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中國國際航空股份有限公司
AIR CHINA LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00753)

ANNOUNCEMENT
PROPOSED REVISION OF EXISTING ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTION

PROPOSED REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 30 October 2019 and the circular of the Company dated 4 November 2019 in relation to, among other things, the New ACC Framework Agreement entered into between the Company and Air China Cargo on 30 October 2019 in respect of the ACC Transactions.

On 10 December 2021, the Board has resolved to revise the annual caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2022. Save for the revision of the aforesaid existing annual caps for the two years ending 31 December 2021 and 2022, all other terms and conditions as well as applicable annual caps of other ACC Transactions under the New ACC Framework Agreement remain unchanged.

HONG KONG LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Revised Annual Caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement is, on an annual basis, higher than 5%, such transaction is therefore subject to the announcement, annual review, circular (including advice of independent financial adviser) and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Revised Annual Caps. BaoQiao Partners has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Revised Annual Caps.

A circular containing, among other things, details of the Revised Annual Caps will be despatched to the Shareholders on or before 14 December 2021.

I. BACKGROUND

Reference is made to the announcement of the Company dated 30 October 2019 and the circular of the Company dated 4 November 2019 in relation to, among other things, the New ACC Framework Agreement entered into between the Company and Air China Cargo on 30 October 2019 in respect of the ACC Transactions.

On 30 October 2019, the Company, among other things, entered into the New ACC Framework Agreement with Air China Cargo in respect of the ACC transactions. The New ACC Framework Agreement and the relevant annual caps for the three years ending 31 December 2022 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 19 December 2019.

The ACC Transactions contemplated under the New ACC Framework Agreement include the Bellyhold Space Business contracting operation and ground support services and other services. In respect of the Bellyhold Space Business contracting operation, the Company has contracted the operation of all Bellyhold Space Business to Air China Cargo. Air China Cargo shall undertake the overall responsibilities for transporting the cargos as the contracting carrier to the consignors with respect to the cargos which are transported through the bellyhold spaces of passenger aircraft.

Pricing policies for Bellyhold Space Business contracting operation

As disclosed in the circular of the Company dated 4 November 2019, the consideration of any specific ACC Transactions shall be determined after arm's length negotiations between the Group and ACC Group and on normal commercial terms, and shall be determined in accordance with the pricing policies on a case-by-case basis. In respect of the Bellyhold Space Business contracting operation, the pricing policies are as follows:

During the contracting period, Air China Cargo will regularly pay the Company the contracting operation income in respect of the Bellyhold Space Business in each year. The parties shall determine the Benchmark Income (excluding tax) of the Bellyhold Space Business contracting operation after arm's length negotiations with reference to the Company's fleet capacity, overall load factor and yield level. The specific formula is as follows:

Benchmark Income (excluding tax) = ATK (available tonne kilometres) × OLF (overall load factor) × yield level per kilometre

The ATK shall be determined based on the Company's fleet capacity for the current financial year and its plan of introduction and phase-out of passenger aircraft for the next year. The OLF and the yield level per kilometre shall be determined based on the historical data of the respective air routes of the Company.

Considering possible market fluctuations, the parties agreed to jointly appoint a qualified accounting firm to conduct a special audit on the actual income (excluding tax) of Air China Cargo for the operation of the Bellyhold Space Business of the previous financial year within three months after the end of each financial year. Where there is any difference between the Benchmark Income (excluding tax) and the actual income (excluding tax), the excess income or risk incurred shall be allocated between Air China Cargo and the Company at the proportion of 51% and 49%, respectively, and paid accordingly.

II. REVISED ANNUAL CAPS AND BASIS OF DETERMINATION

After taking into account the actual transaction amount for the nine months ended 30 September 2021, the estimated transaction amount for the year ending 31 December 2021 as well as the expected business needs of the Group for the remaining months of 2021 and the year 2022, the Board anticipates that the Existing Annual Caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement may not be sufficient to meet the needs of the Group. As such, the Board has resolved to revise the annual caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2022. Save for the revision of the aforesaid existing annual caps for the two years ending 31 December 2021 and 2022, all other terms and conditions as well as applicable annual caps of other ACC Transactions under the New ACC Framework Agreement remain unchanged. Please refer to the announcement of the Company dated 30 October 2019 and the circular of the Company dated 4 November 2019 for details.

Historical transaction amounts and the Existing Annual Caps

	For the year ended 31 December 2020	For the year ending 31 December 2021 <i>(in millions of RMB)</i>	For the year ending 31 December 2022
Historical transaction amounts	7,685	6,689 (historical transaction amount for the nine months ended 30 September 2021)	-
Annual Caps approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 19 December 2019 in respect of the contracting operation income of the Bellyhold Space Business under the New ACC Framework Agreement	8,000	9,600	11,600

Revised Annual Caps

	For the year ending 31 December 2021 <i>(in millions of RMB)</i>	For the year ending 31 December 2022
Existing Annual Cap	9,600	11,600
Revised Annual Cap ^{Note}	11,000	14,000

Note: as disclosed above, the ACC Transactions contemplated under the New ACC Framework Agreement include the Bellyhold Space Business contracting operation and ground support services and other services. The annual caps for the amounts payable by ACC Group to the Group in terms of ground support services and other services remain unchanged. The abovementioned proposed revision of the Existing Annual Caps for the two years ending 31 December 2021 and 2022 will result in the annual caps of the total amounts payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2021 and 2022 being revised from RMB10,600 million and RMB12,700 million to RMB12,000 million and RMB15,100 million, respectively.

Basis for the proposed Revised Annual Caps

The Revised Annual Caps were determined based on arm's length negotiations between the Company and Air China Cargo with reference to, among others, the following factors:

- (a) the historical transaction amounts: for the year ended 31 December 2020 and from 1 January 2021 to 30 September 2021, the actual amounts paid by ACC Group to the Group in terms of contracting operation income of the Bellyhold Space Business were approximately RMB7,685 million and RMB6,689 million, respectively, representing approximately 96.1% and 69.7% of the existing annual cap for the year ended 31 December 2020 and ending 31 December 2021, respectively;
- (b) at the beginning of 2020, the pandemic struck, and the continuing extraordinary impact of the global pandemic led to a significant decline in the overall air transport capacity and reduction in the Company's investment of international passenger flights, and the transport capacity of bellyhold space of passenger aircraft in the aviation industry had been limited. The Company has contracted the operation of the Bellyhold Space Business to Air China Cargo, and Air China Cargo has adjusted the operation strategy of passenger aircraft cargo business so that the scope of the Bellyhold Space Business has been expanded to include "passenger aircraft converted for cargo operation" business, which has further increased the capacity input of unconventional passenger aircraft cargo business (mainly the "passenger aircraft converted for cargo operation"). For the years from 2021 to 2022, considering that the pandemic will continue which will lead to capacity constraints in neighboring countries, China will remain its strong export competitive advantage and substitution effect. The supply chain congestion across the shipping industry in 2021 had drove lack of capacity in the shipping industry, which is expected to lead rise in air cargo demand and the freight rate of air cargo will continue to rise significantly compared to pre-pandemic level. In addition, the transportation of medical supplies and vaccines will further increase the demand in the air cargo market. As such, Air China Cargo will actively seize the opportunities in the air cargo market and strive to improve the operating efficiency of passenger aircraft bellyhold space cargo business, which anticipates an increase in the transaction amount of the Bellyhold Space Business contracting operation contemplated under the New ACC Framework Agreement;
- (c) based on the actual amount paid by ACC Group to the Group in terms of the contracting operation income of the Bellyhold Space Business for the year ended 31 December 2020 and for the nine months ended 30 September 2021, the Company estimates that the transaction amount in terms of the contracting operation income of the Bellyhold Space Business for 2021 will amount to approximately RMB9,723 million after the allocation is made for the excess income. As such, by comparing the estimated transaction amount for the year 2021 with the actual amount paid by ACC Group to the Group in terms of the contracting operation income of the Bellyhold Space Business for the year 2020, a 27% growth rate has been reached. By taking into account a 10% buffer, it is expected that the

amount to be paid by ACC Group to the Group in terms of the contracting operation income of the Bellyhold Space Business for the year 2021 will not exceed RMB11,000 million;

- (d) according to the 2020 Statistical Bulletin on the Development of the Civil Aviation Administration of China and the press release and statistics published by The International Air Transport Association in August and October 2021, aviation cargo business has reached its highest-record of approximately US\$128.2 billion in 2020 and the cargo demand for 2021 is expected to exceed pre-crisis (2019) levels by 8% and revenues are expected to rise to a record US\$175 billion. In addition, the global demand, measured in cargo tonne-kilometers, is expected to raise by 18% in 2021. As such, the Company assumes that the 27% growth rate in terms of the transaction amount derived from the Bellyhold Space Business contracting operation under the New ACC Framework Agreement will be maintained from 2021 to 2022. It is expected that the amount to be paid by ACC Group to the Group in terms of the contracting operation income of the Bellyhold Space Business for the year 2022 will not exceed RMB14,000 million.

As disclosed in the section headed the “Pricing policies for Bellyhold Space Business contracting operation” of this announcement, the Company and Air China Cargo will allocate the excess income after the end of the financial year based on the difference between the Benchmark Income and the actual income of Air China Cargo for Bellyhold Space Business contracting operation. The final settlement price of the contracting operation income includes the Benchmark Income and the excess income, based on which the Company sets and monitors the relevant annual caps. It is the usual practice of the Company to book entry the contracting operation income of the Bellyhold Space Business for the current month within 15 days after the month end. The Company confirms that from 1 January 2021 to the date of this announcement, the actual income in terms of contracting operation income of the Bellyhold Space Business did not exceed the Existing Annual Cap for the year 2021 (i.e. RMB9,600 million). However, since the actual cargo transport volume and the actual cargo freight rate may be higher than the Company’s estimation, the actual income of Air China Cargo for the Bellyhold Space Business contracting operation may be higher than the Company’s estimation, resulting in excess income of the Company in respect of the Bellyhold Space Business contracting operation. The Company’s proposal to revise the Existing Annual Cap for 2021 is based on the prudent principle to proactively manage and ensure the listing compliance of the Company. Considering the impact on the demand and freight rate of the cargo market brought by the significant uncertainty raised from the COVID-19 pandemic, the Company has therefore taken into account a 10% buffer when determining the proposed Revised Annual Cap for 2021.

Reasons for and benefits of the revision of the Existing Annual Caps

Contracting the passenger aircraft cargo business to Air China Cargo meets the Company’s demand for professional passenger aircraft cargo operations, and encourages Air China Cargo to promote the steady development and growth of the Company’s passenger aircraft cargo business by means of fair and reasonable pricing. By virtue of which, the Company will focus its

resources on the operation and development of air passenger cargo business and enhance the operational capacity and competitiveness of the Company's core business of air passenger transportation.

The Company anticipates that the contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement may exceed the Existing Annual Caps in 2021 and 2022, in order to meet the Company's daily operation needs and future business development, the Company proposed to revise the Existing Annual Caps.

In view of the above, the Company proposed to revise annual caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2022 from RMB9,600 million and RMB11,600 million to RMB11,000 million and RMB14,000 million, respectively.

III. PARTIES AND CONNECTED RELATIONSHIP BETWEEN THE PARTIES

The Company is principally engaged in providing air passenger, air cargo and related services.

Air China Cargo is a non-wholly owned subsidiary of CNAHC, a controlling Shareholder of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Air China Cargo is a limited liability company established under the laws of the PRC and is principally engaged in air cargo and mail transportation business.

CNAHC directly holds 40.98% of the Company's shares and holds 10.72% of the Company's shares through its wholly-owned subsidiary CNACG, and is a controlling shareholder of the Company. As at the date of this announcement, The State-owned Assets Supervision and Administration Commission of the State Council is a controlling shareholder and de facto controller of CNAHC. CNAHC primarily operates all the state-owned assets and state-owned equity interests invested by the State in CNAHC and its invested entities, aircraft leasing and aviation equipment and facilities maintenance businesses.

IV. INTERNAL CONTROL

The Company continues to monitor the historical transaction amounts and the estimated demand for continuing connected transactions. The Company has adopted the following internal control measures to ensure that the ACC Transactions will be conducted on normal commercial terms, and in accordance with the New ACC Framework Agreement and the pricing policies of the Group:

- Before entering into individual ACC Transactions, the Finance Department, the Legal Department, the Asset Management Department (which has a dedicated sub-division responsible for the management of connected transactions) and if applicable, certain other

relevant departments of the Company will review the proposed terms for the individual ACC Transactions and discuss with the relevant departments of the Group to ensure that such transactions are conducted on normal commercial terms and in compliance with the pricing policies of the Group before these relevant departments approve the finalized transaction agreements according to their authority within the Group.

- The Asset Management Department of the Company is responsible for overseeing the connected transactions of the Company. The Asset Management Department will monitor and collect detailed information on the ACC Transactions on a regular basis, including but not limited to the implementation of pricing policies, contracting terms and actual transaction amount to ensure that the transactions are conducted in accordance with the framework agreement. In addition, the Asset Management Department is responsible for monitoring and reviewing the balance amount of the annual cap for the ACC Transactions on a monthly basis and if the annual cap for the ACC Transactions is expected to be exceeded for a particular year, it will report to the management and take appropriate measures in accordance with the relevant requirements of the Hong Kong Listing Rules and/or the Shanghai Listing Rules.
- The Company's Internal Audit Department is responsible for performing annual assessment on the internal control procedures of the Group, including but not limited to the relevant information on the management of continuing connected transactions. In addition, the Internal Audit Department is responsible for compiling the annual internal control assessment report and submitting the report to the Board for examination and approval.
- The senior management of the Company is responsible for supervising and monitoring the adoption of internal control procedures by the above-mentioned business departments, so as to ensure the implementation of pricing policies is in compliance with relevant framework agreements and the actual transaction amounts are controlled within annual caps. The senior management of the Company also reviews the implementation of pricing policies and the monitoring of annual caps annually.
- The independent auditor of the Company and the independent non-executive Directors will conduct an annual review on the continuing connected transactions of the Group.

The Company considers that the internal control procedures above could function as effective measures to regulate continuing connected transactions. The Company also provides accurate materials in relation to continuing connected transactions as always to facilitate the annual review conducted by the independent non-executive Directors and the independent auditors. Therefore, the Directors consider that the above internal control procedures could ensure the continuing connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

V. HONG KONG LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Revised Annual Caps applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement is, on an annual basis, higher than 5%, such transaction is therefore subject to the announcement, annual review, circular (including advice of independent financial adviser) and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Revised Annual Caps. BaoQiao Partners has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Revised Annual Caps.

VI. SHANGHAI LISTING RULES IMPLICATIONS

Pursuant to the Shanghai Listing Rules, the Revised Annual Caps shall be approved or ratified by the Independent Shareholders at the extraordinary general meeting of the Company.

VII. VIEWS OF THE DIRECTORS

Mr. Song Zhiyong, Mr. Ma Chongxian, Mr. Feng Gang, Mr. Xue Yasong and Mr. Patrick Healy are considered to have a material interest in the proposed revision of the Existing Annual Caps and therefore have abstained from voting in the relevant Board resolution. Except for the above Directors, none of the Directors has a material interest in the aforesaid proposed revision of the Existing Annual Caps or is required to abstain from voting on the relevant Board resolution.

The Directors consider that the proposed revision of the Existing Annual Caps is on normal commercial terms or better, and is entered into in the ordinary and usual course of business of the Group, and the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VIII. EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting will be convened at which, among other things, an ordinary resolution will be proposed to consider and, if thought fit, approve the Revised Annual Caps. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder with a material interest in the proposed revision of the Existing Annual Caps is required to abstain from voting on the relevant resolution at the EGM.

A circular containing, among other things, details of the proposed revision of the Existing Annual Caps will be despatched to the Shareholders on or before 14 December 2021.

DEFINITIONS

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

“ACC Group”	Air China Cargo, its subsidiaries and 30%-controlled companies (as defined under the Hong Kong Listing Rules)
“ACC Transactions”	the continuing connected transactions contemplated under the New ACC Framework Agreement between any member of the Group on the one hand and any member of the ACC Group on the other hand
“Air China Cargo”	Air China Cargo Co., Ltd., a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of CNAHC
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Bellyhold Space Business”	all the freight business operated through the utilization of the bellyhold space of passenger aircraft, including but not limited to the sale and pricing in relation to the bellyhold space
“Board”	the board of directors of the Company
“Cathay Pacific”	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange
“CNACG”	China National Aviation Corporation (Group) Limited, a wholly-owned subsidiary of CNAHC
“CNAHC”	China National Aviation Holding Corporation Limited, a state-owned enterprise incorporated under the laws of the PRC and the controlling shareholder of the Company
“Company”	Air China Limited, a company incorporated in the PRC, whose H shares are listed on the Hong Kong 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
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Thursday, 30 December 2021 at The Conference Room C713, No. 30, Tianzhu Road, Airport Industrial Zone, Shunyi District, Beijing, the PRC
“Existing Annual Cap(s)”	the annual cap(s) applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2021 and 2022 as set out in the announcement of the Company dated 30 October 2019
“Group”	the Company and its subsidiaries
“H Shareholder(s)”	holders of the H Share(s)
“H Share(s)”	the overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange as its primary listing venue and have been admitted to the Official List of the UK Listing Authority as its secondary listing venue
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a board committee comprising Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors
“Independent Financial Adviser” or “BaoQiao Partners”	BaoQiao Partners Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Cap(s)
“Independent Shareholders”	the Shareholders other than Cathay Pacific, CNAHC and their associate(s)

“New ACC Framework Agreement”	the framework agreement dated 30 October 2019 entered into between the Company and Air China Cargo in respect of the ACC Transactions
“Revised Annual Cap(s)”	the proposed revised annual cap(s) applicable to contracting operation income of the Bellyhold Space Business payable by ACC Group to the Group under the New ACC Framework Agreement for the two years ending 31 December 2021 and 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
“Shareholder(s)”	the shareholder(s) of the Company
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules

By Order of the Board
Air China Limited
Huang Bin Huen Ho Yin
Joint Company Secretaries

Beijing, the PRC, 10 December 2021

As at the date of this announcement, the directors of the Company are Mr. Song Zhiyong, Mr. Ma Chongxian, Mr. Feng Gang, Mr. Patrick Healy, Mr. Xue Yasong, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*