CATHAY PACIFIC AIRWAYS LIMITED

國泰航空有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

CONNECTED TRANSACTION:
CAPITAL INJECTION INTO AIR CHINA CARGO

On 26th June 2014, Air China, Cathay Pacific China Cargo Holdings and Fine Star, being the existing shareholders of Air China Cargo, entered into the Capital Increase Agreement with Air China Cargo, pursuant to which (a) Air China agreed to make the Cash Contribution and the In-Kind Contribution in order to subscribe for an additional amount of registered capital of RMB1,020,000,000 in Air China Cargo and (b) Cathay Pacific China Cargo Holdings and Fine Star agreed to subscribe in cash for additional amounts of registered capital of RMB500,000,000 and RMB480,000,000 respectively in Air China Cargo. Separately, the shareholders in Air China Cargo have made shareholder loans to Air China Cargo of RMB2,000,000,000 in proportion to their shareholdings in Air China Cargo. These shareholder loans were exempt from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(3) of the Listing Rules. The shareholder loans made by Cathay Pacific China Cargo Holdings and Fine Star aggregated RMB980,000,000.

Upon completion of the Capital Injection, the registered capital of Air China Cargo will be increased from RMB3,235,294,118 to RMB5,235,294,118. The shareholdings of Air China, Cathay Pacific China Cargo Holdings and Fine Star in the enlarged registered capital of Air China Cargo will remain unchanged at 51%, 25% and 24%, respectively.

INTRODUCTION

On 26th June 2014, Air China, Cathay Pacific China Cargo Holdings and Fine Star, being the existing shareholders of Air China Cargo, entered into the Capital Increase Agreement with Air China Cargo, pursuant to which (a) Air China agreed to make the Cash Contribution and the In-Kind Contribution in order to subscribe for an additional amount of registered capital of RMB1,020,000,000 in Air China Cargo and (b) Cathay Pacific China Cargo Holdings and Fine Star agreed to subscribe in cash for additional amounts of registered capital of RMB500,000,000 and RMB480,000,000 respectively in Air China Cargo.
Upon completion of the Capital Injection, the registered capital of Air China Cargo will be increased from RMB3,235,294,118 to RMB5,235,294,118. The shareholdings of Air China, Cathay Pacific China Cargo Holdings and Fine Star in the enlarged registered capital of Air China Cargo will remain unchanged at 51%, 25% and 24%, respectively.

**CAPITAL INCREASE AGREEMENT**

The principal terms of the Capital Increase Agreement are summarised as follows:

Date: 26th June 2014

Parties: (1) Air China  
(2) Cathay Pacific China Cargo Holdings  
(3) Fine Star  
(4) Air China Cargo

**Capital Injection**

Pursuant to the Capital Increase Agreement, Air China, Cathay Pacific China Cargo Holdings and Fine Star agreed to increase the registered capital of Air China Cargo by RMB2,000,000,000. Air China will subscribe for an additional amount of registered capital of RMB1,020,000,000 in consideration of the Cash Contribution (of RMB847,780,300) and the In-Kind Contribution (valued at RMB172,219,700). Cathay Pacific China Cargo Holdings will subscribe for an additional amount of registered capital of RMB500,000,000 in consideration of RMB500,000,000 in cash. Fine Star will subscribe for an additional amount of registered capital of RMB480,000,000 in consideration of RMB480,000,000 in cash.

The shareholdings in Air China Cargo before and after the completion of the Capital Injection are as follows:

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<th>Before completion of the Capital Injection</th>
<th>After completion of the Capital Injection</th>
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<td>Amount of the registered capital of Air China Cargo</td>
<td>Percentage</td>
</tr>
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<td></td>
<td>(in RMB)</td>
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<tr>
<td>Air China</td>
<td>1,650,000,000</td>
<td>51%</td>
</tr>
<tr>
<td>Cathay Pacific China Cargo Holdings</td>
<td>808,823,530</td>
<td>25%</td>
</tr>
<tr>
<td>Fine Star</td>
<td>776,470,588</td>
<td>24%</td>
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<tr>
<td>Total</td>
<td>3,235,294,118</td>
<td>100%</td>
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Separately, the shareholders in Air China Cargo have made shareholder loans to Air China Cargo of RMB2,000,000,000 in proportion to their shareholdings in Air China Cargo. These shareholder loans were exempt from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(3) of the Listing Rules. The shareholder loans made by Cathay Pacific China Cargo Holdings and Fine Star aggregated RMB980,000,000.

**Consideration**

Pursuant to the Capital Increase Agreement, Cathay Pacific China Cargo Holdings and Fine Star will settle the Cathay Pacific Contribution within seven Business Days from the Effective Date by transferring the entire amount of the Cathay Pacific Contribution to the bank account of Air China Cargo. The Cathay Pacific Contribution will be funded from Cathay Pacific’s internal resources.

The consideration for the Capital Injection was determined after arm’s length negotiations among the parties with reference to, among other things, the financial condition and net asset value of Air China Cargo and the valuation of the Assets. The shareholders of Air China Cargo agreed to make the capital contribution in proportion to their equity interests in Air China Cargo.

**Board composition of Air China Cargo**

Following completion of the Capital Injection, the composition of the board of directors of Air China Cargo will remain unchanged.

**Condition Precedent**

The Capital Injection is conditional upon obtaining approvals from the relevant PRC government authorities, including the National Development and Reform Commission and the Ministry of Commerce of the PRC.

**Completion**

Air China, Cathay Pacific China Cargo Holdings and Fine Star will apply to the relevant administration of industry and commerce in the PRC for registration of the increase of the registered capital of Air China Cargo within three Business Days after the full settlement of the consideration and transfer of the Assets pursuant to the terms of the Capital Increase Agreement. Completion of such registration is expected to occur within 14 days from the date of submitting all the requisite application documents according to the relevant PRC laws.

**REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION**

The objective of the Capital Injection is to provide funds to assist Air China Cargo to adjust its fleet, to reduce its operating costs and to improve the performance of its main cargo business. In addition, the Capital Injection will assist Air China Cargo to develop its cargo charter flight business with China Postal Airlines and to establish a sound and sustainable basis for the development of its overall business.
INFORMATION ABOUT THE PARTIES

Air China is a company incorporated in the PRC and listed on the Stock Exchange and in London and Shanghai. Its principal business activity is the operation of air passenger, air cargo and airline-related services.

Cathay Pacific is 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 China Cargo Holdings is a company incorporated in Hong Kong and wholly owned by Cathay Pacific. The principal activity of Cathay Pacific China Cargo Holdings is investment holding.

Fine Star is a company incorporated in the British Virgin Islands and wholly owned by Advent Fortune Limited. The principal activity of Fine Star is investment holding. Advent Fortune Limited obtained a loan from Cathay Pacific in 2010 to finance its acquisition of the entire equity interest in Fine Star and Fine Star’s capital contribution to Air China Cargo and has obtained a loan from Cathay Pacific to finance Fine Star’s share of the Cathay Pacific Contribution and the shareholder loan to Air China Cargo made by Fine Star. Advent Fortune Limited has pledged its equity interest in Fine Star to Cathay Pacific. Cathay Pacific’s returns on the loans to Advent Fortune Limited are equal to the dividend returns on Fine Star’s 24% shareholding in, and the interest on Fine Star’s shareholder loan to, Air China Cargo.

Air China Cargo is a company with limited liability incorporated in the PRC and a subsidiary of Air China. The principal activity of Air China Cargo is the operation of cargo airplane services.

The audited total assets and the audited net assets of Air China Cargo as at 31 December 2013 were RMB10,246 million and RMB639 million respectively. The audited net loss of Air China Cargo for the year ended 31 December 2013 was RMB349 million.

IMPLICATIONS UNDER THE LISTING RULES

As Air China is a substantial shareholder of Cathay Pacific and Air China Cargo is a subsidiary of Air China, they are connected persons of Cathay Pacific under the Listing Rules. Accordingly, the Cathay Pacific Contribution constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the Cathay Pacific Contribution is more than 0.1% but less than 5%, the Cathay Pacific Contribution is subject to reporting and announcement requirements but exempt from the independent shareholders’ approval requirement under Rule 14A.32 of the Listing Rules.
OPINION OF THE DIRECTORS

The Directors (including the independent non-executive Directors) consider that the Cathay Pacific Contribution is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Christopher Pratt (then a Director), Wang Changshun (then a Director), Cai Jianjiang, Fan Cheng, Ian Shiu and Zhao Xiaohang, being directors and/or chief executives of Air China, were materially interested in the transactions which are the subject of this announcement and abstained from voting on the relevant board resolutions of Cathay Pacific in respect of the Cathay Pacific Contribution.

DEFINITIONS

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

“Air China” Air China Limited, a company incorporated in the PRC, 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

“Air China Cargo” Air China Cargo Co., Ltd, a company with limited liability incorporated under the laws of the PRC, 51% of whose registered capital is owned by Air China as at the date of this announcement

“Assets” 4 Boeing 757 aircraft together with aircraft components, an auxiliary power unit and two back-up engines, the book value of which was RMB184,388,200 as at 31 March 2014

“Business Day” a day on which banks in the PRC are generally open for business to the public and which is not a Saturday, Sunday or public holiday in the PRC, but including a day which is declared by the PRC government as a working day for particular or temporary reasons

“Capital Injection” the proposed increase of registered capital of Air China Cargo by RMB2,000,000,000 pursuant to the Capital Increase Agreement

“Capital Increase Agreement” the agreement relating to the Capital Injection dated 26th June 2014 and entered into among Air China, Cathay Pacific China Cargo Holdings, Fine Star and Air China Cargo
“Cash Contribution” the contribution of RMB847,780,300 in cash by Air China, which forms part of the Capital Injection

“Cathay Pacific” or “Company” 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 China Cargo Holdings” Cathay Pacific China Cargo Holdings Limited 國泰航空中國貨運控股有限公司, a company incorporated in Hong Kong and wholly owned by Cathay Pacific, the principal activity of which is investment holding

“Cathay Pacific Contribution” the contribution of RMB500,000,000 in cash by Cathay Pacific China Cargo Holdings and the contribution of RMB480,000,000 by Fine Star, which form part of the Capital Injection

“Director(s)” the director(s) of the Company

“Effective Date” the date of obtaining the approvals from the relevant PRC government authorities for the Capital Injection

“Fine Star” Fine Star Enterprises Corporation, a company incorporated in the British Virgin Islands and wholly owned by Advent Fortune Limited, a company incorporated in Cayman Islands held by a charitable trust, which holds a 24% equity interest in the registered capital of Air China Cargo as at the date of this announcement

“Hong Kong” Hong Kong Special Administrative Region of the PRC

“In-Kind Contribution” the contribution of the Assets, which were valued at RMB172,219,700 as at 31 March 2014 based on the valuation reports prepared by an independent and qualified PRC appraiser, by Air China, which forms part of the Capital Injection

“Listing Rules” The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“percentage ratios” the percentage ratios set out in Rule 14.07 of the Listing Rules, being the “assets ratio”, the “profits ratio”, the “revenue ratio”, the “consideration ratio” and the “equity capital ratio”

“PRC” the People’s Republic of China, excluding, for the purpose of this announcement only, Hong Kong, Macau and Taiwan
As at the date of this announcement, the Directors of Cathay Pacific are:

Executive Directors: John Slosar (Chairman), James Barrington, Ivan Chu, Rupert Hogg, Martin Murray;
Non-Executive Directors: Cai Jianjiang, Fan Cheng, James W.J. Hughes-Hallett, Peter Kilgour, Ian Shiu, Song Zhiyong, Merlin Swire, Zhao Xiaohang;
Independent Non-Executive Directors: Irene Lee, Jack So, Tung Chee Chen and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
國泰航空有限公司
David Fu
Company Secretary

Hong Kong, 26th June 2014