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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)

Connected Transaction: Share Transaction in relation to AHK Air Hong Kong Limited

Cathay Pacific and the Vendor entered into the Sale and Purchase Agreement on 14th November 2017 for Cathay Pacific to purchase and the Vendor, a wholly owned subsidiary of DHL, to sell the AHK Minority Interest (being 36,268,000 class B ordinary shares in AHK held by the Vendor and representing 40% of the issued share capital of AHK) for a consideration of HK\$36,268,000 plus the retained earnings (if any) attributable to the AHK Minority Interest, payable in cash on completion of the Share Transaction. Upon completion of the Share Transaction on or before 31st December 2018, AHK will become a wholly owned subsidiary of Cathay Pacific.

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 Share 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.

Sale and Purchase Agreement dated 14th November 2017

- Parties: Deutsche Post International B.V., as Vendor
Cathay Pacific Airways Limited, as Purchaser
- Sale Interest: AHK Minority Interest (being 36,268,000 class B ordinary shares in AHK and representing 40% of the issued share capital of AHK)
- Consideration: HK\$36,268,000 (being equal to the aggregate nominal value of the shares comprising the AHK Minority Interest before the abolition of nominal value on the coming into effect of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 3rd March 2014) plus the retained earnings (if any) attributable to the AHK Minority Interest.

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.

AHK and DHL entered into the Sale and Leaseback Transaction on 13th November 2017, in respect of which the Company published an announcement dated 13th November 2017.

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 Share Transaction

Cathay Pacific and the Vendor entered into the Sale and Purchase Agreement on 14th November 2017 for Cathay Pacific to purchase and the Vendor, a wholly owned subsidiary of DHL, to sell the AHK Minority Interest (being 36,268,000 class B ordinary shares in AHK held by the Vendor and representing 40% of the issued share capital of AHK) for a consideration of HK\$36,268,000 (being equal to the aggregate nominal value of the shares comprising the AHK Minority Interest before the abolition of nominal value on the coming into effect of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 3rd March 2014) plus the retained earnings (if any) attributable to the AHK Minority Interest, payable in cash on completion of the Share Transaction.

Upon completion of the Share Transaction on or before 31st December 2018, AHK will become a wholly owned subsidiary of Cathay Pacific.

Financial Matters

The Vendor's original purchase cost of the AHK Minority Interest was HK\$157 million.

As at 31st December 2016, the net asset value attributable to the AHK Minority Interest was approximately HK\$159 million.

For the year ended 31st December 2016, the net profits before and after taxation attributable to the AHK Minority Interest were approximately HK\$360 million and HK\$301 million respectively.

For the year ended 31st December 2015, the net profits before and after taxation attributable to the AHK Minority Interest were approximately HK\$359 million and HK\$301 million respectively.

The consideration for the sale and purchase of the AHK Minority Interest 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 Share Transaction

Cathay Pacific regards its shareholding in AHK as a key long term strategic investment. The Share Transaction enables Cathay Pacific to increase this investment on terms which it regards as appropriate.

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 Share Transaction is more than 1% for the Company and the Share Transaction is a connected transaction between the Company and a connected person at the subsidiary level on normal commercial terms or better, the Share 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.

Opinion of the Directors

The Directors (including the independent non-executive Directors) consider that the Share 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 Share Transaction and none of them has abstained from voting on board resolutions of the Company in respect of the Share Transaction.

Effect of the Share Transaction

Upon completion of the Share Transaction on or before 31st December 2018, DHL will cease to have any interest in AHK, which is a subsidiary of the Company. DHL and its associates will therefore cease to be a connected person of the Company at the subsidiary level and the contemplated transactions under the Block Space Agreement to be entered into between AHK and DHL commencing on 1st January 2019 and referred to in the Company's announcement dated 7th July 2017 will not be continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 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.
“Sale and Purchase Agreement”	The sale and purchase agreement dated 14th November 2017 entered into between Cathay Pacific and the Vendor relating to the sale and purchase of the AHK Minority Interest.
“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.
“Vendor”	Deutsche Post International B.V., a company incorporated in The Netherlands and wholly owned by DHL, the principal activity of which is investment holding.

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

Hong Kong, 14th November 2017