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AIR CHINA LIMITED

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



**CATHAY PACIFIC AIRWAYS
LIMITED**

(Incorporated in Hong Kong
with limited liability)
(Stock Code: 293)

Joint Announcement Continuing Connected Transactions

Reference is made to the joint announcements dated 26th June 2008, 10th September 2010, 26th September 2013 and 30th August 2016 issued by Air China and Cathay Pacific in connection with the Framework Agreement entered into between Air China and Cathay Pacific on 26th June 2008. The Framework Agreement will be renewed on 1st October 2019 for a term of three years from 1st January 2020 to 31st December 2022.

As Air China is a substantial shareholder and therefore a connected person of Cathay Pacific, the Transactions constitute continuing connected transactions for Cathay Pacific under Rule 14A.31 of the Listing Rules and are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As Cathay Pacific is a substantial shareholder and therefore a connected person of Air China, the Transactions constitute continuing connected transactions for Air China under Rule 14A.31 of the Listing Rules and are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Framework Agreement dated 26th June 2008 and to be renewed on 1st October 2019

Parties: (1) Air China
(2) Cathay Pacific

Background and Particulars

Reference is made to the joint announcements dated 26th June 2008, 10th September 2010, 26th September 2013 and 30th August 2016 issued by Air China and Cathay Pacific in connection with the Framework Agreement entered into between Air China and Cathay Pacific on 26th June 2008. The Framework Agreement will be renewed on 1st October 2019 for a term of three years from 1st January 2020 to 31st December 2022.

As Air China is a substantial shareholder and therefore a connected person of Cathay Pacific, the Transactions constitute continuing connected transactions for Cathay Pacific under Rule 14A.31 of the Listing Rules and are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As Cathay Pacific is a substantial shareholder and therefore a connected person of Air China, the Transactions constitute continuing connected transactions for Air China under Rule 14A.31 of the Listing Rules and are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Framework Agreement provides the framework under which Relevant Agreements between members of Air China Group on the one hand and members of Cathay Pacific Group on the other hand are entered into, renewed and extended. The Transactions (under the Relevant Agreements) are transactions between members of Air China Group on the one hand and members of Cathay Pacific Group on the other hand arising from interline arrangements, code sharing arrangements, joint operating arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Framework Agreement.

The Framework Agreement was renewed on 1st October 2016 for the three years from 1st January 2017 to 31st December 2019. Under its terms, it is renewed automatically for successive periods of three years unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Pricing Terms and Policies

The pricing terms and policies for the Transactions in the left hand column below are those stated opposite such transactions in the right hand column below.

Transaction

Pricing Terms and Policies

Interline arrangements and codeshare arrangements

Revenue is apportioned between the parties in accordance with bilateral prorate agreements which follow the principles in the Multi-lateral Prorate Agreement of International Air Transport Association.

Joint operating arrangements	Revenue is apportioned between the parties having regard to the fleet capacity of both parties and the values of seats sold by each party.
Aircraft leasing	Rentals payable under aircraft leases are determined after negotiations at arm's length between the parties having regard to rentals payable under comparable leases between unconnected parties for comparable aircraft and comparable periods and prevailing long term interest rates.
Frequent flyer programmes	Frequent flyers of either party can earn mileage credits by taking the other party's flights. Payments by each party to the other for mileage values are determined by the parties on an arm's length basis having regard to comparable mileage values payable by unconnected airlines to each other.
Airline catering	The parties determine the pricing of airline catering having regard to quotations provided by unconnected caterers, taking due account of material and labour costs, quality, assurance of supply, safety and innovation (including changes in the foregoing matters).
Ground support and engineering services	The pricing of ground support and engineering services charged by one party to the other party is required to be no less favourable than that offered for comparable services to unconnected parties taking due account of the quality of services.
Other products and services	The pricing of other products and services (including for leasing premises and handling customs clearance) is determined having regard to relevant market information (including independent third party quotations for comparable products and services), costs incurred by the relevant party and the quality of products and services (including changes in any of the foregoing).

The annual caps

The annual caps for the Transactions have been determined by reference to the actual payments in respect of the Transactions in the three years ended 31st December 2018 and the forecast payments in respect of the Transactions to be made by Air China Group to Cathay Pacific Group, and by Cathay Pacific Group to Air China Group, having regard, among other things, to the projections of Air China Group and Cathay Pacific Group in respect of their fleet sizes, the delivery schedules of new aircraft which they have ordered, aircraft daily utilisation and other operating parameters.

The Air China Directors estimate that the amounts payable by Cathay Pacific Group to Air China Group, and payable by Air China Group to Cathay Pacific Group, in respect of the Transactions will not exceed the annual caps set out below.

The Cathay Pacific Directors estimate that the amounts payable by Air China Group to Cathay Pacific Group, and payable by Cathay Pacific Group to Air China Group, in respect of the Transactions will not exceed the annual caps set out below.

Payable by Air China Group to Cathay Pacific Group:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
(HK\$ million)	Actual	Actual	Actual	Cap	Cap	Cap	Cap
Transactions	286	390	547	900	900	900	900

Payable by Cathay Pacific Group to Air China Group:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
(HK\$ million)	Actual	Actual	Actual	Cap	Cap	Cap	Cap
Transactions	345	302	301	900	900	900	900

Reasons for, and benefits of, the Transactions

The cooperation between Air China Group and Cathay Pacific Group is expected to continue to further the development of Beijing Capital International Airport and Hong Kong International Airport as gateways to and hubs for Mainland China and will assist Air China Group and Cathay Pacific Group in their efforts to optimise the allocation of operating resources.

Connection between the parties

Air China, by virtue of its 29.99% shareholding in Cathay Pacific, is a substantial shareholder and therefore a connected person of Cathay Pacific under the Listing Rules.

Cathay Pacific, by virtue of its 18.13% shareholding in Air China, is a substantial shareholder and therefore a connected person of Air China under the Listing Rules.

Compliance with Listing Rules

As the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) in respect of the annual caps applicable to the Transactions will, on an annual basis, be more than 0.1% but less than 5%, the Transactions constitute continuing connected transactions for each of Air China and Cathay Pacific and are subject to the announcement, annual review and annual reporting requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Air China and Cathay Pacific will comply with the continuing obligations under Rules 14A.55-59 of the Listing Rules and will re-comply with the relevant Listing Rules if the annual caps are exceeded, when the Framework Agreement is renewed or when there is a material change to its terms.

Opinion of the directors

The Air China Directors, including the independent non-executive directors, consider that the terms of the Framework Agreement are fair and reasonable and that the Framework Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Air China Group and is in the interests of Air China and its shareholders as a whole.

The Cathay Pacific Directors, including the independent non-executive directors, consider that the terms of the Framework Agreement are fair and reasonable and that the Framework Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Cathay Pacific Group and is in the interests of Cathay Pacific and its shareholders as a whole.

Cai Jianjiang, Song Zhiyong and John Robert Slosar, being directors of Cathay Pacific, are materially interested in the Transactions and have abstained from voting on the relevant board resolutions of Air China in respect of the Transactions.

John Robert Slosar, Cai Jianjiang, Song Zhiyong, Xiao Feng and Zhao Xiaohang, being directors and/or chief executives of Air China, are materially interested in the Transactions and have abstained from voting on the relevant board resolutions of Cathay Pacific in respect of the Transactions.

Directors of Air China

As at the date of this announcement, the Air China Directors are:

Non-Executive Directors: Cai Jianjiang (Chairman), Cao Jianxiong, Xue Yasong, John Robert Slosar;

Executive Director: Song Zhiyong; and

Independent Non-Executive Directors: Wang Xiaokang, Liu Deheng, Stanley Hui Hon-chung and Li Dajin.

Directors of Cathay Pacific

As at the date of this announcement, the Cathay Pacific Directors are:

Executive Directors: John Robert Slosar (Chairman), Gregory Hughes, Ronald Lam, Martin Murray, Augustus Tang;

Non-Executive Directors: Cai Jianjiang, Ivan Chu, Michelle Low, Song Zhiyong, Merlin Swire, Samuel Swire, Xiao Feng, Zhao Xiaohang;

Independent Non-Executive Directors: Bernard Chan, John Harrison, Robert Milton and Andrew Tung.

Definitions

“Air China”	Air China Limited, a company incorporated in the People’s Republic of China, whose H shares are listed on the 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. The principal activity of Air China is the operation of scheduled airline services.
“Air China Directors”	The directors of Air China.
“Air China Group”	Air China and its subsidiaries.
“Cathay Dragon”	Hong Kong Dragon Airlines Limited 港龍航空有限公司, a wholly owned subsidiary of Cathay Pacific, the principal activity of which is the operation of scheduled airline services.
“Cathay Pacific”	Cathay Pacific Airways Limited 國泰航空有限公司, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the operation of scheduled airline services.
“Cathay Pacific Directors”	The directors of Cathay Pacific.
“Cathay Pacific Group”	Cathay Pacific and its subsidiaries, including Cathay Dragon.
“Framework Agreement”	The framework agreement dated 26th June 2008 between Air China and Cathay Pacific under which a framework is provided for entry into the Relevant Agreements.
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

“Relevant Agreements”	Agreements between members of the Air China Group on the one hand and members of the Cathay Pacific Group on the other hand in respect of the Transactions.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Transactions”	Transactions between members of Air China Group on the one hand and members of Cathay Pacific Group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Framework Agreement.

By Order of the Board
Air China Limited
Zhou Feng Tam Shuit Mui
Joint Company Secretaries
Beijing, 28th August 2019

By Order of the Board
Cathay Pacific Airways Limited
David Fu
Company Secretary
Hong Kong, 28th August 2019