual cap for FY2025. This is due to the fact that the historical maximum daily outstanding balance for FY2023 and FY2024 have demonstrated a high utilisation rate of the level of existing annual caps, while historical maximum daily outstanding balance for 5M2025 with a utilisation rate of 44% will translate to an estimated annualised utilisation rate reaching 100%.

We discussed with the Management on the basis in determining the proposed annual caps and were advised that the Company has been conducting fund raising exercises from time to time in order to enhance the core competence of the Company's major operations, for instance, expansion of its aircraft fleet and on-going aviation training for its staff and to meet its financing needs. Furthermore, the Management considered that with the need for refinancing maturing debt and raising additional funds, the total financing scale of the Company is expected to continue expanding over the next three years. Funds raised may be temporarily deposited with Eastern Air Finance Company, which could lead to a short-term surge in deposit volume. In addition, the Management explained that the Company will continue to strengthen the centralised collection and management of funds and operating income from its subsidiaries and business units resulting in the demand for deposits expected to increase during FY2026 to FY2028.

Although we note that the Company is not allowed to deposit the proceeds raised from the non-public issuance of A Shares and issuance of corporate bonds on the Shanghai Stock Exchange with Eastern Air Finance Company pursuant to the requirements imposed by the China Securities Regulatory Commission ("**CSRC**"), the Group had conducted other debt issues and will be carrying out further fund raising exercises that would require fund deposit services from Eastern Air Finance Company.

As extracted from the 2024 Annual Report, we set out below the major debt fund raising exercises conducted by the Company where the funds could be placed in the accounts with Eastern Air Finance Entities and not subject to requirements imposed by the CSRC in the past three years:

Table 2: Historical issuance of fixed income instruments by the Company

Year	Fund raising exercise	Amount raised
2022	Issue of three-year medium-term bonds	RMB1.5 billion
2022	Issue of three-year medium-term bonds	RMB2 billion

As advised by the Management, in order to support its expansion plan, the Company may be able to receive funding support from connected parties and expects to continue its financing plans to raise funds in the coming years for working capital and business operations needs by way of issuance of super-short term bonds, medium-term notes, foreign currency debt and other financing tools. The proceeds from the financial instruments could possibly be placed with Eastern Air Finance Company (subject to its terms to be offered to the Company) for a period of time before the Group actually uses the proceeds which, in turn, would trigger a short-term increase in the balance of deposits.

The Company is positioning itself for significant growth by coupling a robust financing strategy with ambitious expansion plans. In addition to the fixed income instrument raised under Table 2, in 2023, the Company raised RMB20 billion in perpetual bonds from CEA Holding; and in 2024, the Company raised RMB5 billion through perpetual bonds from CEA Holding and issued seven tranches of ultra-short-term financing bonds totalling RMB18 billion, target to optimise its asset-liability structure and reducing capital costs. Looking ahead, the Company will continue to issue super-short-term bonds, medium-term notes, and foreign currency debt to maintain liquidity and support its strategic development. As at the Latest Practicable Date, the Company has no concrete plans or intentions to conduct fundraising activities in the next twelve months.

As referred to the 2024 Annual Report, the Company is enhancing its flight network and fleet modernisation, leveraging its dual main hubs in Shanghai and Beijing to expand both domestic and international routes. In 2024, its market share in the Shanghai region reached 42.2%, reflecting a 0.9% year-on-year increase, while the Yangtze River Delta market share grew to 32%. The Company has strengthened its core hub functions by adding express routes such as Beijing to Shanghai, Shanghai to Guangzhou, and Shanghai to Chengdu while capitalising on regional advantages in gateways like Kunming and Xi'an under the Belt and Road initiative. International operations have seen continued momentum, with the airline launching 11 new international routes and establishing 7 express services, restoring international flight operations to 102% of pre-pandemic levels.

Further expansion is underway, with new direct routes connecting Shanghai to key European destinations, reinforcing its presence in the region. The entry into Central Asia, with services linking Xi'an to Tashkent and Tbilisi, marks another strategic diversification. Alongside its route expansion, the Company is modernising its fleet by incorporating fuel-efficient aircraft to optimise operations and reduce environmental impact. Investments in digital transformation, including smart travel solutions and seamless ticketing services, are also shaping its long-term growth strategy. These initiatives align with global industry trends as air travel continues to recover and demand for international flights accelerates. Following a consistent upward trend in passenger revenue and associated operating cash inflows over the past two years, the Management projects that the planned expansion will drive further revenue growth, resulting in increased operating cash inflows for FY2026 to FY2028.

Overall, the Company is committed to leveraging financial stability and operational expansion to reclaim lost capacity from the pandemic while pursuing new markets and enhanced efficiencies.

Having considered (i) the Group's plan to continue its financing plan expansion in the coming years; and (ii) the possible issuance of large-scale financing instruments as evidenced by the past issuances set out in Table 2 above which will trigger a short-term substantial cash inflow to the Group, we consider the basis for determining the proposed annual caps for deposit services under the Financial Services Agreement to be fair and reasonable.

4. Catering and Aircraft On-board Supplies Support Agreement

4.1 Reasons for and benefits of the transactions

As set out in the Letter from the Board, we note that the reasons for and benefits of entering into the Catering and Aircraft On-board Supplies Support Agreement are mainly two-fold as follows:

(i) Eastern Air Catering Company, as a company long been engaged in catering and related business, is currently one of the largest and most professional aviation catering companies in the PRC. It is familiar with professional information such as aviation food production technique, cost composition and industry trends. The centralised procurement of catering and aircraft on-board supplies and the provision of end-to-end services including warehousing, allocation, provisioning, recycling, and cleaning by Eastern Air Catering Company and the centralisation of ownership of supplies can give full play to its professional advantages and providing it with competitive edge in procurement scale, increasing economies of scale and reducing procurement costs, which are all beneficial for the Company. The Company, on the other hand, can implement scientific and refined management on the traceability and inventory management of aircraft on-board supplies, especially those with high-value and high turnover, so as to reduce consumption and waste; and

(ii) Eastern Air Catering Company will be the central point to procure catering and aircraft on-board supplies, operate and control the whole process of storage, allocation, preparation, recycling and cleaning. The customer committee of the Company, as the entrusting party, will be directly in charge of budget management, standard formulation, quality supervision and customer satisfaction surveys for the business of catering and aircraft on-board supplies undertaken by Eastern Air Catering Company. The above arrangement is conducive to the Company's centralised supervision of the source and quality of catering and aircraft on-board supplies, ensuring compliance with the Company's technical standards and quality requirements for catering and aircraft on-board supplies to continuously optimise customer experience. This will also help the Company to quickly respond to market changes and passenger demand, meeting and guiding customer demand more efficiently and quickly to improve passenger satisfaction.

Our comment

As discussed with the Management, the Group has underscored its commitment to enhancing the overall passenger experience by focusing on improvements in its in-flight catering operations. The Company has taken steps to strengthen its in-house catering division, Eastern Air Catering Company, through increased equity investments back in 2021 and operational refinements designed to streamline meal preparation and delivery. These enhancements aim to provide a broader range of high-quality, diversified meal options that meet evolving customer preferences. By bolstering its catering capabilities, the Group is working to ensure a consistently superior dining experience on flights, contributing to its broader strategy of elevated service standards since the industry recovers from the pandemic.

The Company also acknowledged that Eastern Air Catering Company, currently one of the largest aviation catering companies in the PRC, has a long and established history in catering and related business. With the global recognition after winning international awards and being one of the market leaders in the aviation catering industry, Eastern Air Catering Company is poised to be the ideal partner for the Company in providing catering and on-board supplies services since they possess the relevant professional knowledge in terms of aviation-specific matters and industry trends.

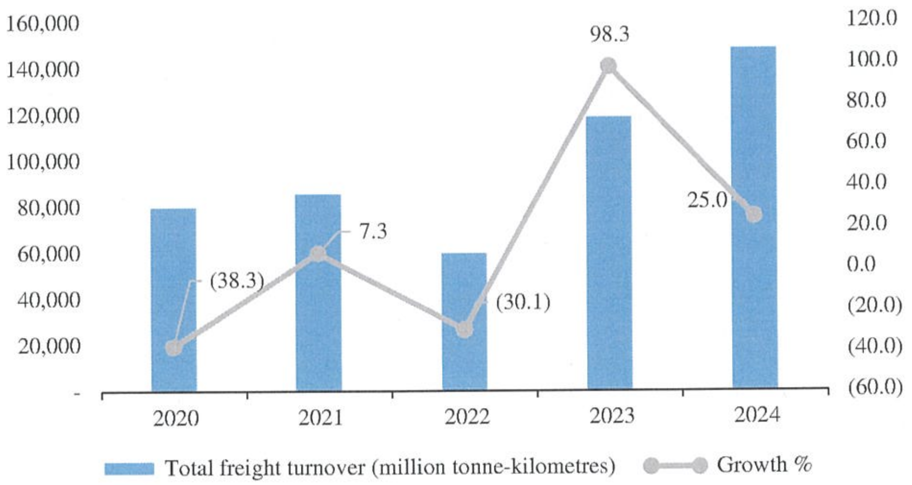
Furthermore, Eastern Air Catering Entities has been providing catering and on-board supplies services to the Group for over 20 years, and has a solid understanding of the Group's culture and operation. The familiarity with the Group's ground and flight operations will enable Eastern Air Catering Entities to provide swift and high-quality catering services as well as aircraft on-board supplies and related services in response to requirements, normal or special, as may be specified from time to time by the relevant member(s) of the Group to accommodate its day-to-day airline and ground operations needs and to cater for its different flight schedules. Besides, the various operating centres of Eastern Air Catering Entities are equipped with advanced facilities and required infrastructure for the provision of catering and related services, and are believed to be able to provide reliable and efficient services.

In view of the factors discussed above, we concur with the Directors that the entering into of the Catering and Aircraft On-board Supplies Support Agreement is in the interests of the Company and the Shareholders as a whole.

4.2 Outlook of the aviation industry

Approximately 80% and 70% of the total revenue of the Group for FY2023 and FY2024 was generated from domestic flights in the PRC respectively. Set out below is the total freight turnover of domestic flights in the PRC as quoted from the Civil Aviation Administration of China ("**CAAC**"), the aviation authority under the State Council of the PRC.

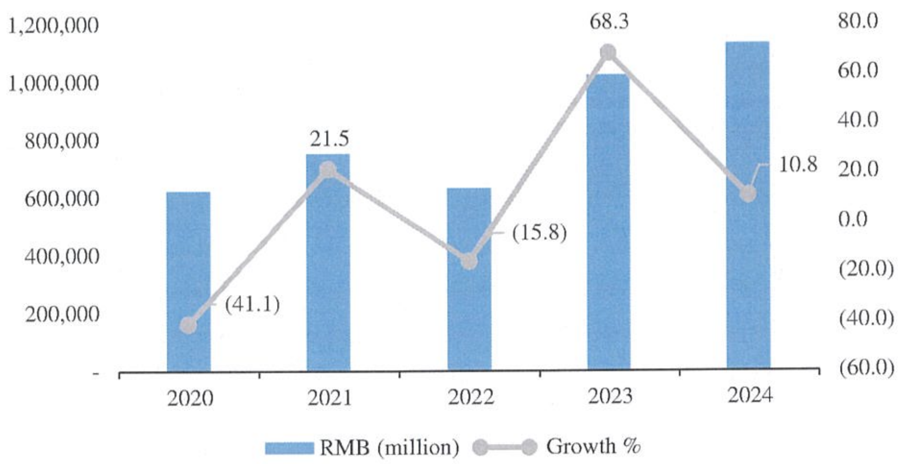
Chart 1: Total freight turnover of domestic flights in China



Source: Civil Aviation Administration of China

As shown in the chart above, total freight turnover of domestic flights in China per year has increased from approximately 79,851 million tonne-kilometres in 2020 to approximately 148,517 million tonne-kilometres in 2024. This growth amounts to a compound annual growth rate ("**CAGR**") of approximately 16.8%, indicating a robust and steady expansion. The remarkable increase reflects a strong post-pandemic recovery, bolstered by thriving e-commerce and significant investments in aviation infrastructure.

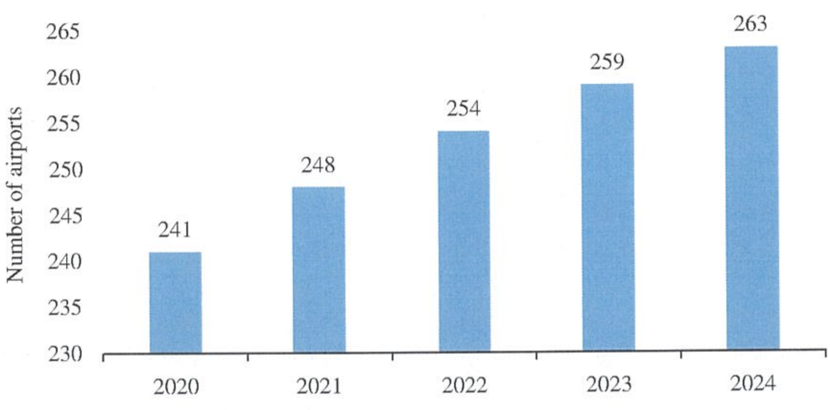
Chart 2: Total revenue of the aviation industry in China



Source: Civil Aviation Administration of China

As shown in the chart above, total revenue of the aviation industry in China has increased from approximately 624,691 million in 2020 to approximately 1,134,150 million in 2024, recording a CAGR of approximately 16.1%. This upward trajectory underscores a resilient industry rebound, driven largely by the easing of travel restrictions post-pandemic and a surge in both domestic and international air travel demand as consumer confidence steadily returns.

Chart 3: Total number of airports in China



Source: Civil Aviation Administration of China

As shown in the chart above, the total number of airports in China has increased from 241 airports in 2020 to 263 airports in 2024, representing a CAGR of approximately 2.2%. This steady climb reflects an overall increasing trend in the aviation sector, illustrating how China's network is continuously expanding to meet growing national and regional connectivity needs. In addition, as part of the 15th Five-Year Plan period, China aims to increase the number of civil transportation airports to about 400 nationwide by 2035. This should be achieved by building more airports in central and western regions and launching new flights or adding frequencies of flights that connect eastern and western China.

According to the 2024 Annual Report, the PRC Government has played a critical role in the recovery and development of its civil aviation industry. The Government has implemented policies to strengthen domestic demand, promote high-level opening-up of civil aviation industry and improve infrastructure. In 2024, China's aviation sector achieved a major milestone with air passenger numbers exceeding 730 million, marking a full recovery that now surpasses pre-pandemic levels. Moreover, initiatives supporting environmental sustainability, technological innovation, and infrastructure development are expected to drive further growth.

Despite persistent challenges such as supply chain disruptions and geopolitical uncertainties, the aviation industry demonstrated robust recovery in 2024. According to the 2025 Annual Review published ("**IATA 25 Annual Review**") by the International Air Transport Association ("**IATA**"), global passenger traffic surged by 10.6% in 2024, while airlines delivered a combined net profit of USD32.4 billion. Revenue passenger kilometers ("**RPK**") reached record levels, with improved load factors approaching an all-time high of 83.5%. Asia Pacific is the largest market in terms of RPK, with China accounting for over 40% of the traffic. Notably, the domestic market in China saw domestic RPK increase by 12.3% in 2024, reflecting strong consumer confidence and robust economic momentum.

In the first quarter of 2025, passenger traffic increased by 5.3% year-on-year ("**YoY**"), reaching 2.16 trillion RPK, according to the Quarterly Air Transport Chartbook 2025 ("**2025 Q1 Chartbook**") published by IATA. Asia-Pacific carriers remained the leading contributors to global passenger traffic growth in Q1 2025, with an 8.9% YoY increase, accounting for nearly 60% of the total global increase. The strong performance was supported by solid gains in domestic markets, where domestic demand in China expanded by 2.7% YoY. These developments underscore a resilient and adaptive aviation industry poised to meet future challenges while capitalising on emerging growth opportunities.

The joint Passenger Traffic Report released by Airports Council International World and the International Civil Aviation Organization forecasts global passenger traffic to exceed 12 billion by 2030, driven by growth in international markets, particularly in the Asia-Pacific. By 2042, global passenger traffic is projected to reach 19.5 billion, representing a two-fold increase compared to 2024 levels. The report highlights the continued strong growth in emerging markets, driven by a rising middle class, increasing demand for air travel and investments in airport infrastructure in these regions, which will play a key role in supporting this expansion.

In light of these promising indicators, the aviation industry is not only returning to robust growth but is also poised for transformative expansion despite on-going global challenges. The domestic rebound in the PRC underscores the sector's resilience and its strategic capacity to seize emerging opportunities while effectively navigating future uncertainties.

4.3 Principal terms

On 4 July 2025, the Company entered into Catering and Aircraft On-board Supplies Support Agreement with Eastern Air Catering Company in relation to the renewal of the Existing Catering and Aircraft On-board Supplies Support Agreement. The major terms of the Catering and Aircraft On-board Supplies Support Agreement are as follows:

Parties	:	(i) Eastern Air Catering Company; and (ii) the Company
Term	:	The Catering and Aircraft On-board Supplies Support Agreement will be effective for a term of three years commencing from 1 January 2026 to 31 December 2028. With effect from 1 January 2026, the Existing Catering and Aircraft On-board Supplies Support Agreement will be terminated.
Service Scope	:	Eastern Air Catering Company, as the supplier of all catering and aircraft on-board supplies of the Company, shall provide the Company with catering, aircraft on-board supplies support and related services, including: (1) being responsible for the procurement and management of the third-party catering, aircraft on-board supplies support and related services required for air transport of the Company ("**Catering and On-board Supplies Services**"). Eastern Air Catering Company will procure certain aircraft on-board supplies and information system maintenance services from the Company's subsidiaries for the purpose of carrying out such aircraft on-board supplies support and related services; and

(2) providing the Company with property leasing services, mainly by way of offsetting rent with construction costs ("**Arrangement of Offsetting Rent with Construction Costs with the Company as the Lessee**"), that is, the Company (as the lessee) shall lease lands and buildings owned by Eastern Air Catering Entities (as the lessor), and shall construct buildings and structures on lands leased from Eastern Air Catering Entities.

At the same time, the Company shall provide Eastern Air Catering Entities with property leasing services, mainly by way of offsetting rent with construction costs ("**Arrangement of Offsetting Rent with Construction Costs with the Company as the Lessor**"), that is, Eastern Air Catering Entities (as the lessee) shall lease lands and buildings owned by the Company (as the lessor), and shall construct buildings and structures on lands leased from the Company.

Pricing principles : The pricing and/or fee scale for the catering, aircraft on-board supplies support and related services under the Catering and Aircraft On-board Supplies Support Agreement shall be determined with reference to the market price and as agreed after arm's length negotiations between the parties. "Market price" refers to the price determined independently by the operators via market competition. Taking into account the factors such as cost of raw materials and labour cost (if any), market price is determined in the following order: (i) the price charged by independent third parties at such time in the ordinary and normal course of business for such catering, aircraft on-board supplies support and related services in the area where such services are provided or nearby area; or (ii) the price charged by independent third parties at such time in the ordinary and normal course of business for such catering, aircraft on-board supplies support and related services within the territory of the PRC.

The pricing and/or fee scale for the property leasing services under the Catering and Aircraft On-board Supplies Support Agreement shall be determined with reference to the market price and as agreed after arm's length negotiations between the parties. For the arrangement of offsetting rent with construction costs, the annual rent and fee of the Company payable to or receivable from Eastern Air Catering Entities shall be determined based on the current market price offered by independent third parties under comparable circumstances. The annual rent and fee shall be determined based on arm's length negotiations after considering factors such as the quality of service and the location of properties, and for the Group, it shall be no less favourable than those offered to or by independent third parties under comparable circumstances.

The parties will check the price and terms offered by independent third parties for the same type of catering, aircraft on-board supplies support and related services (in general, through emails, fax or telephone consultation with at least two independent third parties to obtain the price and terms offered for catering, aircraft on-board supplies support and related services).

The pricing and/or fee scale for the catering, aircraft on-board supplies support and related services provided by Eastern Air Catering Company to the Company shall not be higher than those offered by Eastern Air Catering Company to independent third parties at such time in the ordinary and normal course of business for the same type of catering, aircraft on-board supplies support and related services.

The Company shall assess the status of completion of the catering, aircraft on-board supplies support and related services provided by Eastern Air Catering Company during the year. According to the results of assessment, prior to 31 December of each year, the parties should enter into a specific business agreement regarding the method of settlement and evaluation plan for the next fiscal year. Where the parties fail to enter into a specific business agreement within the above-mentioned period, the method of settlement of the current year shall be applied to the next fiscal year.

Method of settlement	: The payment for the catering, aircraft on-board supplies support and related services shall be settled periodically according to the method agreed in the specific business contracts between the parties, including but not limited to the matters such as settlement cycle and means of settlement. The Company will settle the payment correspondingly upon assessment. In respect of the Arrangement of Offsetting Rent with Construction Costs with the Company as the Lessee under the Catering and Aircraft On-board Supplies Support Agreement, the Company shall pay rentals directly to Eastern Air Catering Entities, and the payment of rentals by the Company to Eastern Air Catering Entities shall be deemed to have fulfilled the payment obligations. The Company shall pay leasing rentals in such manner and at such time as per the leasing agreement actually signed by both parties and/or as agreed in relevant service agreements on arrangement of offsetting rent with construction costs. In respect of the Arrangement of Offsetting Rent with Construction Costs with the Company as the Lessor under the Catering and Aircraft On-board Supplies Support Agreement, Eastern Air Catering Entities shall pay rentals directly to the Company, and the payment of rentals by Eastern Air Catering Entities to the Company shall be deemed to have fulfilled the payment obligations. Eastern Air Catering Entities shall pay leasing rentals in such manner and at such time as per the leasing agreement actually signed by both parties and/or as agreed in relevant service agreements on arrangement of offsetting rent with construction costs.

Our assessment

The pricing basis adopted in the Catering and Aircraft On-board Supplies Support Agreement is identical to that adopted in the Existing Catering and Aircraft On-board Supplies Support Agreement. We have obtained and reviewed a total of 4 transaction documents entered into by the Company with Eastern Air Catering Entities under the Existing Catering and Aircraft On-board Supplies Support Agreement (the "**Connected Catering Services Samples**"). Such 4 transaction documents represent all the individual agreements entered into between the Company and Eastern Air Catering Company under the Existing Catering and Aircraft On-board Supplies Support Agreement. We noted that the Company has not entered into any contracts with independent third parties with similar contract nature since 2021 as the Company has made Eastern Air Catering Company the focal point to undertake centralised procurement of catering and airport supplies, which is in line with the rationale stated for entering into the Catering and Aircraft On-board Supplies Support Agreement. In order to assess whether the pricing basis of Connected Catering Services Samples are entered into according to the terms of the Existing Catering and Aircraft On-board Supplies Support Agreement, we have obtained and reviewed the document showing that the prices offered to the Company by Eastern Air Catering Company was no less favourable than those provided to the independent third parties by Eastern Air Catering Company.

As stated in the Letter from the Board, the Company shall assess the status of completion of the Catering and On-board Supplies Services provided by Eastern Air Catering Entities during the year. According to the results of assessment, prior to 31 December of each year, the parties should enter into a specific business agreement regarding the method of settlement and evaluation plan for the next fiscal year. Where the parties fail to enter into a specific business agreement within the above-mentioned period, the method of settlement of the current year shall be applied to the next fiscal year.

The payment for the Catering and On-board Supplies Services shall be settled according to the method agreed in the specific business contract between the parties, including but not limited to the settlement cycle and means of settlement. The Company will settle the payment correspondingly upon assessment.

In view of the above, we concur with the Management's view that the pricing basis in respect of the Catering and Aircraft On-board Supplies Support Services are determined with reference to the market price and the payment terms in respect of the Catering and Aircraft On-board Supplies Support Services have been assessed based on the status of completion. Therefore, the pricing basis and payment terms are on normal commercial terms, fair and reasonable.

4.4 Annual caps

Set out below are the historical transaction figures for the Catering and On-board Supplies Services contemplated under the Existing Catering and Aircraft On-board Supplies Support Agreement for FY2023, FY2024 and 5M2025, and the proposed annual caps for the three years ending 31 December 2028:

Table 3: Historical transaction figures and existing and proposed annual caps

	Year ended 31 December		**Five months ended 31 May**
RMB million	**2023**	**2024**	**2025**
Catering related services and aircraft on-board supplies support related services	2,393	3,161	882
Existing annual caps	4,000	4,400	4,840 *(Note)*
Utilisation rate (%)	*59.8*	*71.8*	*18.2*

Note: The amount of RMB4,840 million represents the existing annual cap for FY2025.

	Proposed annual caps Year ending 31 December		
RMB million	**2026**	**2027**	**2028**
Catering related services and aircraft on-board supplies support related services	4,200	4,800	5,500

Basis of determination of the proposed annual caps

The proposed annual caps are determined primarily based on the following factors:

(i) There is a strong positive correlation between the Company's catering business volume and its core business metrics, including passenger traffic, number of flights, and catering pricing. Based on the current business development trend, it is expected that over the next three years, Eastern Air Catering Company's catering business will closely follow the Company's growth and achieve steady growth; and

(ii) the annual growth rate of transactions contemplated under the Catering and Aircraft On-board Supplies Support Agreement from 2026 to 2028 after considering the Company's projected average annual growth rate.

Our assessment

We have reviewed the historical transaction amounts and the relevant annual caps under the Existing Catering and Aircraft On-board Supplies Support Agreement in relation to the Catering and On-board Supplies Services for FY2023, FY2024 and 5M2025.

We note from the table above that the historical transaction amounts in respect of service fees paid by the Group to Eastern Air Catering Entities for Catering and On-board Supplies Services for FY2023 and FY2024 represented reasonable utilisation rates of 59.8% and 71.8% of the annual caps respectively. This was mainly attributable to increased flight volumes and expanded route networks.

We noted that, nonetheless the historical transaction amount for 5M2025 registered a utilisation rate of 18.2% of the annual cap and represented an estimated annualised utilisation rate of 43.7%. As advised by the Management, this was mainly attributable to the pronounced seasonality of travel demand in the PRC, which traditionally peaks in the second half of the year and the existing annual cap were established on an optimistic, post-COVID recovery projection.

As advised by the Management, the existing annual cap incorporated optimistic recovery assumptions for FY2023 to FY2025, drawing on pre-pandemic growth trends and anticipated rebound effects. Accordingly, the Company has recalculated the proposed annual caps for FY2026 to FY2028 based on historical transaction data from FY2023 to 5M2025. Nonetheless, aligned with the aviation industry's positive outlook, the Management estimated an 8% average annual expansion for the Company during FY2026 to FY2028. This growth trajectory is expected to drive a 14.5% YoY increase in the proposed annual caps.

At present, most of the catering related services business of the Company is undertaken by the Eastern Air Catering Entities (excluding overseas catering services). Recent data of the civil aviation sector in China as stated in the section headed "4.2 Outlook of the aviation industry" reveals that the aviation industry is not only returning to robust growth, but is also positioned for transformative expansion despite on-going global challenges. In 2024, China's aviation sector achieved a major milestone with air passenger numbers exceeding 730 million, and it is expected that global passenger travel will soon return to pre-pandemic levels and expand substantially over the next two decades.

Based on the 2024 Annual Report, the Company' recovery from the pandemic is underscored by a significant boost in both its passenger volume and fleet modernisation. In 2024, the Group served 141 million passengers, a marked improvement of 21.58% YoY; while its modernised fleet expanded to 804 passenger aircraft with an average age of 9.2 years. These developments have enabled the Group to optimise its air network, with international flight operations now recovering to 102% of 2019 levels through the launch of 11 new international routes and additional express services. In parallel, rising passenger numbers have driven a 41.23% YoY increase in catering supply expenses, reflecting the heightened demand for enhanced on-board services. Coupled with a stable macroeconomic environment, which is evidenced by a 5% gross domestic product (GDP) growth in the PRC in 2024, these strategic initiatives position the Group well to accelerate its return to pre-pandemic capacity and sustain long-term operational growth.

We noted that there may be a material reliance of the Company on the Eastern Air Catering Entities in respect of the catering related services, in the event the catering related services are all undertaken by the Eastern Air Catering Entities. However, pursuant to the Catering and Aircraft On-board Supplies Support Agreement, the Company will only select Eastern Air Catering Entities as its service provider if the terms offered are no less favourable than those offered by independent third parties under comparable circumstances.

Having considered the above and the factors discussed under paragraph headed "4.1 Reasons for and benefits of the transactions", we are of the view that, as long as the terms offered by the Eastern Air Catering Entities, as a service provider, are no less favourable than those offered by independent third parties which the Group has carefully considered in accordance to the pricing principles of the Catering and Aircraft On-board Supplies Support Agreement and adhered strictly to the internal control procedures in the selection process, it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In view of the above factors such as the historical transaction amounts; the strong positive correlation between the Company's catering business volume and its core business metrics and the new flight routes that will boost passengers travel; and new business route to be carried out by Eastern Air Catering Company coupled with the expected gross domestic product of 5% in the PRC in 2025, we consider the basis of determination and the proposed annual caps for the Catering and On-board Supplies Services for the three years ending 31 December 2028 to be fair and reasonable.

5. *Aircraft and Engines Lease and Related Services Agreement*

5.1 Reasons for and benefits of the transactions

As set out in the Letter from the Board, the Company has long been co-operating well with CES Leasing in aircraft finance leasing and operating leasing business. This continuing connected transaction satisfies the Company's needs in operation.

The Company has undertaken to conduct aircraft and engines leasing transactions with CES Leasing via a combination of finance lease and/or operating lease under the Existing Aircraft and Engines Lease Agreement.

Our comment

5.1.1 On finance leasing

We understand from the Company that its decision in whether selecting CES Leasing for the finance lease of a leased aircraft, upon reviewing and evaluating financial proposals submitted by independent commercial banks and the designated financial institutions, will largely depend on: (i) the stability of CES Leasing's operation, its established track record and ability in arranging large-scale aircraft finance lease transactions; (ii) the competitive and attractive terms offered by CES Leasing in its financing proposal over financing proposals received from external financial institutions through requests for proposals or other bidding processes; and (iii) the ability of CES Leasing to issue value added tax special invoices for the interest element in a finance lease for tax deduction purpose and being able to offer competitive arrangement fee, which helps the Company reduce the overall leasing costs on its aircrafts.

As advised by the Management, the Group has explored alternative financing options for the introduction of aircraft including direct purchase, equity and debt financing or making a direct borrowing arrangement with some commercial banks. The entering into of the Aircraft and Engines Lease and Related Services Agreement has advantages over other financing alternatives due to tax saving and lower financing costs.

Under the Existing Aircraft and Engines Lease Agreement, the Company introduced 14 aircraft in 2024 by adopting the finance lease arrangement provided by CES Leasing and saved financing costs of approximately USD6.25 million in FY2024 when compared to adopting secured loans arrangements with equivalent interest rates. CES Leasing is able to issue VAT invoice with a tax rate of 13% with respect to the interest element of the finance lease for the purpose of offsetting VAT payable by the Company. The financing cost saved through finance lease arrangement was calculated based on the amount offset from interest (tax inclusive) as per VAT invoices. The Management further estimates that the Group could save financing costs to the tune of approximately USD60.50 million, USD105.28 million and USD61.67 million for each of the three financial years ending 31 December 2028, respectively when compared to obtaining mortgage loans with the same interest rates.

As advised by the Management, CES Leasing has incorporated wholly-owned subsidiaries in the Pilot Free Trade Zone and Bonded Zone of the PRC for the purpose of acting as the lessor(s) in the finance lease arrangement. The lessor(s), who may act as the borrower(s), will sign loan agreement(s) with the Designated Financial Institutions, acting as the lender(s), in respect of each of the leased aircraft. Such arrangement can facilitate CES Leasing to issue invoices for the interest portion of finance lease, which in turn enable the Company to deduct VAT.

The Management further advised that it is a common practice for airline operators to enter into finance leases for introduction of aircrafts. We have reviewed the annual reports, announcements and circulars published by airline operators listed on the Hong Kong Stock Exchange and noted that Air China Limited (stock code: 753.HK) ("**Air China**") and China Southern Airlines Company Limited (stock code: 1055.HK) have also entered into similar aircraft finance leases with their connected persons.

Under the Existing Aircraft and Engines Lease Agreement, we note that there was a mechanism put in place by the Group that places a restriction on the number of aircrafts leasing transactions between the Company and CES Leasing during FY2023 to FY2025, where the maximum amount of aircrafts leasing transactions between the Company and CES Leasing shall not exceed half of the aggregate amount of the additional aircraft in each year (excluding aircraft/engines for which purchase and sale agreements were signed in prior years but the delivery was delayed) (the "**50% Restriction**") in the Existing Aircraft and Engines Lease Agreement. With effect from FY2026, the Group has lifted the 50% Restriction in the Aircraft and Engines Lease and Related Services Agreement and CES Leasing may therefore participate in aircraft-leasing transactions up to the proposed annual caps.

As advised by the Management, the removal of the 50% Restriction provides the Company the additional flexibility in conducting transactions with CES Leasing while remaining within the restricted annual cap limits. The Company considers that the 50% Restriction prevented the Company from securing the best possible outcomes in aircraft and engines leasing transactions, and therefore removed the 50% Restriction in order to enhance the Company's flexibility and to maximise its benefits in such transactions with CES Leasing. Historically, the Group instituted a mechanism whereby the maximum aircraft leasing transactions between the Company and CES Leasing were capped at 50% of the aggregate additional aircraft per year, excluding those aircraft or engines tied to prior purchase and sale agreements with delayed delivery. This 50% Restriction has constrained the Company's ability to secure optimal commercial terms and minimise comprehensive financing costs, particularly when CES Leasing offers competitive pricing. This was encountered by the Company particularly in FY2024 when the Company could not accept the more favourable and competitive financing terms offered by CES Leasing compared to other independent third party leasing providers due to the 50% Restriction. Given that the annual cap already serves as a safeguard against excessive exposure, the Company maintains ample latitude in managing its leasing arrangements, while ensuring all activities remain in compliance with the applicable Hong Kong Listing Rules requirements.

From our discussion with the Management, the Company plans to add new aircraft with a total financing amount estimated between USD25 billion to USD26 billion for the remainder of FY2025. While the current existing transactions only reached nearly 50% of the annual cap for FY2025, should the existing 50% Restriction remain in place, the Company will not be able to accept the competitive offers from CES Leasing for its leasing transactions for the rest of FY2025, even though it has not fully utilised the existing annual cap. This, in turn, strengthens the argument for removing the 50% Restriction, as doing so would unlock greater transactional flexibility and enable the Company to capitalise on competitive leasing opportunities in FY2025.

5.1.2 On operating leasing

As set out in the Letter from the Board, CES Leasing is qualified to carry out aircraft leasing business and sale of aircraft and engines business and has relatively strong capital strength and stable operation. The Company will select CES Leasing as its operating lease services provider only if CES Leasing is able to offer competitive terms in rental level and provide flexibility in lease termination compared to other bidding companies. As such, the operating lease arrangement is beneficial for optimising the management of the Group's corporate assets and aircrafts, as well as reducing its capital pressure.

Similar to finance leasing arrangement, the Management advised that the selection of suppliers for provision of aircraft and aircraft engine operating leasing arrangement are conducted through requests for proposals or other bidding processes where the criteria for the Company to select its suppliers includes: (i) operation stability, capability and capacity to enter into aircraft and engines operating leasing transactions; and (ii) the terms of the operating leasing plans that are most favourable to the Company. CES Leasing would only be selected if the terms of its proposal are more competitive amongst all the submitted proposals.

We are further advised by the Management that it is a common practice for airline operators to enter into aircraft operating leases to introduce new aircrafts. We have reviewed the annual reports, announcements and circulars published by airline operators listed on the Hong Kong Stock Exchange and noted that Air China, Cathay Pacific Airways Limited (stock code: 293.HK) and China Southern Airlines Company Limited (stock code: 1055.HK) have certain number of aircrafts held under operating lease.

Given that (i) the Group will only select CES Leasing for the finance and/or operating lease of the leased aircraft when CES Leasing meets all the selection criteria as mentioned above; (ii) the Group will be able to enjoy the financial benefits including tax and cost savings under the Aircraft and Engines Lease and Related Services Agreement in the coming years; and (iii) using finance and/or operating lease arrangement for newly introduced aircrafts is a common financing method in the aviation industry, we consider that the entering into of the Aircraft and Engines Lease and Related Services Agreement is in line with the market practice and is in the interests of the Company and the Shareholders as a whole.

5.2 Principal terms

On 4 July 2025, the Company entered into the Aircraft and Engines Lease and Related Services Agreement with CES Leasing to jointly renew the aircraft and engine finance lease and operating lease on substantially the same terms with reference to the transaction practices of the Previous Aircraft and Aircraft Engines Leasing Transactions between the parties over a number of years, and included the aircraft and engine sales based on the Company's future business need.

The major terms of the aircraft and/or engine finance lease and operating lease under the Aircraft and Engines Lease and Related Services Agreement are as follows:

The major terms of the aircraft finance lease

Lessor(s)	:	CES Leasing Entities
Lessee	:	the Company and its subsidiaries
Aircraft under the Proposed Finance Lease	:	The leased aircraft comprises part of the aircraft in the Company's aircraft introduction plan for the years 2026 to 2028 which will be disclosed annually and subject to adjustment from time to time. The Company has signed or will sign aircraft purchase agreements in batches with the Aircraft Manufacturer(s) in relation to the leased aircraft, which agreements have been or will be negotiated and agreed independently and separately, and has obtained or will obtain approvals from the Board and the Shareholders and has complied or will comply with the disclosure requirements in accordance with relevant laws and regulations. In the event that the Company introduces any of the leased aircraft before the Aircraft and Engines Lease and Related Services Agreement is approved by the Independent Shareholders at the EGM, the Company shall pay to the Aircraft Manufacturer(s) the relevant purchase price of the Existing Aircraft according to the respective financing arrangement(s). After the Aircraft and Engines Lease and Related Services Agreement is approved by the Independent Shareholders at the EGM, the Company will enter into the relevant aircraft purchase agreements in relation to each of the Existing Aircraft with the Lessor(s) to transfer the ownership of the Existing Aircraft to the Lessor(s) in accordance with the relevant lease amount (which shall not be more than 100% of the purchase price of the relevant Existing Aircraft).
Aggregate principal amount of the finance leases	:	not more than 100% of the consideration for the purchase of the leased aircraft

Rental fee/Interest rate	:	The rental fee is the repayment of the principal amount for the leased aircraft and the interest under the Proposed Finance Lease, which will be determined through requests for proposals issued by the Company or through other bidding processes (which will comprise of at least two other proposals from independent third parties), and will be negotiated and determined between the Company, CES Leasing and the Designated Financial Institutions. Under the Proposed Finance Lease, the interest rate will be further determined and agreed with reference to the results of the Company's requests for proposals or other bidding processes in respect of financing of the aircraft and engines. The finance leasing proposal(s) provided by CES Leasing in relation to the finance leasing services should have competitive advantages over other service provider, including but not limited to, the comprehensive costs (including the relevant rental fee plus handling fee and deduct other costs which would be saved according to favourable condition such as deductible VAT) of the proposal(s) regarding the finance leasing services offered by CES Leasing shall not be higher than those offered by at least two other independent third parties. If such approach is not applicable, the rental fee and other terms shall be determined by both parties after arm's length negotiation and the comprehensive costs of such proposal shall not be higher than the comprehensive costs of the same finance leasing structure for the same category of equipment during the same period. In addition, the comprehensive costs provided by CES Leasing to the Company shall not be higher than (i) the comprehensive costs of the same type of transaction carried out by the Company during the relevant period, or (ii) the comprehensive costs provided by other independent third parties quotations.

Bank Loans	: Under the Proposed Finance Lease, if the Designated Financial Institutions provide Bank Loans to the Lessor(s), the principal amount of which will be not more than the principal amount of each individual Aircraft Finance Lease Agreement. The material rights and obligations (including the right to obtain delivery of aircraft, the obligation to pay consideration, etc.) of the Company as a purchaser under the relevant aircraft sale and purchase agreement(s) will be transferred to the Lessor(s). If the Designated Financial Institutions provide the Bank Loans, the leased aircraft will be mortgaged to the Designated Financial Institutions as security for the Bank Loans according to the loan agreements to be entered into between the Lessor(s) and the Designated Financial Institutions in due course.
Arrangement fee	: The respective arrangement fee, a one-time fee charged by the Lessor(s) for organising and structuring the transaction, which is no more than 1% of the principal amount for each of the leased aircraft shall be paid by the Company to the Lessor or CES Leasing pursuant to the terms of the specific leasing agreement (if any).
Buy-back	: Upon the expiry of the lease term of each of the leased aircraft, the Company is entitled to purchase each relevant aircraft back from the Lessor(s) at a nominal purchase price of RMB/USD (depending on the financing currency) 1 per aircraft.

Payment terms	:	The financing amount is agreed by the parties. In respect of the Existing Aircraft, the financing amount will be paid directly to the Company. In respect of the Additional Aircraft, the financing amount will be paid directly to manufacturers of the Additional Aircraft by the financier on the Delivery Date of the Additional Aircraft. The actual financing amount of each aircraft will be adjusted and determined based on the actual delivery price of the aircraft. The rental fee, of which the principal portion is measured according to the equal-principal (equal instalment principal and corresponding interests incurred by the remaining principal), average-capital-plus-interests (average instalment for all the principal and interests) standard or other principles agreed by the parties, is payable quarterly or semi-annually in arrears, commencing from the Delivery Date. Lessor(s) will issue VAT special invoices to the lessee according to the relevant national laws and regulations. By adopting the equal-principal standard, the principal to be paid by the Lessee(s) in each period remain constant throughout the entire repayment period with a gradually decreasing interests to be paid towards the end of the repayment period. By adopting the average-principal-plus-interests standard, the principal and interests to be repaid by the Lessee(s) in each period are constant throughout the entire repayment period, such that with the passage of time the principal to be paid by the Lessee(s) will be increasing while the interests to be paid by the Lessee(s) will be decreasing. The rental fee and other expenses will be paid by the Company to the designed bank account of Lessor(s) on the respective rent payment dates and the payment date of other expenses (if it is different from the rent payment date) under the lease agreements.

The major terms of the aircraft and aircraft engine operating lease

Parties	:	(i) CES Leasing Entities (ii) the Company
Subjects to be leased	:	aircraft and aircraft engines
Term of lease	:	During the period between 1 January 2026 and 31 December 2028 by CES Leasing Entities, the term of each of the lease agreements (the "**Operating Lease Agreements**") shall be determined by both parties after arm's length negotiation and shall commence from the Delivery Date for each leasing of the aircraft and aircraft engines by CES Leasing Entities (as the lessor(s)) to the Group (as the lessee(s)).
Rental fee and other lease-related payments	:	The operating leasing proposal(s) provided by CES Leasing in relation to the operating leasing services should have competitive advantages over other service provider, including but not limited to, the comprehensive costs (including the relevant rental fee plus maintenance cost and any other charges) of the proposal(s) regarding the operating leasing services offered by CES Leasing shall not be higher than those offered by at least two other independent third parties. The other service providers will be evaluated using various selection criteria, including but not limited to registered capital, capital adequacy, risk and customer concentration and credit rating, to ensure that the selection process is fair and reasonable. Pursuant to the Aircraft and Engines Lease and Related Services Agreement, the rental fee for leasing of the aircraft and engines is determined after (i) inviting bidding offers by way of public tender; and (ii) taking into consideration the prevailing market rate for aircraft lease transactions of comparable nature. The Company will invite bidding offers by requesting lease proposal from CES Leasing and two other independent third parties who have been long-term business partners of the Group. If such approach is not applicable, the rental fee and other terms shall be determined by both parties after arm's length negotiation after taking into account certain factors including the lease terms, the feature of the leasing subject and the comparable market rental prices, and the comprehensive costs of such proposal shall not be higher than the comprehensive costs of the same finance leasing structure for the same category of equipment during the same period. The rental is payable by the Group quarterly or monthly (or at another frequency mutually agreed upon by both parties) in arrears.

The lease period of the aircraft will be agreed upon entering into the Aircraft Finance Lease Agreements and/or the Operating Lease Agreements. Based on previous similar transactions, it is expected that the lease period of the aircraft under the Aircraft and Engines Lease and Related Services Agreement would exceed 3 years in respect of finance lease and operating lease.

5.2.1 On finance leasing

Pursuant to the Aircraft and Engines Lease and Related Services Agreement, the total fee (consisting mainly of rental fee) will be determined through requests for proposals issued by the Company or through other bidding processes (which will comprise of at least two other proposals from independent third parties), and will be negotiated and determined between the Company, CES Leasing and the Designated Financial Institutions. We have reviewed the announcements and circulars published by other airline operators listed on the Hong Kong Stock Exchange regarding the aircraft finance lease entered into with their connected persons, and noted that Air China, Cathay Pacific Airways Limited (stock code: 293.HK) and China Southern Airlines Company Limited (stock code: 1055.HK) also adopt similar procedures in selecting the parties for providing the aircraft finance lease services.

We have obtained and reviewed all approval documents for entering into the Aircraft Finance Lease Agreements during FY2024 to 5M2025 showing the terms offered by CES Leasing and other independent third parties. The approval documents covered all aircrafts in which the Group entered into the finance lease arrangement with CES Leasing under the Existing Aircraft and Engines Lease Agreement. We considered this sample size coverage of all approval documents is sufficient to determine the fairness and reasonableness of the terms of the Aircraft Finance Lease Agreement. We noted from the approval documents that the Company's selection criteria included comprehensive financing cost structure, total amount financing framework and VAT benefit optimisation.

We noted that CES Leasing was selected based on its competitive and attractive terms in its financing proposal and its capability to issue VAT invoices. As advised by the Management, CES Leasing operates through wholly-owned subsidiaries in PRC Pilot Free Trade and Bonded Zones, enabling it to issue VAT invoices at 13% for finance lease interest components. This capability allows the Company to recover input VAT, generating a competitive cost advantage versus secured loans at equivalent interest rates. The financing cost savings directly support total financing costs with USD6.25 million savings in FY2024.

We also note that the interest rate under the Aircraft and Engines Lease and Related Services Agreement would be determined with reference to benchmark lending rate for one year and/or five years or above issued by the PBOC with appropriate adjustments accommodating market fluctuation. We have reviewed circulars published by other airline operators listed on the Hong Kong Stock Exchange and noted that China Southern Airlines Company Limited (stock code: 1055.HK) and Air China have also adopted the benchmark lending rate for five years or above issued by the PBOC to arrive at their proposed caps.

As spoken to the Management, the nominal buy-back fee to be paid by the Group under the Aircraft and Engines Lease and Related Services Agreement is expected to be RMB1 per aircraft. We have reviewed circulars published by other airline operators listed on the Hong Kong Stock Exchange, and noted that the nominal buy-back fee to be paid by the Group falls within the range of the nominal buy-back fee of the other airline operators. The buy-back fee for Air China is RMB1 and China Southern Airlines Company Limited (stock code: 1055.HK) is at a nominal purchase price respectively.

We have obtained, on a random basis, a total of 10 aircraft finance leases entered into between the Group and independent third parties during the period from FY2024 to 5M2025. We have reviewed the information on payment terms of aircraft finance leases entered into between the Group and independent third parties, and noted that the payment terms under the previous aircraft finance lease agreements entered into with CES Leasing are similar to those offered by the independent third parties, where the equal-principal standard was adopted and the rental fee is payable by the Group quarterly in arrears. We considered a sample size coverage of over 50% is sufficient to determine the fairness and reasonableness of payment terms of aircraft finance leases.

In respect of finance lease transactions under the Aircraft and Engines Lease and Related Services Agreement, (i) it is a common practice to adopt requests for proposals or other bidding processes to select the parties to provide the aircraft finance lease services; (ii) CES Leasing would only be selected if its proposal, from the Group's perspective, has competitive advantages over all the submitted proposals; (iii) it is not uncommon for airline operators to adopt benchmark lending rate for above one year and/or five years issued by PBOC for aircraft finance lease; (iv) the nominal buy-back fee under the Aircraft Finance Lease Agreement is expected to fall within the range of nominal buy-back fee of other airline operators listed on the Hong Kong Stock Exchange; and (v) the payment terms under the previous aircraft finance lease agreement entered into with CES Leasing are similar to those offered by independent third parties.

Having consider the above, we are of the view that the terms offered under finance lease transactions under the Aircraft and Engines Lease and Related Services Agreement are, no less favourable than those offered by independent third parties and adhered strictly to the internal control procedures in the selection process, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

5.2.2 On operating leasing

Pursuant to the Aircraft and Engines Lease and Related Services Agreement, the rental for leasing of the aircraft and aircraft engines is determined after (i) inviting bidding offers by way of public tender; and (ii) taking into consideration the prevailing market rate for aircraft lease transactions of comparable nature. As advised by the Management, the Company will invite bidding offers by requesting lease proposal from CES Leasing and two other independent third parties who have been long-term business partners of the Group. If such approach is not applicable, the rental fee and other terms shall be determined by both parties after arm's-length negotiation and the comprehensive costs (including the relevant rental fee plus handling fee and deduct other costs which would be saved according to favourable condition such as deductible VAT) of such proposal shall not be higher than the comprehensive costs of the same finance leasing structure for the same category of equipment during the same period, then the Company agrees to select CES Leasing for relevant transactions.

We have reviewed the announcements and circulars published by other Hong Kong listed airline operators regarding the aircraft and aircraft engines lease entered into with their connected persons, and noted that China Southern Airlines Company Limited (stock code: 1055.HK) also adopts process of requesting for proposals or other bidding processes in selecting the parties for providing the aircraft and aircraft engines operating lease service. We were advised by the Management that the Group did not enter into any operating lease agreements with its connected persons in the past three years.

In respect of operating lease transactions under the Aircraft and Engines Lease and Related Services Agreement, (i) it is not uncommon to adopt bidding processes to select the parties to provide the aircraft and aircraft engines operating lease services; and (ii) CES Leasing would only be selected if the terms of its proposal have more competitive advantages than those submitted by independent third parties.

Based on the above, we are of the view that the terms of the Aircraft and Engines Lease and Related Services Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

5.3 Annual caps

Set out below are (i) the historical transaction figures for the transactions contemplated under the Existing Aircraft and Engines Lease Agreement for FY2023, FY2024 and 5M2025; (ii) the projected total rental fees (including principal and interest) for the three years ending 31 December 2028 in respect of finance lease transactions; and (iii) the projected value of rights-of-use for the three years ending 31 December 2028 under the Aircraft and Engines Lease and Related Services Agreement:

Table 4: Historical transaction figures and total rental fees

	Year ended 31 December		**Five months ended 31 May**
RMB million	**2023**	**2024**	**2025**
Actual annual rental fee	–	6,634	5,612
Existing annual cap *(Note 1)*	USD1,500 million (or the equivalent amount in RMB)	USD3,200 million (or the equivalent amount in RMB)	USD4,600 million (or the equivalent amount in RMB) *(Note 2)*

Notes:

1. For illustrative purpose only, the exchange rate of USD1 = RMB6.9 has been adopted for translating USD into RMB in the table above.

2. The amount of USD4,600 million represents the proposed annual cap for FY2025.

Table 5: Proposed annual caps

	Year ending 31 December		
	2026	**2027**	**2028**
Projected total amount payable by the Company in relation to the finance and operating leases entered into by the Company as lessee in USD (million)	3,310 (or the equivalent amount in RMB)	5,760 (or the equivalent amount in RMB)	3,370 (or the equivalent amount in RMB)

We have reviewed the historical rental fees under the Existing Aircraft and Engines Lease Agreement for FY2023, FY2024 and 5M2025. As indicated in Table 4 above, no rental fees for FY2023 were incurred under the Existing Aircraft and Engines Agreement. As advised by the Management, this was primarily attributable to the Company's actual lower leasing demand than initially projected. Specifically, the Company did not conduct financing tenders for some new aircrafts delivered in 2023, and no new aircraft and/or engine leasing transactions was signed with CES Leasing during FY2023, therefore no rental fee was paid. As advised by the Management, the Company completed the issuance of 3,416,856,492 A Shares in FY2023 where the purpose of such issuance was to raise proceeds for the introduction of 38 aircraft. As such, the Company did not enter into any leasing transactions with CES Leasing under the Existing Aircraft and Engines Lease Agreement during the year.

We further note that the historical rental fees for FY2024 increased significantly to RMB6,634 million; however, this remained below 50% of the existing annual cap. The Management advised that this variance was mainly attributable to the following factors: (i) supply chain disruptions causing manufacturers to adjust delivery schedules, resulting in the Company receiving fewer aircrafts than planned, thereby reducing the actual leasing amount below the estimated annual cap; (ii) there were more competitive proposals offered by independent third party leasing providers in the final winning bids during the Company's public market tenders during FY2024; and (iii) for the 16-aircrafts financing lease project in the second half of FY2024, despite CES Leasing submitting the most competitive bid and its cumulative quoted amount not exceeding the estimated annual cap for FY2024, the Company was unable to accept the financing proposal by CES Leasing due to the 50% Restriction. As such, these factors collectively resulted in the actual rental fees falling significantly below the existing annual cap for FY2024.

The historical rental fees for 5M2025 reached RMB5,612 million and represent approximately 42.4% of an estimated annualised utilisation rate. This subdued level for 5M2025 largely reflects the impact of the 50% Restriction. The Management anticipates rental fees will continue to increase for the remainder of FY2025, once that 50% Restriction is lifted and the planned aircraft introductions come on line. As advised by the Management, the increasing trend observed in FY2024 and 5M2025 was mainly attributable to (i) rapid growth in global demand for travel in FY2024; (ii) the volume of global air passenger traffic achieving a new record high in FY2024; and (iii) the launch of 11 new international routes and additional express services during FY2024.

As advised by the Management, during the past three years, due to the impact of epidemic, the civil aviation industry experienced gradual recovery from the downturn, and the manufacturers adjusted the delivery schedule, resulting in a lower-than-expected number of aircraft deliveries to the Company. As a result, the utilisation rate of the existing annual caps under the Existing Aircraft and Engines Lease Agreement was relatively low for FY2023 to 5M2025. As discussed with the Management, moving forward in the next three years, the Company expects that the market demands for civil aviation industry will further increase; and the Company plans to further optimise its fleet structure by not only introducing new aircraft but also gradually retiring certain aging aircraft. As a result, the demand for aircraft and engine leasing is expected to increase.

The projected total rental fees for the three years ending 31 December 2028 show a notable fluctuation. While the rental fees are expected to increase substantially throughout FY2025, the projection indicates a decrease in the total rental fee for FY2026 to USD3,310 million compared to the anticipated FY2025 level. Subsequently, a significant increase is projected for FY2027 to USD5,760 million, followed by a decrease in FY2028 to USD3,370 million. As advised by the Management, the annual caps for FY2026 to FY2028 are derived directly from the 2026-2028 aircraft introduction plan and the estimated aircraft unit purchase price for each aircraft type, which includes the total amount of lease principal, interest and associated arrangement fees (if any). The annual cap for each of FY2026, FY2027 and FY2028 represents independent calculations based on the latest operational and financial inputs for each respective year.

Furthermore, we note that 30% buffer has been applied on the proposed annual caps to provide operational flexibility, accommodate possible fluctuation in foreign exchange rates and contingency buffer, as the actual method of aircraft introduction is currently uncertain. We have reviewed the working papers supporting the annual cap calculations for FY2026 to FY2028, including the recent purchase prices of the relevant aircraft models. As discussed with the Management, considering the future market conditions in the coming years, given that aircraft represents significant capital expenditures with high unit price, the 30% buffer provides necessary flexibility for the Company to accommodate potential acquisition adjustments. As such, we are of the view that the 30% buffer aligns with high capital requirements of fleet expansion and provides the Company with prudent flexibility to execute its strategy if faced with uncertain conditions.

With reference to the section headed "4.2 Outlook of the aviation industry", the aviation sector is not only experiencing a robust recovery but is also positioned for considerable expansion, despite persistent global challenges. The steady recovery in passenger volume turnover further underlines the increasing demand for aircrafts and engines.

Taking into consideration the above, we concur with the Company that the projected annual rental fees for the three years ending 31 December 2028 are fair and reasonable.

*5.3.1 **On finance leasing***

As set out in the Letter from the Board, the total fee payable by the Company under the finance lease transactions mainly includes the total principal and interest of the aircraft and engines. Pursuant to the Aircraft and Engines Lease and Related Services Agreement, the rental fee is the repayment of the principal amount for the leased aircraft and the related interest under the Proposed Finance Lease. As advised by the Management, the principal amount of the leased aircraft is based on the Company's recent purchase price of the same model of aircraft. For buy-back fee, it is expected to be RMB1 per aircraft pursuant to the terms of the Aircraft and Engines Lease and Related Services Agreement. As discussed with the Management, due to current market conditions and CES Leasing's need to maintain competitiveness, no arrangement fee was incurred during FY2023 to 5M2025.

To assess the fairness and reasonableness of the projected total rental fees for the Aircraft and Engines Lease and Related Services Agreement, we have obtained and reviewed the Company's aircraft introduction plan for years 2026 to 2028 and the computation of the estimated rental fee (including principal, interests and associated arrangement fees (if any)) payable by the Company for years 2026 to 2028 and noted that the estimated total rental fees (including principal, interests and arrangement fees (if any)) under the Proposed Finance Lease have been projected based on the Company's recent purchase price of the same type of aircraft in 2025 and the aircraft introduction plan for years 2026 to 2028 without taking into account the buy-back fee as it is only a nominal value as advised by the Management. In this regard, we are of the view that the recent purchase price in 2025 is representative of the prevailing market price and provides a reasonable basis for supporting the Company's estimation of the principal amount for the leased aircraft under the Proposed Finance Lease. Given no arrangement fees were incurred during FY2023 to 5M2025, the Management expects none will be incurred during FY2026 to FY2028, as CES Leasing aims to maintain competitiveness.

Under the computation of the estimated rental fee, we noted that (i) the number of aircraft to be introduced as planned by the Group for years 2026 to 2028; (ii) the principal amount of the aircraft under the same model of same age in the national market; and (iii) the interest under the Proposed Finance Lease have been used in arriving at the estimated total rental fees for the three years ending 31 December 2028. As the principal amount of the aircraft are based on the Company's recent purchase price of the aircrafts from its aircraft manufactures during 2025, we consider the recent transaction price is an appropriate reference used for the projection. The benchmark lending rate for one year or five years or above as announced by PBOC has been used in the projection, which has also been adopted by other airline operators listed on the Hong Kong Stock Exchange, such as Air China and China Southern Airlines Company Limited (1055.HK), for aircraft finance leases.

5.3.2 ***On operating leasing***

The proposed total rental payable to CES Leasing for the operating lease from FY2026 to FY2028 is estimated based on prevailing market-based payments for the use of the asset. Under this approach, CES Leasing's rental proposal must demonstrate a clear competitive advantage over at least two independent third-party leasing proposals offered under similar terms. If such approach is not applicable, the rental fee and other terms shall be determined by both parties after arm's-length negotiation and the comprehensive costs (including the relevant rental fee plus handling fee and deduct other costs which would be saved according to favourable condition such as deductible VAT) of such proposal shall not be higher than the comprehensive costs of the same finance leasing structure for the same category of equipment during the same period. In practical terms, this means that the overall cost, lease structure and business model proposed by CES Leasing should be demonstrably more favourable than those available from other market participants. This market-oriented method ensures that the final pricing is competitive, sustainable and aligned with normal commercial conditions.

As advised by the Management, the pricing mechanism for rental fees is driven by a fully competitive market principle. In practice, the Company will request quotations in the open market simultaneously from both CES Leasing and other independent third-party leasing providers. CES Leasing's bid is then evaluated against the independent proposals through a comprehensive cost analysis, which takes into account factors such as internal funding costs, policy support and prevailing market dynamics. Essentially, only when CES Leasing's proposal is sufficiently competitive in overall cost will it secure the mandate from the Company. This strategy not only promotes fair competition but also ensures transparency in the pricing process, so that the final rental terms accurately reflect true market conditions and simultaneously fulfill the Company's internal control requirements.

As no operating leases were signed by the Company during the period between FY2023 and 5M2025, we were unable to validate this process through reviewing of historical operating lease records. We note that the pricing mechanism for rental fees under Aircraft Finance Lease Agreements is also driven by competitive market principle and through inviting bidding offers by way of public tender, as such we have reviewed the approval documents for Aircraft Finance Lease Agreements, which have the same pricing determination process. We obtained and reviewed all approval documents for Aircraft Finance Lease Agreements executed during the period between FY2024 and 5M2025. These approval documents demonstrated that the Company selected the service providers based on overall competitive financing costs, ensuring the transactions with CES Leasing were conducted at terms that were no less favourable than those offered by independent third-party whilst adhered strictly to internal control procedures.

Having considered (i) it is a common practice to adopt requests for proposals or other bidding processes to select the most suitable party to provide aircraft operating lease services; (ii) CES Leasing would only be selected if its proposal, from the Group's perspective, has competitive advantages over all the submitted proposals; (iii) the robust and transparent evaluation process based on multiple independent quotations; (iv) the reliance on comprehensive market data and independent cost comparisons; and (v) the adherence to best practices and standard commercial terms in the aviation leasing market, we therefore concur with the Management that the pricing mechanism is fair, reasonable and consistent with normal commercial terms.

To assess the fairness and reasonableness of the projected annual total rental for the Aircraft and Engines Lease and Related Services Agreement, we have obtained and reviewed the Company's aircraft introduction plan and the computation of the estimated rental fee payable by the Company for FY2026 to FY2028 and noted that the estimated annual rental have been projected for the three years ending 31 December 2028 based on the Company's aircraft introduction plan. We noted that the total operating lease rental fee calculated to be identical to the total rental fee under the Proposed Finance Lease. As discussed with the Management, the Company will decide on the method of using finance or operating leasing for the aircrafts and engines based on the comprehensive costs (including the relevant rental fee plus handling fee and deduct other costs which would be saved according to favourable condition such as deductible VAT) of the relevant proposal. Similarly, given no arrangement fees were incurred during FY2023 to 5M2025, the Management expects none will be incurred during FY2026 to FY2028, as CES Leasing aims to maintain competitiveness.

As advised by the Management, the lease term for the specific type of aircraft to be introduced under the operating lease for FY2026 to FY2028 is estimated to be more than 3 years.

5.3.3 Value of right-of-use assets

The historical right-of-use assets for FY2023, FY2024 and 5M2025 and the proposed annual caps in respect of right-of-use assets under the Aircraft and Engines Lease and Related Services Agreement are set out below:

Table 6: Historical value of rights-of-use assets and existing annual caps

	Year ended 31 December		**Five months ended 31 May**
RMB million	**2023**	**2024**	**2025**
Historical value of rights-of-use assets in relation to the finance and operating leases entered into by the Company as lessee in RMB (million)	–	6,681	4,922
Existing annual caps in USD (million)	1,250	2,600	3,650*(Note 2)*
equivalent to RMB (million) *(Note 1)*	8,625	17,940	25,185

Notes:

1. For illustrative purpose only, the exchange rate of USD1 = RMB6.9 has been adopted for translating USD into RMB in the table above.

2. The amount of USD3,650 million represents the existing annual caps for FY2025.

Table 7: Proposed annual caps

	Proposed annual caps Year ending 31 December		
	2026	**2027**	**2028**
Total value of right-of-use assets in relation to the finance and operating leases entered into by the Company as lessee in USD (million)	2,760 (or the equivalent amount in RMB)	4,580 (or the equivalent amount in RMB)	2,830 (or the equivalent amount in RMB)

As shown in the table above, we noted that no rights-of-use assets have been recognised in FY2023 as the Company did not enter into any new lease agreements during that year. As advised by the Management, it was mainly due to the lower-than-anticipated leasing demand for the year. Furthermore, certain new aircrafts delivered in FY2023 were not subject to financing tenders, and no new leasing arrangements were initiated, resulting in neither rental fee obligations nor recognition of rights-of-use assets with CES Leasing.

We note that the historical value of rights-of-use assets recognised for FY2024 was RMB6,681 million, significantly below the existing annual cap of approximately RMB17,940 million for that year. As advised by the Management, this variance is attributable to (i) supply chain disruptions reducing aircraft deliveries below forecasted levels; (ii) more competitive interest rates from independent third party leasing providers during tender processes; and (iii) the 50% Restriction limiting CES Leasing's participation in the 16-aircraft project. Despite submitting a competitive bid in FY2024, CES Leasing's cumulative quoted amount will exceed the 50% Restriction, precluding further financing leasing services by CES Leasing for FY2024. Collectively, these factors resulted in both lower incurred rental fees and reduced recognition of rights-of-use assets for FY2024.

The historical value of rights-of-use assets recognised for 5M2025 reached RMB4,922 million. The difference between this actual transaction amount for the first half of FY2025 and the existing annual cap of RMB25,185 million for the full FY2025 was attributable to, inter-alia, the limitation of the 50% Restriction that results in the Company not able to enter into leasing transactions with CES Leasing.

As advised by the Management, pursuant to IFRS 16, the lease transactions contemplated under the Aircraft and Engines Lease and Related Services Agreement entered into by the Company as lessee will be recognised as right-of-use assets. The proposed annual caps are derived based on the total value of right-of-use assets relating to the finance lease and operating lease transactions collectively. We have discussed the computation methodology with the Company's auditors and reviewed the relevant working papers. In addition, we noted that the computation of the total value of right-of-use assets relating to the finance lease and operating lease transactions was calculated by discounting the estimated principal amount for newly added aircraft in each year as discussed above during the future years by a discount rate of 2.4%. This discount rate takes into account the Company's incremental borrowing rate and ChinaBond Corporate Bond Yield (AAA) of 10Y released by China Central Depository & Clearing Co., Ltd.. As advised by the Management, the existing lease assets of the Group are also derived based on such incremental borrowing rate. We have also reviewed the supporting information in the working papers with respect to the applied discount rate of 2.4%. We have checked the 2024 Annual Report and noted that such calculation is in line with the Company's accounting policy. Based on the above procedures, we are of the view that the parameters and assumptions applied for the computation of the total value of right-of-use assets are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

Having considered that the computation of the estimated total rental fees (including the principals amount, interests and arrangement fee (if any)) for FY2026 to FY2028 is based on: (a) the Company's aircraft introduction plan for the years 2026–2028; (b) the interest rate based on the lending rate of one year and/or five years or above published by the PBOC; (c) the estimated finance lease period which matches the Company's average fleet age; (d) a 30% buffer to provide operational flexibility and accommodate possible fluctuation in foreign exchange rates; and (e) estimated principal amount for FY2026 to FY2028 have been used to arrive at the total value of right-of-use assets relating to the finance lease transactions and the operating lease transactions under IFRS 16 as the annual caps, we are of the view that the proposed annual caps for the total value of right-of-use assets under the Aircraft and Engines Lease and Related Services Agreement for the three years ending 31 December 2028 are fair and reasonable.

6. Exclusive Operation Agreement

6.1 Reasons for and benefits of the transactions

As set out in the Letter from the Board, the Company entrusted China Cargo Airlines to exclusively operate its Passenger Aircraft Cargo Business for long term, so as to avoid the competition between Passenger Aircraft Cargo Business of the Company and the all-cargo aircraft freight business operated by China Cargo Airlines and satisfy the Company's demand for professional operation in passenger aircraft cargo, and to motivate China Cargo Airlines through fair and reasonable pricing to facilitate the steady development and growth of the Passenger Aircraft Cargo Business of the Company. This helped the Company to focus the relevant resources on the operation and development of its air passenger transportation business as well as to enhance the business capacity and competitiveness of the principal air passenger transportation business of the Company.

We noted that there was a non-competition undertaking in the Exclusive Operation Agreement, which eliminates internal competition between the Company's Passenger Aircraft Cargo Business and China Cargo Airlines' dedicated freight business, allowing the Company to focus its resources on enhancing its core passenger transport competitiveness. Through incentive-based pricing and leveraging China Cargo Airlines' cargo expertise, the Exclusive Operation Agreement ensures professional operation of this revenue stream while providing stable returns to the Company. This aligns with the Group's long-term strategy of maintaining bellyhold cargo as a key aviation segment while optimising its leadership in passenger operations, ultimately benefiting the Company and the Shareholders as a whole.

As the Passenger Aircraft Cargo Business will continue to be one of the mainstream business of the Group's civil aviation business, we concur with the Management that the Exclusive Operation Agreement is beneficial to the Company and its Shareholders as a whole and aligns with the Group's long term strategies.

6.2 Overview of the air cargo industry

Based on the IATA 25 Annual Review, the air cargo sector delivered an outstanding performance in 2024, with the global air cargo sector recorded an 11.3% increase in cargo tonne kilometres ("**CTK**"), hitting an all-time high that exceeded by 0.6% of the previous high set in 2021 and capacity increasing by 7.4% as airlines responded effectively to soaring cross-border e-commerce demand and maritime shipping constraints.

According to the 2025 Q1 Chartbook, the air cargo shipments rose 2.4% in Q1 2025 compared to last year, reaching a record 65 billion CTK, surpassing Q1 2024 by 1.5 billion in terms of volume. The international air cargo traffic hit 57.1 billion CTK in Q1 2025, up 3.1% YoY. Based on the "Global Outlook for Air Traffic" published by IATA in June 2025, it is expected that the demand of air cargo will slow down in 2025 comparing to 2024, due to the on-going trade war and the competition on ocean shipping.

In the long term, according to ACI World Airport Traffic Forecasts 2024 – 2053 published by Airport Council International, global air cargo market is projected to grow steadily, with a compound annual growth rate of 2.7% from 2024 to 2043 and 2.4% from 2024 to 2053. Strategic policies such as the 14th Five-Year Plan for Civil Aviation and the Belt and Road Initiative will continue to fuel growth by fostering new trade corridors and enhancing international partnerships.

Based on the above encouraging data, air cargo industry continues to demonstrate stable growth and is poised for further expansion. The outlook remains positive, supported by strong demand and strategic investments in capacity and innovation.

6.3 Principal terms

Pursuant to the Exclusive Operation Agreement, the Company entrusted China Cargo Airlines as a contractor to operate and manage the Passenger Aircraft Cargo Business of the Company and its six major subsidiaries (namely 上海航空有限公司 (Shanghai Airlines Co., Limited), 中國東方航空武漢有限責任公司 (China Eastern Airlines Wuhan Limited), 中國東方航空江蘇有限公司 (China Eastern Airlines Jiangsu Co., Limited), 東方航空雲南有限公司 (China Eastern Airlines Yunnan Co., Limited), 一二三航空有限公司 (One Two Three Airlines Co., Ltd.) and 中國聯合航空有限公司 (China United Airlines Co., Limited)) and collects a transportation service fee from China Cargo Airlines based on the actual operating revenue of the Passenger Aircraft Cargo Business operated by China Cargo Airlines after considering deduction of certain business fee rates.

Under conventional circumstances, the transportation service fee is based on the actual income from Passenger Aircraft Bellyhold Space Cargo Business, and is determined by taking into account the actual operating cost, incentives and restrictive mechanisms. Under unconventional circumstances, the transportation service fee is based on the actual revenue of unconventional cargo transport of passenger aircraft, and is determined by taking into account the actual operating cost and reasonable profit margin. The reasonable profit margin refers to the arithmetic average of the averaged profit margin of the Three Major Airlines for the latest three prior accounting years. Under different circumstances, business fee rates in the pricing formulas are based on the operation fee rates of Passenger Aircraft Cargo Business, while separately taking into account the average growth rate of revenue in the same industry's cargo transport business and the average profit level of the same industry.

Pursuant to the Exclusive Operation Agreement, save for the proposed annual caps for the three years ending 31 December 2028, all the terms and conditions under the Exclusive Operation Agreement shall remain unchanged and valid until the maturity of the Exclusive Operation Agreement, being 31 December 2032.

Set out below is the summary of the formula in calculating the transportation service fee under the Exclusive Operation Agreement:

Transportation service fee	=	actual income from Passenger Aircraft Cargo Business x (1 – business fee rates)

Where for:

(a) Conventional business

Transportation service fee	=	actual income from Passenger Aircraft Bellyhold Space Cargo Business x (1 – conventional business fee rate)
Conventional business fee rate	=	operating cost rate + (revenue growth rate of Passenger Aircraft Bellyhold Space Cargo Business of the current year – Average revenue growth rate of the Three Major Airlines' passenger aircraft Bellyhold Space cargo business of the current year) x 50%

(b) Unconventional business

$$\text{Transportation service fee} = \text{actual revenue of unconventional cargo transport of passenger aircraft} \times (1 - \text{unconventional business fee rate})$$

$$\text{Unconventional business fee rate} = \text{operating cost rate} \times (1 + \text{reasonable profit margin})$$

Further details of the Exclusive Operation Agreement are set out in the section headed "4. Exclusive Operation Agreement" in the Letter from the Board.

With reference to the formula on transportation service fee set out above, we deduced that the transportation service fee to be paid to the Company, net of operating expense, is negatively correlated to the excess income growth rate of China Cargo Airlines over the Three Major Airlines. Pursuant to the above definitive formula, there is an implied incentive mechanism (i.e. the 50% revenue growth difference) to provide motivation for China Cargo Airlines to enhance its Passenger Aircraft Bellyhold Space Cargo Business performance and cargo transport business operating efficiency by taking income growth rate as a performance indicator. We are of the view that the pricing under regular business model is able to encourage China Cargo Airlines to optimise resources allocation and boost its business performance.

We note that the Company receives a transportation service fee that correlates negatively to the excess income growth rate of China Cargo Airlines or the average net profit margin of the Three Major Airlines, where the better the excess income growth rate of China Cargo Airlines or the average net profit margin of the Three Major Airlines, the lesser transportation services fee that the Company receives. As discussed with the Management, we understand that this approach was targeted to allow the Company to focus on passenger operations while maintaining stable cargo-related income. In addition, this transforms an otherwise idle Bellyhold Space capacity, which is a fixed sunk-cost asset inherent in the Company's passenger aircraft fleet, into a productive revenue stream. This model generates economic benefit without requiring additional flight operations, significant capital expenditure or operational interference with core passenger business activities. The incentive mechanism will also not displace the Company's existing revenue streams or result in any financial disadvantage to the Company or its Shareholders, instead, it aligns with industry practices in resource-sharing and revenue-partnership models.

We have researched and found that Air China, being an industry peer, used a similar formula for similar transactions ("**Air China's Transactions**") in determining the transportation service fee payable. Air China also used a reward/penalty factor and adopted the same 50% ratio in the formula. While the Company determined the performance of China Cargo Airlines by comparing with revenue growth rate of passenger aircraft bellyhold space cargo businesses of the Three Major Airlines, the performance under the Air China's Transactions is compared with the growth rate of yield level of the passenger aircraft cargo business and the growth rate of yield level of the cargo business industry.

Based on the above and the consistency of formula across major industry players, we are of the view that the above formula is on normal commercial terms and in line with market practice.

For the unconventional circumstances, the transportation service fee paid to the Company, net of actual operating expense in current year, is negatively correlated to reasonable net profit margin. Since the unconventional business represents a special economic slump environment, resulting in (i) a decrease in passengers; and (ii) the Passenger-to-Cargo Conversion approach that helps to utilise the empty spaces in passenger aircrafts by converting passenger aircrafts into cargo aircrafts, the abovementioned situation is a temporary measure due to limited supply of the passenger aircraft bellyhold space cargo as a result of the pandemic, and therefore, there is not enough track record data available to take as a reference in calculating revenue growth rate. In view of the fact that financial data such as revenue growth rate of China Cargo Airlines and the Three Major Airlines' actual income from Passenger-to-Cargo Conversion are not obtainable, using the average net profit margin of the Three Major Airlines on the transportation service fee represents the industry trend, and implied by net profit margin of the Three Major Airlines, would become a motivating factor for China Cargo Airlines to operate their Passenger Aircraft Cargo Business. The following table sets out the calculation of the reasonable net profit margin applicable in FY2025:

Company Name	**Stock code**		**FY2024** *RMB million*	**FY2023** *RMB million*	**FY2022** *RMB million*
Air China	753.HK	Revenue	166,699	141,100	52,898
		Net loss	(233)	(1,038)	(38,617)
		Net loss margin	(0.14)%	(0.74)%	(73.00)%
China Eastern Airlines Corporation Ltd.	670.HK	Revenue	132,120	113,788	46,305
		Net loss	(4,226)	(8,190)	(37,356)
		Net loss margin	(3.20)%	(7.20)%	(80.67)%
China Southern Airlines Company Limited	1055.HK	Revenue	174,224	159,929	87,059
		Net loss	(1,769)	(4,140)	(32,699)
		Net loss margin	(1.02)%	(2.59)%	(37.56)%
Average of the three years' audited net loss margin			(1.45)%	(3.51)%	(63.75)%
Arithmetic mean of the average (%)				(22.90)%	

Source: Annual reports of Air China, the Company and China Southern Airlines Company Limited

Based on the publicly available information as set out above, we note that the arithmetic average of the reported profit margins of the Three Major Airlines for the most recent financial years stands at a loss margin of approximately 22.9%. Although this overall average reflects the challenging conditions experienced during the pandemic, the marked improvement from 63.75% in FY2022 to 1.45% in FY2024 demonstrates that the aviation industry has significantly enhanced its operational performance and is steadily recovering. This recovery is underpinned by enhanced operational efficiencies and improved cost management measures, even as underlying market and cost pressures persist. Accordingly, we maintain that deriving the transportation service fee from the arithmetic average of the average margin is both a robust and equitable benchmark, ensuring fairness to the Company and on-going competitive discipline for China Cargo Airlines in line with current market practice.

We note that the average net profit margin of the Three Major Airlines was used because information relating to specific net profit margin(s) for passenger aircraft bellyhold cargo operations of the Three Major Airlines is not publicly available. Passenger bellyhold cargo operations are inseparably linked to passenger aircraft, as they utilise the bellyhold space of these passenger planes to transport goods, by using the same planes and sharing similar fuel and maintenance costs. Although the overall net profit margin includes all business segments, it also reflects the general business environment that affects cargo operations and passenger operations alike, such as fuel costs and market demand. It therefore serves as the only practical benchmark available.

As mentioned above, we have researched and found that the performance under the Air China's Transactions is compared with the growth rate of yield level of the passenger aircraft cargo business and the growth rate of yield level of the cargo business industry. Considering that the Three Major Airlines are peer industry competitors, using their average net profit margin motivates China Cargo Airlines to earn a market-aligned profit, hence we consider that applying the average net profit margin of the Three Major Airlines is fair and reasonable and in line with market practice.

As discussed with the Management, we understand from the Company that China Cargo Airlines is the sole service provider in relation to the Passenger Aircraft Bellyhold Space Cargo Business of the Company since its entrustment of Passenger Aircraft Bellyhold Space Cargo Business to China Cargo Airlines. Therefore, the Company did not enter into similar transactions with other independent third parties that can be identified for comparison purposes.

Based on the above, we consider that the estimation of the transportation service fee under conventional and unconventional circumstances (including the reasonable margin) is fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

6.4 *Annual caps*

Set out below are the historical transaction figures for the transactions contemplated under the Exclusive Operation Agreement for FY2023, FY2024 and 5M2025 and the proposed annual caps for the three years ending 31 December 2028 for the transactions to be contemplated under the Exclusive Operation Agreement:

Table 8: Historical transaction figures and existing annual caps

RMB million	Year ended 31 December 2023	Year ended 31 December 2024	Five months ended 31 May 2025
The exclusive operation transportation service fees in relation to the Passenger Aircraft Cargo Business payable by China Cargo Airlines to the Company under the Exclusive Operation Agreement	3,634	5,331	2,194
Existing annual caps	8,900	8,600	8,800 (Note)
Utilisation rate (%)	40.8%	62.0%	24.93%

Note: The amount of RMB8,800 million represents the annual cap for FY2025.

Table 9: Proposed annual caps

RMB million	Proposed Annual Caps Year ending 31 December 2026	2027	2028
Exclusive operation transportation services fee in relation to the Passenger Aircraft Cargo Business payable by China Cargo Airlines to the Company under the Exclusive Operation Agreement	7,200	7,900	8,800

We have reviewed the historical exclusive operation transportation service fees under the Exclusive Operation Agreement for FY2023, FY2024 and 5M2025. As shown in Table 8 above, the historical fees for FY2023 were RMB3,634 million, representing a utilisation rate of 40.8% against the existing annual cap of RMB8,900 million. We note that the historical fees for FY2024 increased to RMB5,331 million, with a higher utilisation rate of 62.0% against the existing annual cap. The Management advised this improvement was mainly due to the overall recovery of the aviation industry after the pandemic. In addition, the historical fees for 5M2025 reached RMB2,194 million, representing a utilisation rate of 24.93% and an estimated annualised utilisation rate of 59.84%.

Basis of determining the proposed annual caps for FY2026 to FY2028 under the Exclusive Operation Agreement

As stated in the Letter from the Board, the proposed annual caps under for the three years ending 31 December 2028 for the exclusive operation transportation service fees payable by China Cargo Airlines to the Company under the Exclusive Operation Agreement are determined with reference to the following primary factors:

(i) the Company estimated the basis for the transportation service fees for the Passenger Aircraft Cargo Business for the three years ending 31 December 2028: (a) with reference to the historical amounts for FY2023, FY2024 and 5M2025 for the exclusive operation transportation service fees in relation to the Passenger Aircraft Cargo Business payable by China Cargo Airlines to the Company under the Exclusive Operation Agreement; and (b) after taking into account the estimated continuous growth in demand for aviation cargo business;

(ii) based on the pricing formula under the Exclusive Operation Agreement entered into between the Company and China Cargo Airlines, the Company takes into account the conditions including prospects of the cargo market and the operating scale of the Company's cargo operations such as Bellyhold Space as well as freight rate levels; and

(iii) with reference to: (a) the historical average operating cost rate, which refers to the actual amount of operating cost incurred in the Passenger Aircraft Cargo Business for each of the recent three years agreed upon by the accountants engaged by the Company and China Cargo Airlines, divided by the arithmetic average amount of audited actual income from Passenger Aircraft Cargo Business in those years, and calculated and adjusted once a year during the exclusive operation term; the operating cost of which refers to the personnel, assets, marketing and other costs related to passenger aircraft cargo sales incurred by China Cargo Airlines for the exclusive operation of the Company's Passenger Aircraft Cargo Business in each of the past three years; and (b) the historical figures in the past seven years of the excess in income growth rate of the Company over the average revenue growth rate of Passenger Aircraft Bellyhold Space Cargo Business of the Three Major Airlines, the Company estimated the unconventional business fee rates for the three years ending 31 December 2028 with reference to: (a) the aforesaid historical average operating cost rate, and (b) the historical figures in the past three years of average income growth rate of the Three Major Airlines.

For our due diligence purpose, we have obtained and reviewed the working papers of the Company in determining the proposed annual caps under the Exclusive Operation Agreement, including (i) the estimated income from Passenger Aircraft Cargo Business based on historical revenue for FY2023, FY2024 and 5M2025; (ii) the operating cost rate based on the historical cost under the Exclusive Operation Agreement for FY2023 and FY2024; (iii) the estimated revenue growth rate of the Passenger Aircraft Bellyhold Space Cargo Business based on historical average of the growth rate of revenue from cargo business generated by the Bellyhold Space of the Company compared to the Three Major Airlines; (iv) historical average margin of the Three Major Airlines for the three years from 1 January 2022 to 31 December 2024, which were adopted by the Company as benchmark for estimation; and (v) 20%-buffer.

For the proposed annual caps for the three years ending 31 December 2028 under the Exclusive Operation Agreement, we understand that the proposed annual caps are based on the revenue generated by the passenger cargo business, which is derived from a 2025 benchmark of RMB5.6 billion with an expected 10% annual growth thereafter. As advised by the Management, the contribution from the conventional business is expected to increase annually while there will be nil contribution from the unconventional business. We noted that the historical amount of the revenue generated by the Passenger Aircraft Cargo Business during FY2022 to FY2024 demonstrated an increasing trend of over 10% from the previous year.

Furthermore, as referred to the paragraph headed "6.2 Overview of the air cargo industry", based on the IATA 25 Annual Review, the air cargo sector delivered an outstanding performance in 2024, with the global air cargo sector recorded an 11.3% increase in CTK and the capacity increasing by 7.4%. As such, we are of the view that the expected 10% annual growth applied on the revenue generated by the Passenger Aircraft Cargo Business is fair and reasonable.

The Management explained that the unconventional business was implemented as a temporary measure during the pandemic in response to two concurrent factors: (i) a sharp decline in international passenger flights; and (ii) a surge in demand for essential cargo capacity. To optimise aircraft utilisation under these exceptional conditions, the Company introduced its unconventional operational model. Following the easing of travel restrictions, conventional passenger operations experienced a steady recovery. This has reduced reliance on the unconventional model, facilitating its complete phase-out by early 2024.

We noted that the Company has included a 20% buffer in the estimated exclusive operation transportation services fees for each of the three years ending 31 December 2028 in deriving the proposed annual caps and we note that the Company also similarly included a buffer in the calculation of existing annual caps for FY2023 to FY2025. The Management advised that a buffer is included to address uncertainties arising from industry volatility, given the current complex and volatile international economic and trade situation, as well as in response to the unexpected growth in Passenger Aircraft

Cargo Business, in order to accommodate projected industry expansion and the anticipated increase in cargo capacity stemming from the growth of air cargo industry. Considering (i) it is commercially logical to mitigate risks arising from the volatile international economic and trade environment and industry fluctuations; (ii) it aligns consistently with the Company's historical practice for annual caps during FY2023 to FY2025; and (iii) it caters for potential upside volatility from unexpected cargo demand growth, industry expansion and capacity increases, as supported by industry trends outlined in the paragraph headed "6.2 Overview of the air cargo industry", we are of the view that the 20% buffer is fair and reasonable.

Taking into account the above and the reasons discussed under paragraph headed "6.2 Overview of the air cargo industry", we consider the basis of determining the proposed annual caps under the Exclusive Operation Agreement is fair and reasonable and on normal commercial terms.

Pricing of the proposed annual caps for FY2026 to FY2028 under the Exclusive Operation Agreement

In the exclusive operation transaction of Passenger Aircraft Bellyhold Space Cargo Business, using the income growth rate as the incentive and binding standard is in line with market practice under conventional circumstances. In determining the pricing of the transportation service fees, the Company considered the average growth rate of comparable companies' Passenger Aircraft Cargo Business within the same industry, an indication of fair pricing under continuing connected transactions. Additionally, using the 50% difference of China Cargo Airlines' annual growth rate that exceeds the average of the Three Major Airlines as the incentive indicator, and the 50% difference of China Cargo Airlines' growth rate that is below the average of the Three Major Airlines as the restrictive indicator, to encourage China Cargo Airlines to improve its Passenger Aircraft Cargo Business capacity, thereby enhancing the Company's passenger aircraft cargo operation efficiency, provides a reasonable basis.

In the exclusive operation transaction of Passenger Aircraft Cargo Business, considering there are no comparable historical figures for the Passenger Aircraft Cargo Business under unconventional circumstances, the annual growth rate of the Three Major Airlines' unconventional business revenue is difficult to obtain. As such, the business fee rate under unconventional circumstances uses the operating cost rate as basis, while using average margin of the Three Major Airlines over the past three fiscal years as the reasonable margin rate, which also ensures fairness and reasonableness. We noted that the average profit margin applied in the calculation under unconventional circumstances for the proposed annual caps under the Exclusive Operation Agreement is a negative margin for the three years ending 31 December 2028. Based on the publicly available information, we noted that the Three Major Airlines recorded net loss for the three years ended 31 December 2024.

Based on the IATA 25 Annual Review, the industry's revenue in 2024 is estimated at USD966 billion, reflecting a 6.2% year-on-year increase. This overall revenue growth was partly bolstered by strong cargo revenue, which grew by 7.2% in 2024. This growth can be attributed to a decline in air cargo prices relative to ocean freight, delays in maritime transport due to the Red Sea crisis, and robust demand driven by Asian e-commerce. According to the "Global Outlook for Air Traffic" published by IATA in June 2025, the cargo load factor stood at 45.9% in 2024 and it slightly dropped to 45.6% in Q1 2025. Demand for air cargo is expected to slow down in 2025 amid an on-going trade war and increased competition from ocean cargo. Therefore, the average margins of the Three Major Airlines used in calculating the proposed annual caps are fair and reasonable.

The actual amount incurred in the operating cost and the actual income of the Passenger Aircraft Cargo Business are confirmed in the report prepared and issued by the qualified accounting firm jointly appointed by the Company and China Cargo Airlines. As the actual amount incurred in the operating cost and the actual income of the Passenger Aircraft Cargo Business are calculated and adjusted per annum during the implementation years of the exclusive operation transaction of Passenger Aircraft Cargo Business, the fairness and independence of the transaction are ensured.

Having considered that the information and assumption for calculation of services fee provided by the Company, we noted that (i) the Group's historical business performance with both revenue and net profit, together with Passenger Aircraft Cargo Business demonstrated a stable growth over the past two years ended 31 December 2024; (ii) With gradual recovery from the pandemic, passenger operations have normalised and the associated bellyhold cargo capacity is operating on a strong footing, despite ongoing influences such as trade policy uncertainty and competition from ocean shipping; (iii) the prospects of the aviation and travel industry in the PRC as supported by the statistics published by IATA, which has demonstrated a strong recovery in terms of air passenger and cargo revenue to pre-pandemic level; and (iv) the expected revenue of RMB5.6 billion for 2025, with an expected 10% annual growth thereafter, we are of the opinion that the assumptions and the amount of the proposed annual caps for the three years ending 31 December 2028 are fair and reasonable so far as the Independent Shareholders are concerned.

B. INTERNAL CONTROL PROCEDURES AND CORPORATE GOVERNANCE OF THE GROUP

1. Provision of deposit services under the Financial Services Agreement

The Group's finance department would check and compare the deposit interest rates offered by the Eastern Air Finance Entities with those offered by independent third party banks and relevant rates set by the PBOC. Our work done in reviewing the internal control measures on the deposit interest rates implemented by the finance department, is set out in the sub-section headed "3.2 Principal terms" in this letter.

To further safeguard the Group's fund security, the Company's finance department shall obtain and review the latest audited annual report of Eastern Air Finance Company to assess the risk before the deposits are actually made by the Company. During the period the deposits are placed with the Eastern Air Finance Entities, the Company's finance department shall have access to and review the financial reports of Eastern Air Finance Company regularly to assess the risk of the Group's deposits in the Eastern Air Finance Entities. In addition, Eastern Air Finance Company will inform the Company's finance department the balance of the Group's deposits in the Eastern Air Finance Entities and the balance of loans provided by the Eastern Air Finance Entities to the Group on a monthly basis. The finance department of the Company will designate a person who is specifically responsible to monitor the relevant rates set by the PBOC for similar deposits services and the policy promulgated by the PBOC to ensure that each transaction is conducted in accordance with the pricing policy under the Financial Services Agreement.

We have reviewed the auditors reports in respect of the deposit transactions under the Existing Financial Services Agreement for the two financial years ended 31 December 2024 prepared by the external auditors, and noted that the external auditors has expressed no particular findings need to be brought to the attention of the Company in respect of the deposit transactions under the Existing Financial Services Agreement for FY2023 and FY2024.

Given that (i) the designated finance department staff of the Company has closely monitored the transactions contemplated under the Existing Financial Services Agreement by comparing the deposit interest rates offered by the Eastern Air Finance Entities with that of independent third party banks and that set by the PBOC and regularly reviewing the financial reports of the Eastern Air Finance Entities; (ii) the independent non-executive Directors will, pursuant to Rule 14A.55 of the Hong Kong Listing Rules, review, among other things, whether the transactions contemplated under the Financial Services Agreement are conducted on normal commercial terms; and (iii) the auditors of the Company will, for the purpose of Rule 14A.56 of the Hong Kong Listing Rules, review, among other things, whether the transactions contemplated under the Financial Services Agreement are conducted in accordance with its terms, we are of the view that there is nothing material that led us to cast doubt on the effectiveness of the Company's internal control measures to ensure that the deposit transactions contemplated under the Financial Services Agreement is conducted in accordance with the pricing policy under the Financial Services Agreement and on normal commercial terms.

2. **Catering and Aircraft On-board Supplies Support Agreement, Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement**

As set out in the Letter from the Board, to ensure the Company's conformity with the terms of the Catering and Aircraft On-board Supplies Support Agreement, Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement under the Hong Kong Listing Rules, the Company shall adopt a series of internal control policies during its daily operations which shall be conducted and supervised by the finance department of the Company and the independent non-executive Directors. The internal control policies are as follows:

(1) The finance department of the Company monitors daily connected transactions of the Company and reports to the independent non-executive Directors on a quarterly basis. The finance department of the Company shall supervise the implementation agreements of the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement to ensure that they are entered into: (i) in accordance with the review and evaluation procedures and the terms of the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement under the Hong Kong Listing Rules; (ii) in the ordinary and usual course of business of the Group; (iii) on normal commercial terms or better; (iv) no less favourable than terms offered by independent third parties to the Company; and (v) according to the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) The independent non-executive Directors shall review and will continue to review the implementation agreements of the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement to ensure that they have been entered into on normal commercial terms or better, and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Company's annual report.

(3) Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Company will engage external auditors to issue a letter to report on the Group's continuing connected transactions contemplated under the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

As part of our due diligence work, we have obtained and reviewed the meeting records of the quarterly audit and risk management committee for FY2023 and FY2024 and confirmation provided by the independent non-executive Directors as disclosed in the annual reports for FY2023 and FY2024. We noted that the finance department, audit and risk management committee and the independent non-executive Directors have respectively monitored the connected transactions contemplated. We have also reviewed the letters issued by the Company's external auditors for the annual audit purposes in respect of the continuing connected transactions contemplated under the Existing Catering and Aircraft On-board Supplies Support Agreement, the Existing Aircraft and Engines Lease Agreement and Exclusive Operation Agreement and noted that the auditors have confirmed that the internal control procedures implemented by the Company have been effective in all material aspects.

Given that (i) regular monitoring have been conducted by the finance department, audit and risk management committee and the independent non-executive Directors; (ii) the Company's external auditors have been engaged to issue a letter to report on the Group's continuing connected transactions contemplated under the Existing Catering and Aircraft On-board Supplies Support Agreement, the Existing Aircraft and Engines Lease Agreement and Exclusive Operation Agreement pursuant to the Rule 14A.56 of the Hong Kong Listing Rules; and (iii) the independent non-executive Directors will be reviewing the individual agreements to be entered pursuant to the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement to ensure that they have been entered into on normal commercial terms, we are of the view that the Company has adequate internal control procedures to ensure continuing connected transactions contemplated under the Catering and Aircraft On-board Supplies Support Agreement, the Aircraft and Engines Lease and Related Services Agreement and Exclusive Operation Agreement to be in compliance with the terms thereunder and will not be prejudicial to the interests of the Company and the Shareholders.

OPINION AND RECOMMENDATION

In light of the above and having considered in particular that:

(i) the encouraging outlook of the aviation industry and air cargo industry in the PRC;

(ii) the reasons for and benefits of entering into the Financial Services Agreement, the Catering and Aircraft On-board Supplies Support Agreement and the Aircraft and Engines Lease and Related Services Agreement;

(iii) the fairness and reasonableness of the principal terms of the Financial Services Agreement, the Catering and Aircraft On-board Supplies Support Agreement and the Aircraft and Engines Lease and Related Services Agreement (including the relevant proposed annual caps);

(iv) the fairness and reasonableness of the proposed annual caps under the Exclusive Operation Agreement;

(v) the internal control procedures adopted by the Group in relation to the Renewed Non-exempt Continuing Connected Transactions; and

(vi) historically, the Group has been in compliance with the internal control procedures,

we are of the view that: (1) the entering into the Financial Services Agreement, the Catering and Aircraft On-board Supplies Support Agreement and the Aircraft and Engines Lease and Related Services Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (2) the terms of the Financial Services Agreement, the Catering and Aircraft On-board Supplies Support Agreement and the Aircraft and Engines Lease and Related Services Agreement (including the relevant proposed annual caps) are on normal commercial terms and are fair and reasonable; and (3) the proposed annual caps of the Exclusive Operation Agreement are on normal commercial terms and are fair and reasonable. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Renewed Non-exempt Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
Opus Capital Limited

Koh Kwai Yim
Managing Director

Ms. Koh Kwai Yim is the Managing Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activity. Ms. Koh has over 20 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.