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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)

Discloseable Transaction

Acquisition of Hong Kong Express Airways Limited

Cathay Pacific, the Seller and the Seller's Guarantor entered into a Share Purchase Agreement on 27th March 2019 for Cathay Pacific to purchase and the Seller to sell the HKE Interest (being 315,060,716 ordinary shares in HKE held by the Seller and representing 100% of the issued share capital of HKE) for a consideration of HK\$4.93 billion, comprising (i) a cash consideration of HK\$2.25 billion payable in cash; and (ii) a non-cash consideration of HK\$2.68 billion settled through the issue and novation of promissory loan notes. Upon completion of the Transaction on or before 31st December 2019, HKE will become a wholly-owned subsidiary of Cathay Pacific.

The Transaction constitutes a discloseable transaction of the Company under the Listing Rules and is subject to the announcement requirement but is exempt from the circular (including accountants' report) and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Share Purchase Agreement dated 27th March 2019

- Parties: Hong Kong Express Holding Company Limited, as Seller
Cathay Pacific Airways Limited, as Purchaser
海航航空集團有限公司 (HNA Aviation Group Co., Ltd.*), as Seller's Guarantor
- Sale Interest: HKE Interest (being 315,060,716 ordinary shares in HKE held by the Seller, representing 100% of the issued share capital of HKE)
- Consideration: HK\$4.93 billion, comprising (i) a cash consideration of HK\$2.25 billion payable in cash; and (ii) a non-cash consideration of HK\$2.68 billion settled through the issue and novation of promissory loan notes.

Particulars of the Transaction

Cathay Pacific, the Seller and the Seller's Guarantor entered into a Share Purchase Agreement on 27th March 2019 for Cathay Pacific to purchase and the Seller to sell the HKE Interest (being 315,060,716 ordinary shares in HKE held by the Seller and representing 100% of the issued share capital of HKE) for a consideration of HK\$4.93 billion, comprising (i) a cash consideration of HK\$2.25 billion payable in cash; and (ii) a non-cash consideration of HK\$2.68 billion settled through the issue and novation of promissory loan notes.

Completion is conditional upon certain conditions being fulfilled, including clearances required from relevant competition authorities, consents under relevant contracts of HKE and the termination or variation of certain arrangements between HKE and its related parties.

The performance of the Seller's obligations under the Share Purchase Agreement is guaranteed by the Seller's Guarantor.

Upon completion of the Transaction on or before 31st December 2019, HKE will become a wholly-owned subsidiary of Cathay Pacific.

Pursuant to the Share Purchase Agreement, from its date until the earlier of completion and termination of the Share Purchase Agreement, the Seller and the Seller's Guarantor shall not (and shall procure that related persons do not) take any action to invite or solicit any proposal, or participate in any discussions or negotiations, or accept or enter into any agreement, from or with any person other than the Cathay Pacific Group in respect of the potential sale and purchase of any shares in HKE or otherwise cooperate with any such person in respect of such potential sale and purchase or enter into any arrangement with any such person the effect of which would be inconsistent with the Transaction.

A firm of solicitors acting for a shareholder of an intermediate holding company of HKE has written to the Company indicating an intention to contest the Seller's entry into an agreement for the Transaction. The Share Purchase Agreement requires copies of documents which authorise the Seller's entry into the Share Purchase Agreement to be delivered to the Company before the payment of any deposit. The Company has the right under the Share Purchase Agreement to terminate the Share Purchase Agreement if proceedings are commenced to prevent the Transaction.

Consideration for the Transaction

The consideration comprises a cash consideration of HK\$2.25 billion (which is intended to be funded from existing sources of finance) which is in an escrow account as escrow money and a non-cash consideration of HK\$2.68 billion, subject to completion adjustments.

- (a) The cash consideration is to be satisfied as follows:-
 - (i) subject to certain conditions being satisfied, HK\$2 billion will be released

from the escrow account to the Seller in two tranches; a first deposit of HK\$1.2 billion subject to a first charge and call option* over the entire issued shares of HKE and a second deposit of HK\$0.8 billion subject to satisfactory additional collateral or guarantee acceptable to Company;

- (ii) if the payment of the deposits has happened, a further amount of HK\$0.025 billion (plus/less any completion adjustments) will be released from the escrow account to the Seller after the finalisation of the completion accounts;
- (iii) if the payment of deposits has not happened, HK\$1.2 billion will be released from the escrow account to the Seller on completion and HK\$0.825 billion (plus/less any completion adjustments) will be released from the escrow account to the Seller after the finalisation of completion accounts; and
- (iv) the balance of the escrow money (after deductions for any claims against the Seller for example under the warranties in the Share Purchase Agreement) will be released from the escrow account to the Seller after the delivery of the audited consolidated financial statements for the year ending 31st December 2019.

* the exercise price shall be equal to (I) the consideration (less the first deposit and second deposit if released) in the event that the Share Purchase Agreement is terminated due to certain conditions not being fulfilled by 5.00 p.m. on 31st December 2019; or (II) the first deposit in the event of all other termination scenarios (for example, in the case of a material adverse change)

- (b) The non-cash consideration is to be satisfied with the following taking place at completion:-
 - (i) a seller promissory loan note of HKD2.68 billion will be issued by the Seller to HKE in respect of the net inter-company balances owed by the Seller to HKE;
 - (ii) a purchaser promissory loan note of HKD2.68 billion will be issued by Cathay Pacific to the Seller in respect of the non-cash consideration; and
 - (iii) the seller promissory loan note will be novated by the Seller to Cathay Pacific in discharge of all obligations and liabilities of Cathay Pacific under the purchaser promissory loan note.

The completion adjustments will make reference to the net debt and net working capital of HKE at completion.

The Seller is obliged under the Share Purchase Agreement to return the deposit to the Company if completion does not happen.

Financial Matters

As at 31st December 2018, the net asset value attributable to the HKE Interest was approximately HK\$1,119 million.

For the year ended 31st December 2018, the unaudited net losses before and after taxation attributable to the HKE Interest were approximately HK\$141 million and HK\$141 million respectively.

For the year ended 31st December 2017, the audited net profits before and after taxation attributable to the HKE Interest were approximately HK\$57 million and HK\$60 million respectively (with the net profit before taxation being lower than the net profit after taxation due to the effect of deferred taxation).

The consideration for the sale and purchase of the HKE Interest was determined after arm's length negotiation between the parties and having regard to existing contractual arrangements in relation to inter-company funding and the matters referred to under "Financial Matters" above.

Reasons for, and benefits of, the Transaction

The Transaction is expected to generate synergies as the businesses and business models of Cathay Pacific and HKE are largely complementary. The Transaction represents an attractive and practical way for the Cathay Pacific Group to support the long-term development and growth of its aviation business and to enhance its competitiveness. It is intended to continue to operate HKE as a standalone airline using the low-cost carrier business model.

Compliance with the Listing Rules

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Seller and its ultimate beneficial owner are third parties independent of and not connected with Cathay Pacific or any of its connected persons.

As the highest of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Transaction is more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company under the Listing Rules. Accordingly, the Transaction is subject to the announcement requirement but is exempt from the circular (including accountants' report) and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Opinion of the Directors

The Directors consider that the terms of the Transaction are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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: Bernard Chan, John Harrison, Irene Lee and Andrew Tung.

Definitions

“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.

“Directors” The directors of the Company.

“HKE” Hong Kong Express Airways Limited 香港快運航空有限公司, a company incorporated in Hong Kong, whose principal activity is the operation of scheduled airline services.

“HKE Interest” The 315,060,716 ordinary shares in HKE held by the Seller, representing 100% of the issued share capital of HKE.

“HNA Group” or “Seller’s Guarantor” 海航航空集團有限公司 HNA Aviation Group Co., Ltd.*, a company incorporated in the People’s Republic of China, the principal activity of which is investment holding.

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

“Share Purchase Agreement” The share purchase agreement dated 27th March 2019 entered into between Cathay Pacific, the Seller and the Seller’s Guarantor relating to the sale and purchase of the HKE Interest.

“Seller” Hong Kong Express Holding Company Limited, a company incorporated in the British Virgin Islands, the principal activity of which is investment holding.



- “Stock Exchange”** The Stock Exchange of Hong Kong Limited.
- “Transaction”** The acquisition by Cathay Pacific of a 100% equity interest in HKE pursuant to the Share Purchase Agreement.

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

Hong Kong, 27th March 2019

** For identification purposes only.*