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CATHAY PACIFIC AIRWAYS LIMITED

國泰航空有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

Connected Transaction: Sale and Leaseback Transaction in relation to AHK Air Hong Kong Limited

AHK and DHL entered into the Sale and Leaseback Transaction (comprising the Freighter Sale Transaction and the Leaseback Transaction) on 13th November 2017, under which the Freighter Assets (being eight Airbus A300-600F freighter aircraft and associated equipment) are to be sold by AHK to DHL for a cash consideration equal to the net book value of the Freighter Assets, which is estimated to total HK\$2,199 million (subject to adjustment) and are to be leased back by DHL to AHK.

As DHL is a substantial shareholder of AHK and AHK is a subsidiary of the Company, DHL is a connected person of the Company at the subsidiary level under the Listing Rules. The Freighter Sale Transaction therefore constitutes a connected transaction for the Company and is subject to the announcement and reporting requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements, under Chapter 14A of the Listing Rules.

The Leaseback Transaction constitutes a *de minimis* continuing connected transaction for the Company and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Completion of the Freighter Sale Transaction is expected to take place on or before 31st December 2017 in respect of five Airbus A300-600F freighter aircraft and on or before 31st December 2018 in respect of the remaining three Airbus A300-600F freighter aircraft (and associated equipment).

Freighter Sale Agreements dated 13th November 2017

- Parties: AHK Air Hong Kong Limited, as Seller
DHL International GmbH, as Purchaser
- Sale Interest: The Freighter Assets (being eight Airbus A300-600F freighter aircraft and associated equipment)
- Consideration: HK\$2,199 million, being equal to the net book value of the Freighter Assets and payable before completion and subject to adjustment.

Background

Reference is made to the Company's announcement dated 7th July 2017 about the non-binding MOU between Cathay Pacific and DHL dated 7th July 2017 in relation to AHK, under which it was contemplated that:

- (i) AHK and DHL would enter into the Sale and Leaseback Transaction in respect of the Freighter Assets;
- (ii) the Cathay Pacific Group and the DHL Group would enter into the Share Transaction (in accordance with existing contractual arrangements) for the Cathay Pacific Group to purchase the AHK Minority Interest from the DHL Group, with AHK consequently becoming a wholly owned subsidiary of Cathay Pacific; and
- (iii) AHK and DHL would enter into the Block Space Agreement.

AHK is indirectly owned as to 60% by Cathay Pacific and as to 40% by DHL, with AHK's affairs being governed by the Joint Venture Agreement.

Under the Old Block Space Agreement, AHK sells space to DHL on an agreed network of overnight freight routes.

The Joint Venture Agreement and the Old Block Space Agreement will expire on 31st December 2018 in accordance with their respective terms.

In accordance with existing contractual arrangements, it is contemplated that the AHK Minority Interest will be acquired by the Cathay Pacific Group under the Share Transaction for a consideration equal to its nominal value (as if the relevant shares still had nominal value) and its attributable retained earnings (if any). The AHK Minority Interest is represented by the 36,268,000 class B ordinary shares in AHK held by a wholly owned subsidiary of DHL, representing 40% of the equity of AHK. Each class B ordinary share in AHK had a nominal value of HK\$1.00 before the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) commenced operation on 3rd March 2014.

Under the Block Space Agreement, it is contemplated that AHK will operate an agreed freighter network to destinations in Asia for DHL and will receive agreed service fees and reimbursement of operating expenses.

Particulars of the Sale and Leaseback Transaction

AHK and DHL entered into the Sale and Leaseback Transaction (comprising the Freighter Sale Transaction and the Leaseback Transaction) on 13th November 2017, under which the Freighter Assets (being eight Airbus A300-600F freighter aircraft and associated equipment) are to be sold by AHK to DHL for a cash consideration equal to the net book value of the Freighter Assets, which is estimated to total HK\$2,199 million (subject to adjustment) and are to be leased back by DHL to AHK.

Completion of the Freighter Sale Transaction is expected to take place on or before 31st December 2017 in respect of five Airbus A300-600F freighter aircraft and on or before 31st December 2018 in respect of the remaining three Airbus A300-600F freighter aircraft (and associated equipment).

Financial Matters

As at 31st December 2016, the net asset value attributable to the Freighter Assets was approximately HK\$2,366 million.

For the year ended 31st December 2016, the net profits before and after taxation attributable to the Freighter Assets were approximately HK\$899 million and HK\$753 million respectively.

For the year ended 31st December 2015, the net profits before and after taxation attributable to the Freighter Assets were approximately HK\$899 million and HK\$753 million respectively.

As the consideration for the sale and purchase of the Freighter Assets is equal to the net book value of the Freighter Assets, the Company is expected to record no gain or loss from the sale of the Freighter Assets.

The consideration for the sale and purchase of the Freighter Assets was determined after arm's length negotiation between the parties and having regard to existing contractual arrangements and the matters referred to under "Financial Matters" above.

Reasons for, and benefits of, the Sale and Leaseback Transaction

The Sale and Leaseback Transaction will enable AHK to realise cash from its investment in the Freighter Assets. The proceeds from the Freighter Sale Transaction will be applied towards the general working capital requirements of AHK.

Connection between the parties

As DHL is a substantial shareholder of AHK and AHK is a subsidiary of the Company, DHL is a connected person of the Company at the subsidiary level under the Listing Rules.

Compliance with the Listing Rules

As the highest of the relevant percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules in respect of the Freighter Sale Transaction is more than 1% for the Company and the Freighter Sale Transaction is a connected transaction between the Company and a connected person at the subsidiary level on normal commercial terms or better, the Freighter Sale Transaction is subject to the announcement and reporting requirements under Chapter 14A of the Listing Rules but is exempt under Listing Rule 14A.101 from the circular, independent financial advice and shareholders' approval requirements.

As all the relevant percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules in respect of the Leaseback Transaction are less than 1% for the Company and the Leaseback Transaction is a connected transaction conducted on normal commercial terms or better, the Leaseback Transaction constitutes a *de minimis* continuing connected transaction for the Company and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Opinion of the Directors

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

None of the Directors has an interest in the Sale and Leaseback Transaction and none of them has abstained from voting on board resolutions of the Company in respect of the Sale and Leaseback Transaction.

Directors

As at the date of this announcement, the Directors of the Company are:

Executive Directors: John Slosar (Chairman), Rupert Hogg, Gregory Hughes, Paul Loo, Martin Murray;

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

Independent Non-Executive Directors: John Harrison, Irene Lee, Andrew Tung and Peter Wong.

Definitions

“AHK”	AHK Air Hong Kong Limited 香港華民航空有限公司, a company incorporated in Hong Kong, whose principal activity is the operation of cargo airline services. The share capital of AHK is divided into 54,402,000 class A ordinary shares and 36,268,000 class B ordinary shares, with a wholly owned subsidiary of Cathay Pacific holding 54,402,000 class A ordinary shares and a wholly owned subsidiary of DHL holding 36,268,000 class B ordinary shares.
“AHK Minority Interest”	The 36,268,000 class B ordinary shares in AHK held by a wholly owned subsidiary of DHL, representing 40% of the equity of AHK. Each class B ordinary share in AHK had a nominal value of HK\$1.00 before the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) commenced operation on 3rd March 2014.
“Block Space Agreement”	The block space agreement intended to be entered into between AHK and DHL under which AHK will sell space to DHL on an agreed network of overnight freight routes for an initial term of 15 years commencing on 1st January 2019.
“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, whose principal activity is the operation of scheduled airline services.
“Cathay Pacific Group”	The Company and its subsidiaries.
“DHL”	DHL International GmbH (formerly DHL International Limited), a company incorporated in Germany, whose principal activity is the provision of international express distribution services.
“DHL Group”	DHL and its subsidiaries.
“Directors”	The directors of the Company.
“Freighter Assets”	The 8 Airbus A300-600F freighter aircraft and associated equipment to be sold by AHK to DHL under the Freighter Sale Transaction.
“Freighter Sale Agreements”	The sale and purchase agreements dated 13th November 2017 entered into between AHK and DHL in respect of the Freighter Sale Transaction.

“Freighter Sale Transaction”	The sale by AHK of the Freighter Assets to DHL.
“Joint Venture Agreement”	The joint venture agreement between Cathay Pacific, DHL and their respective subsidiaries dated 9th October 2002 (as subsequently amended and supplemented) in relation to AHK.
“Leaseback Transaction”	The lease by DHL to AHK of the Freighter Assets purchased by DHL under the Freighter Sale Transaction.
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
“MOU”	The non-binding memorandum of understanding between Cathay Pacific and DHL dated 7th July 2017 in relation to AHK.
“Old Block Space Agreement”	The block space agreement between AHK and DHL dated 17th October 2002, as subsequently amended, under which AHK sells space to DHL on an agreed network of overnight freight routes.
“Sale and Leaseback Transaction”	The Freighter Sale Transaction and the Leaseback Transaction.
“Share Transaction”	The purchase by the Cathay Pacific Group of the AHK Minority Interest from the DHL Group.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

By Order of the Board
CATHAY PACIFIC AIRWAYS LIMITED
國泰航空有限公司
David Fu
Company Secretary

Hong Kong, 13th November 2017