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中國國際航空股份有限公司
AIR CHINA LIMITED

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

CONNECTED TRANSACTION
CAPITAL CONTRIBUTION TO SHENZHEN AIRLINES

On 5 June 2026, the Board of the Company approved the Company's entering into the Second Capital Increase Agreement with Shenzhen International Logistics, Kunhang Investment and Shenzhen Airlines, pursuant to which the Company and Kunhang Investment agreed to make the Second Capital Increase to Shenzhen Airlines. Upon completion of the Second Capital Increase, the Company will continue to hold 51.0000% equity interests in Shenzhen Airlines, and Shenzhen Airlines will remain a subsidiary of the Company.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Shenzhen Airlines is a non-wholly-owned subsidiary of the Company. Upon completion of the Initial Financing and as at the date of this announcement, Kunhang Investment holds 20.9134% equity interests in Shenzhen Airlines, and is a substantial shareholder of Shenzhen Airlines. Therefore, Kunhang Investment is a connected person at the subsidiary level of the Company, and the Second Capital Increase made by Kunhang Investment to Shenzhen Airlines constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Second Capital Increase made by Kunhang Investment to Shenzhen Airlines constitutes a connected transaction between the Group and a connected person at the subsidiary level on normal commercial terms or better, the Second Capital Increase has been approved by the Board, and the independent non-executive Directors of the Company have confirmed that the terms of the Second Capital Increase are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole. Under Rule 14A.101 of the Hong

Kong Listing Rules, the Second Capital Increase is subject to reporting and announcement requirements, but is exempted from the circular, independent financial advice and independent shareholders' approval requirements.

Upon completion of the Second Capital Increase, the Company's equity interests in Shenzhen Airlines will remain at 51.0000%. Therefore, the Second Capital Increase does not constitute a deemed disposal transaction of the Company under Rule 14.29 of the Hong Kong Listing Rules. In addition, the highest applicable percentage ratio for the Company's contribution of five aircraft to Shenzhen Airlines is less than 5%, therefore such in-kind contributions do not constitute a notifiable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

I. INTRODUCTION

References are made to the announcement dated 28 August 2025 and the announcement dated 18 December 2025 (collectively, the "**Announcements**") of the Company regarding the equity financing of Shenzhen Airlines.

As disclosed in the Announcements, Shenzhen Airlines proposed to carry out an equity financing with a total amount of RMB16 billion (the "**Financing**"), among which, the Company will participate in the Financing by making capital contributions proportionate to its current 51% equity interests in Shenzhen Airlines. The total capital contribution to be made by the Company will not exceed RMB8.16 billion. The Initial Financing of such equity financing has been completed. Upon completion of the Initial Financing, the registered capital of Shenzhen Airlines was changed to RMB9,351,082,184.24, and the Company, Shenzhen International Logistics and Kunhang Investment hold 51.0000%, 28.0866% and 20.9134% equity interests in Shenzhen Airlines, respectively.

On 5 June 2026, the Board of the Company approved the Company's entering into the Second Capital Increase Agreement with Shenzhen International Logistics, Kunhang Investment and Shenzhen Airlines entered into the Second Capital Increase Agreement, pursuant to which the Company and Kunhang Investment agreed to make the Second Capital Increase to Shenzhen Airlines. Shenzhen International Logistics will not participate in the Second Capital Increase. Upon completion of the Second Capital Increase, the Company will continue to hold 51.0000% equity interests in Shenzhen Airlines, and Shenzhen Airlines will remain a subsidiary of the Company. As at the date of this announcement, the Second Capital Increase Agreement has not yet been signed. The Company will make further announcement upon its formal execution.

II. SECOND CAPITAL INCREASE AGREEMENT

The principal terms of the Second Capital Increase are as follows:

Parties:

- (i) The Company
- (ii) Shenzhen International Logistics
- (iii) Kunhang Investment
- (iv) Shenzhen Airlines

Second Capital Increase:

The Company and Kunhang Investment have agreed to make the Second Capital Increase to Shenzhen Airlines, and the total amount of the Second Capital Increase will be RMB11,918,367,346.94, among which, the Company's capital contribution is RMB6,078,367,346.94 (the "**Total Amount of the Company's Second Capital Contribution**"), which will be made in the form of five A350 aircraft and cash; Kunhang Investment's capital contribution is RMB5,840,000,000.00, which will be made fully in cash (the "**Total Amount of Kunhang Investment's Second Capital Contribution**").

Consideration and Basis of Determination:

The price for the Second Capital Increase is determined upon arm's length negotiations, with reference to the appraised value of RMB9,374,394,098.50 for the total shareholders' equity of Shenzhen Airlines as at the Valuation Reference Date (i.e., 31 December 2025), which was valued by China Enterprise Appraisals Co., Ltd., an independent valuer, using the asset-based approach. For further details regarding the valuation of Shenzhen Airlines, please refer to Appendix I to this announcement.

RMB6,063,251,876.34 of the capital contribution amount made by the Company shall be credited to the registered capital of Shenzhen Airlines, and RMB5,825,477,292.95 of the capital contribution amount made by Kunhang Investment shall be credited to the registered capital of Shenzhen Airlines.

Payment and Completion:

The Company will make capital contributions in the form of five A350 aircraft and cash. The Company shall complete the payment of such contributions within 2026; however, the final delivery time of the in-kind contributions is subject to adjustment based on factors such as airworthiness certification, the outcome of air rights negotiations between the two countries on the proposed routes, and the acquisition of flight slots. The difference between the value of the aforementioned in-kind contribution and the Total Amount of the Company's Second Capital Contribution shall be made up by the Company in cash. The value of all five A350 aircraft will be determined in accordance with the results of the filed asset appraisal, and the signing of title transfer documents for two A350 aircraft will be completed by the end of June 2026. The aggregate appraised value (excluding tax) of these two A350 aircraft as at the Valuation Reference Date (i.e., 31 December 2025) is RMB2,067,389,700.00 (the corresponding capital contribution including tax is RMB2,336,150,361.00), which was valued by China United Assets Appraisal Group Co., Ltd., an independent valuer, using the cost approach, further details of which are set forth in Appendix I to this announcement. Kunhang Investment will make its entire capital contribution in cash, which shall be fully paid up within 2027; of this amount, RMB1,460,000,000 shall be paid to Shenzhen Airlines on or before 30 June 2026.

The parties agree that if any party fails to make the capital contribution as agreed above, it shall negotiate with the other parties to adjust the progress of the capital contribution, provided that the maximum capital contribution period shall not exceed five years from the date of signing the Initial Financing agreement (i.e., 18 December 2025).

Corporate Governance:

Upon completion of the Second Capital Increase, the governance structure of Shenzhen Airlines, including the board seat allocation, number of seats and decision-making mechanisms, shall remain consistent with that prior to the capital increase.

Effective:

The Second Capital Increase Agreement shall take effect on the date when it is affixed with the seals of the parties and signed by their legal representatives or authorized representatives.

Others:

Within five business days of receiving each capital contribution amount (upon delivery for non-monetary contributions), Shenzhen Airlines shall issue the capital contribution certificate to each of the Company and Kunhang Investment and update the register of members. Within 10 days from the date of signing the Second Capital Increase Agreement or on such other date as may be otherwise agreed upon by the parties, Shenzhen Airlines shall convene a shareholders' meeting and pass a resolution to amend the articles of association of Shenzhen Airlines. All shareholders shall, within 30 days after the aforementioned resolution is made at the shareholders' meeting, jointly assist Shenzhen Airlines in applying to the competent market supervision and administration authority for completing the industrial and commercial change registration procedures related to the capital increase.

III. SHAREHOLDING STRUCTURE OF SHENZHEN AIRLINES BEFORE AND AFTER THE SECOND CAPITAL INCREASE

Upon completion of the Initial Financing and as at the date of this announcement, the registered capital of Shenzhen Airlines is RMB9,351,082,184.24. The shareholding structure of Shenzhen Airlines before and after the completion of the Second Capital Increase is shown in the table below:

Shareholders	Registered capital subscribed before the Second Capital Increase (RMB)	Shareholding percentage before the Second Capital Increase and as at the date of this announcement	Registered capital subscribed after the Second Capital Increase (RMB)	Shareholding percentage upon completion of the Second Capital Increase
The Company Shenzhen International Logistics	4,769,051,913.96	51.0000%	10,832,303,790.30	51.0000%
Kunhang Investment	2,626,400,000.00	28.0866%	2,626,400,000.00	12.3655%
	1,955,630,270.28	20.9134%	7,781,107,563.23	36.6345%
Total	9,351,082,184.24	100.0000%	21,239,811,353.53	100.0000%

IV. REASONS FOR AND BENEFITS OF THE SECOND CAPITAL INCREASE

The Transaction will increase Shenzhen Airlines' cash-like assets, optimize its capital structure, and reduce its asset-liability ratio. It will further improve Shenzhen Airlines' fleet structure, help Shenzhen Airlines strengthen its route network at the Shenzhen hub, and enhance its

profitability. At the same time, the Transaction will help consolidate the Company's market share at the Shenzhen hub, further improve its competitiveness, and enable it to benefit from the growth opportunities brought by the development of the Greater Bay Area.

Based on the aforementioned reasons, the Directors (including the independent non-executive Directors) consider that, although the Second Capital Increase Agreement was not entered into in the ordinary and usual course of business of the Company, it was entered into on normal commercial terms or better and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Directors have or are deemed to have material interests in the Second Capital Increase, and therefore no Directors are required to abstain from voting on the relevant Board resolution(s).

V. GENERAL INFORMATION

The Company

The Company is mainly engaged in providing air passenger transport, air cargo and airline-related services.

Shenzhen Airlines

Shenzhen Airlines is a limited liability company established in the PRC, which is primarily engaged in providing air passenger transport, air cargo and airline-related services.

In accordance with the PRC Accounting Standards for Business Enterprises, the consolidated audited net profit (before and after tax) of Shenzhen Airlines for the financial years ended 31 December 2025 and 31 December 2024 is as follows:

	For the year ended 31 December 2025 <i>(RMB)</i>	For the year ended 31 December 2024 <i>(RMB)</i>
Loss before tax	1,395,738,870.75	2,426,950,619.37
Loss after tax	1,237,597,734.37	2,807,379,040.20

In accordance with the PRC Accounting Standards for Business Enterprises, the consolidated audited book value of the owner's equity of Shenzhen Airlines as at 31 December 2025 was RMB-10,611.7338 million, and the consolidated unaudited book value of the owners' equity as at 31 March 2026 was RMB-10,478.2126 million. For the three months ended 31 March 2026, Shenzhen Airlines recorded consolidated unaudited operating revenue of RMB9,218.22 million and net profit of RMB141.0427 million.

Shenzhen International Logistics

Shenzhen International Logistics is a limited liability company established in the PRC, which is primarily engaged in transportation and logistics investment and operations. Shenzhen International Logistics Limited holds 79% equity interests in Shenzhen International Logistics, and Xin Tong Chan Development (Shenzhen) Co., Ltd. holds 21% equity interests in Shenzhen International Logistics. Shenzhen International Logistics Limited and Xin Tong Chan Development (Shenzhen) Co., Ltd. are wholly-owned subsidiaries of Shenzhen International Holdings Limited (00152.HK), a company listed on the Hong Kong Stock Exchange. As at the date of this announcement, Shenzhen International Logistics is a substantial shareholder of Shenzhen Airlines, and a connected person at the subsidiary level of the Company.

Kunhang Investment

Kunhang Investment is a limited partnership established in the PRC, which is primarily engaged in investment activities. Shenzhen Kunpeng Equity Investment Co., Ltd. holds 87.2338% of the partnership interests in Kunhang Investment, Shenzhen Finance and Financial Service Center (Shenzhen SME Credit Re-guarantee Center) holds 12.7535% of the partnership interests in Kunhang Investment, and Shenzhen Kunpeng Zhanyi Equity Investment Management Co., Ltd. holds 0.0128% of the partnership interests in Kunhang Investment and serves as the executive partner. Shenzhen Kunpeng Equity Investment Co., Ltd. and Shenzhen Kunpeng Zhanyi Equity Investment Management Co., Ltd. are both wholly-owned subsidiaries of Shenzhen Kunpeng Equity Investment Management Co., Ltd., and the State-owned Assets Supervision and Administration Commission of Shenzhen Municipal People's Government holds 99.5620% equity interests in Shenzhen Kunpeng Equity Investment Management Co., Ltd.

VI. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Shenzhen Airlines is a non-wholly-owned subsidiary of the Company. Upon completion of the Initial Financing and as at the date of this announcement, Kunhang Investment holds 20.9134% equity interests in Shenzhen Airlines, and is a substantial shareholder of Shenzhen Airlines. Therefore, Kunhang Investment is a connected person at the subsidiary level of the Company, and the Second Capital Increase made by Kunhang Investment to Shenzhen Airlines constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Second Capital Increase made by Kunhang Investment to Shenzhen Airlines constitutes a connected transaction between the Group and a connected person at the subsidiary level on normal commercial terms or better, the Second Capital Increase has been approved by the Board, and the independent non-executive Directors of the Company have confirmed that the terms of the Second Capital Increase are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole. Under Rule

14A.101 of the Hong Kong Listing Rules, the Second Capital Increase is subject to reporting and announcement requirements, but is exempted from the circular, independent financial advice and independent shareholders' approval requirements.

Upon completion of the Second Capital Increase, the Company's equity interests in Shenzhen Airlines will remain at 51.0000%. Therefore, the Second Capital Increase does not constitute a deemed disposal transaction of the Company under Rule 14.29 of the Hong Kong Listing Rules. In addition, the highest applicable percentage ratio for the Company's contribution of five aircraft to Shenzhen Airlines is less than 5%, therefore such in-kind contributions do not constitute a notifiable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

VII. DEFINITION

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

“Board”	the board of Directors of the Company
“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and whose A shares are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries (as defined in the Hong Kong Listing Rules)
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Initial Financing”	the initial equity financing of Shenzhen Airlines conducted in 2025, comprising the cash capital contribution to Shenzhen Airlines by Kunhang Investment in the amount of RMB2,000,000,000.00 and the cash capital contribution to Shenzhen Airlines by the Company in the amount of RMB2,081,632,653.06, as disclosed in the announcement of the Company dated 18 December 2025
“Kunhang Investment”	Shenzhen Kunhang Investment Partnership (Limited Partnership), a limited partnership established in the PRC, which holds 20.9134% equity interests of Shenzhen Airlines as at the date of this announcement
“percentage ratio(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“PRC”	the People’s Republic of China
“RMB”	the lawful currency of the PRC
“Second Capital Increase Agreement”	the Capital Increase Agreement Concerning Shenzhen Airlines Company Limited to be entered into by the Company, Shenzhen International Logistics, Kunhang Investment and Shenzhen Airlines in relation to the Second Capital Increase
“Second Capital Increase” or the “Transaction”	the second capital increase made by the Company and Kunhang Investment to Shenzhen Airlines pursuant to the Second Capital Increase Agreement
“Shareholder(s)”	the shareholder(s) of the Company
“Shenzhen Airlines”	Shenzhen Airlines Company Limited, a limited liability company established in the PRC, which is a 51% non-wholly owned subsidiary of the Company as at the date of this announcement
“Shenzhen International Logistics”	Shenzhen International Total Logistics (Shenzhen) Co., Ltd., a limited liability company established in the PRC, holding 28.0866% equity interests of Shenzhen Airlines as at the date of this announcement
“Valuation Reference Date”	31 December 2025
“%”	per cent

By Order of the Board
Air China Limited
Xiao Feng
Company Secretary

Beijing, the PRC, 5 June 2026

As at the date of this announcement, the Directors of the Company are Mr. Liu Tiexiang, Mr. Qu Guangji, Mr. Cui Xiaofeng, Mr. Lam Siu Por Ronald, Mr. Xiao Peng, Mr. Xu Niansha, Mr. He Yun*, Ms. Winnie Tam Wan-chi* and Mr. Gao Chunlei*.*

* *Independent non-executive Director of the Company*

APPENDIX I FURTHER INFORMATION ON THE VALUATION

I. FURTHER INFORMATION ON THE VALUATION OF SHENZHEN AIRLINES

(I) VALUATION METHODOLOGY

The asset-based approach can reflect the replacement cost of the evaluated entity on the Valuation Reference Date, and it is easy to collect the information about the evaluated entity's assets and liabilities. During the valuation, Shenzhen Airlines provided detailed breakdown list of its assets and relevant liabilities, as well as information about its assets and liabilities. The valuers also collected sufficient information required by the asset-based approach from external sources.

(1) In respect of current assets, (i) for monetary capital, accounts receivable and prepayments, the valuation determined the appraised value of such current assets based on the verified book balance and accounting and actual values, taking into consideration the recoverability, contract fulfillment and actual receipt of goods/services. The items denominated in foreign currency were converted in accordance with the central parity rates released by the People's Bank of China on the Valuation Reference Date; (ii) for inventories, except for spare parts of flight equipment which are evaluated based on net realisable value, other inventories used their verified book values as the appraised values; (2) In respect of long-term equity investment, the valuers calculated the value of the total interests of shareholders of the investees through valuation, which was multiplied by the shareholding percentage to arrive at the value of the partial interests of the shareholders; (3) For investment in other equity instruments, the appraised value was determined based on the net assets and shareholding percentage of the investees, or (where the investees are listed companies) the closing price and number of shares held on the reference date; (4) In respect of investment properties, the income approach or the market approach was adopted for the valuation; (5) In respect of the fixed assets such as equipment, the cost approach or the market approach was adopted based on the relevant conditions including the characteristics of various types of equipment, types of appraised value, collected information, etc.; (6) In respect of assets such as buildings and structures, the cost approach was mainly adopted for the valuation of self-constructed buildings, while the market approach was adopted for the valuation of buildings that were market commodity housing in nature; (7) The cost approach was adopted for the valuation of construction in progress; (8) In respect of right-of-use assets, the valuation method for right-of-use assets arising from aircraft under finance lease shall be the same as stated in (5) above; for the valuation of other right-of-use assets, given that the contractual terms of the lease were in line with those recorded on the books, no unfair contractual terms have been included, and the book values could reflect the fair values of assets, the appraised value shall be determined based on the verified book values; (9) In respect of land use right assets, the market approach, the benchmark land price coefficient correction approach (the published land price approach) and cost approximation approach were adopted respectively for the valuation of land to be appraised; (10) In respect of other intangible assets, the income

approach or the cost approach was adopted respectively based on the characteristics of assets; (11) The replacement cost approach was adopted for estimating the values of flying skills under long-term deferred expenses, while the appraised values of other long-term deferred expenses were determined based on the balance to be deferred over the remaining benefit period if the corresponding interests or assets could still be enjoyed during the future benefit period; (12) The appraised values of deferred tax assets were determined according to the valuation results of the corresponding accounting items, based on verification of differences between accounting policies and tax regulations, tax filing information and the calculation basis of income tax. The appraised values of certain items that have already been considered in the valuation of related assets were set as zero; the appraised values of the remaining items were determined either by multiplying the difference between the appraised values and the investment cost by the income tax rate, or by using the verified book values; (13) The valuation of liabilities was based on the verified authenticity of debts. Generally, the appraised values were determined based on the verified book values, with special items such as deferred income being adjusted individually according to their actual repayment or tax obligations.

(II) VALUATION ASSUMPTIONS

I. General Assumptions

1. It is assumed that the evaluated assets will continue to be in use according to their current purposes and utilization manner;
2. It is assumed that the current relevant laws, regulations and policies of the country as well as the macroeconomic conditions of the country will not experience major changes, and the political, economic and social environment of the regions where the parties to the transaction are located will not experience major changes;
3. It is assumed that the enterprise will continue to operate based on the actual situation of its assets as at the Valuation Reference Date;
4. It is assumed that there will be no material changes in the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the evaluated entity and each of its subsidiaries after the Valuation Reference Date, except for known events;
5. It is assumed that the management of the evaluated entity will be accountable, stable and competent to perform their duties after the Valuation Reference Date;
6. Unless otherwise indicated, it is assumed that the evaluated entity will fully comply with all relevant laws and regulations;

7. It is assumed that there will be no force majeure events and unpredictable factors which may materially and adversely affect the evaluated entity after the Valuation Reference Date.

II. Special Assumptions

1. It is assumed that the accounting policies to be adopted by the evaluated entity and its long-term equity investments after the Valuation Reference Date will be consistent with the accounting policies adopted when preparing the asset valuation report in all material aspects;
2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Valuation Reference Date will be consistent with the current ones based on the existing management mode and management level;
3. It is assumed that new aircraft introduced by the evaluated entity after the Valuation Reference Date will be introduced through finance leases and will be delivered as scheduled;
4. It is assumed that all lease contracts of the evaluated entity and its long-term equity investment entities will be renewed normally upon expiration;
5. It is assumed that all licenses requiring administrative approval held by the evaluated entity and its long-term equity investment entities will be renewed upon expiration;
6. It is assumed that after the Valuation Reference Date, the products or services of the evaluated entity and its long-term equity investment entities will still maintain their current competitive advantages in the market, and that future fleet and market expansion will be achieved as anticipated by the management;
7. It is assumed that the self-owned aircraft and aircraft under finance lease of the evaluated entity will be retired and replaced in accordance with a 20-year lifecycle;
8. It is assumed that the profit forecast information and financial information provided by the evaluated entity and its long-term equity investment entities are true, accurate and complete;
9. It is assumed that there will be no attrition of pilots (including pilots recruited in prior years and cadet pilots recruited through campus recruitment) during their service period; and if attrition occurs, pilots with equivalent capabilities can be recruited in the market at comparable rates;

10. It is assumed that the corporate income tax policy for development of the western region enjoyed by the evaluated entity will be extended continuously upon expiration;
11. The impact of potential future mortgages, guarantees, and additional prices associated with special trading methods on the valuation conclusion has not been considered.

(III) VALUATION CONCLUSION

The book value of total assets of Shenzhen Airlines as of the Valuation Reference Date was RMB59,913,018,700, the appraised value was RMB76,157,353,100, the appreciation amount was RMB16,244,334,400, and the appreciation rate was 27.11%. The book value of total liabilities was RMB66,880,244,700, the appraised value was RMB66,782,959,100, the impairment amount was RMB97,285,600, and the impairment rate was 0.15%. The book value of net assets was RMB-6,967,226,000, the appraised value determined by asset-based approach was RMB9,374,394,000, and the appreciation amount was RMB16,341,620,000. Appreciation from appraisal was mainly due to appreciation of current assets (the main reason was that the price of aviation materials in some international markets was on the rise), appreciation of investment properties (due to changes in property market conditions and the timing of initial construction), appreciation of fixed assets and right-of-use assets (the main reason was that the market price of aircraft assets was higher than the book cost, and the economic life of other fixed assets was longer than the depreciation period for accounting), appreciation of intangible assets (the main reason was that other intangible assets such as patents, trademarks and flight slots not yet recorded in the book were included in the scope of valuation), appreciation of long-term deferred expenses (the main reason was that the growth demand cost and qualification maintenance cost in the pilot training process were considered), impairment of long-term equity investment (the main reason was that the book value was mainly calculated using the cost approach, but this valuation was based on the actual operating conditions of the investee), impairment of construction in progress (the main reason was that payments related to aircraft maintenance were valued under aircraft assets) and impairment of liabilities (the main reason was that special items such as differences between the book exchange rate and the exchange rate used in the valuation and deferred income were adjusted individually according to their actual repayment or tax obligations).

II. FURTHER INFORMATION ON THE VALUATION OF AIRCRAFT

(I) VALUATION METHODOLOGY

The valuation method was selected based on the purpose of this valuation and the principle of continuous use, taking into consideration the market price, the characteristics of the evaluated equipment and availability of information. The subject of the valuation is

in normal usable condition and can be obtained through replacement, and the replacement cost and the relevant depreciation can be reasonably estimated. Therefore, the cost approach was adopted for this valuation.

Appraised value = Full replacement cost × newness rate. The full replacement cost is determined with reference to the aircraft list price information, taking into account the discount rate available to the airline at the time of purchase, the taxes and fees incurred in purchasing the aircraft, and the relevant national regulatory documents. The newness rate is determined with reference to the useful life and usage conditions.

(II) VALUATION ASSUMPTIONS

I. General Assumptions

1. Transaction assumption: The transaction assumption refers to the premise that all assets subject to appraisal are hypothetically placed in the process of transaction, whereby the valuer conducts valuation by simulating market conditions based on the transaction terms of the assets subject to appraisal. The transaction assumption constitutes the most fundamental pre-requisite hypothesis enabling asset valuation to proceed.
2. Open market assumption: The open market assumption assumes that assets traded in the market or intended to be traded in the market are transacted between parties of equal standing, each having adequate time and opportunity to obtain sufficient market information. This enables rational judgments to be made concerning the asset's functionality, utility and transaction price. The open market assumption is based on the fact that assets can be traded openly in the market.
3. Continuous use of assets assumption: The continuous use of assets assumption refers to the valuation which is carried out based on the continued use of the appraised assets in their current purpose, utilization manner, scale, frequency, environment and other circumstances.
4. Assumption of continuing use at a different location: The assumption of continuing use at a different location refers to the case when the appraised asset will continue to be used following a change of location or space and being transferred to another location or space after change in property rights or related asset business.
5. Seller's As-Is disposal assumption: The seller's as-is disposal assumption assumes that, during the transaction process, the buyer bears other associated costs including equipment relocation and site restoration expenses, while the seller incurs no transaction-related costs.

II. Special Assumptions

1. This valuation assumes that the external economic environment remains unchanged as at the Valuation Reference Date and that there are no significant changes in the country's prevailing macro-economy;
2. There is no material change in the socio-economic environment in which the enterprise operates, and in the policies implemented with respect to taxes and tax rates;
3. The assets subject to this valuation are determined based on its actual quantities as at the Valuation Reference Date, while the prevailing market prices of the relevant assets are determined according to effective prices as at the Valuation Reference Date;
4. This valuation assumes that the underlying information and financial information provided by the principal and the property right holder are true, accurate and complete;
5. The scope of valuation is strictly limited to the asset declaration forms provided by the principal and the property right holder, excluding consideration of any contingent asset and contingent liability which might exist beyond such lists provided by the principal and the property right holder;
6. The impact of inflation has not been taken into account in arriving at the parameter values measured under this valuation;
7. When the above conditions change, the valuation result is generally invalidated.

(III) VALUATION CONCLUSION

Accordingly, the total appraised value of the two A350 aircraft as of the Valuation Reference Date is RMB2,067,389,700.00, representing an appreciation rate of 0.06% over the book value of RMB2,066,199,547.82.