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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)

**DISCLOSEABLE TRANSACTION AND CONTINUING
CONNECTED TRANSACTION:
2018-2019 AIRCRAFT FINANCE LEASE SERVICE
FRAMEWORK AGREEMENT**

2018-2019 AIRCRAFT FINANCE LEASE SERVICE FRAMEWORK AGREEMENT

On 27 March 2018 (after trading hours), the Company and CNACG entered into the 2018-2019 Aircraft Finance Lease Service Framework Agreement in relation to the Aircraft Finance Lease Transactions.

HONG KONG LISTING RULES IMPLICATIONS

CNACG is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Aircraft Finance Lease Transactions shall be aggregated with the Previous Transaction.

As the highest of the applicable Percentage Ratios is higher than 5.0% but less than 25%, the Aircraft Finance Lease Transactions constitute continuing connected transaction and discloseable transaction of the Company under the Hong Kong Listing Rules. Therefore, the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts are subject to: (i) the disclosure, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules; and (ii) the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules.

SHAREHOLDERS' CIRCULAR

A circular containing, among other things, (i) details of the 2018-2019 Aircraft Finance Lease Service Framework Agreement and the proposed Maximum Transaction Amount thereunder; (ii) a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Aircraft Finance Lease Transactions contemplated thereunder and the proposed Maximum Transaction Amounts; and (iii) the recommendation of the Independent Board Committee in respect of such transactions and the proposed Maximum Transaction Amounts, will be despatched to Shareholders on or about 4 April 2018 in accordance with the Hong Kong Listing Rules.

I. 2018-2019 AIRCRAFT FINANCE LEASE SERVICE FRAMEWORK AGREEMENT

As the Group and the CNACG Group intend to carry out aircraft finance lease business in the years of 2018 and 2019, the Company and CNACG entered into the 2018-2019 Aircraft Finance Lease Service Framework Agreement on 27 March 2018 in relation to the Aircraft Finance Lease Transactions.

1. 2018-2019 Aircraft Finance Lease Service Framework Agreement

Date

27 March 2018

Parties

The Company and CNACG

Description of the Aircraft Finance Lease Transactions

Pursuant to the 2018-2019 Aircraft Finance Lease Service Framework Agreement, CNACG Group agreed to provide finance lease services to the Group in relation to Leased Aircraft. The Lessor(s) will be the subsidiary(ies) of CNACG which is/are qualified for providing aircraft finance lease services, and the Lessee(s) will be the Company or its subsidiaries.

The Leased Aircraft comprises part of the aircraft to be introduced by the Company in 2018 and 2019, subject to adjustment from time to time. The Company has signed aircraft purchase agreements with Airbus S.A.S. and Boeing Company in relation to the Leased Aircraft, which agreements have been negotiated and agreed independently and separately and has fulfilled the approval procedures of the Board and the Company's general meetings and announcement obligations in accordance with relevant laws and regulations (including the Hong Kong Listing Rules).

Rental Fee

The rental fee is the repayment of the principal amount for the Leased Aircraft and the interest under the Aircraft Finance Lease Transactions. The aggregate principal amount shall be not more than 100% of the consideration for the purchase of the Leased Aircraft. The applicable interest rate will be further determined and agreed by the Lessor and Lessee through requests for proposals issued by the Group or other procurement processes of the Group and shall satisfy the pricing policy as disclosed below.

The rental fee of which the principal portion is measured according to the equal-principal (equal instalment principal and corresponding interests incurred by the remaining principal) or average-principal-plus-interests (average instalment for all the principal and interests) standard, is payable monthly, quarterly or semi-annually in arrears, commencing on the Delivery Date of the Leased Aircraft and concluding on the date of the last payment for such Leased Aircraft. The frequency of rental fee payment and the calculation method of principal portion will be determined on a case-by-case basis taking into account the proposals submitted by CNACG Group and independent third parties and the cash position of the Lessee. The Lessor will provide the Lessee with full value added tax invoices in respect of the principal amount for the Leased Aircraft and the interest thereunder.

Arrangement Fee

The respective arrangement fee for the Leased Aircraft will be further determined and agreed by the Lessee(s) and Lessor(s) in line with the pricing policy as disclosed below. The arrangement fee shall be paid by the Lessee to the Lessor in one lump sum prior to the commencement of the respective Delivery Date.

Pricing policy

The actual determination of the interest rate and the arrangement fee will be considered as a whole and governed by the pricing policy as disclosed below.

The comprehensive costs (including the relevant rental fee plus arrangement fee) provided by CNACG Group to the Group in its finance lease proposal(s) shall be not higher than those provided by at least three independent third parties who have received the Group's request for proposals or are shortlisted in the same procurement processes of the Group.

Other terms

Buy-back

Upon the payment of the last instalment of rental fee by the Lessee(s) to the Lessor(s) for the relevant Leased Aircraft, the Lessee(s) is entitled to purchase the relevant Leased Aircraft back from the Lessor(s) at a nominal purchase price.

Implementation Agreements

To implement the Aircraft Finance Lease Transactions, separate Finance Lease Agreement(s) will be entered into between the Lessee(s) and the Lessor(s) in respect of the Leased Aircraft, the terms of which will in all material respects be consistent with the binding principles, guidelines, terms and conditions contained in the 2018-2019 Aircraft Finance Lease Service Framework Agreement.

Term of the 2018-2019 Aircraft Finance Lease Service Framework Agreement

The 2018-2019 Aircraft Finance Lease Service Framework Agreement is effective upon approval of the 2018-2019 Aircraft Finance Lease Service Framework Agreement and the transactions and the Maximum Transaction Amounts contemplated thereunder by the Independent Shareholders at the AGM. The term of the 2018-2019 Aircraft Finance Lease Service Framework Agreement shall commence from the date of approval by the Independent Shareholders at the AGM to 31 December 2019.

The lease period of the Leased Aircraft under the 2018-2019 Aircraft Finance Lease Service Framework Agreement will be agreed upon entering into the individual Finance Lease Agreements. Based on previous similar transactions, the lease period of the Leased Aircraft under the individual Finance Lease Agreement(s) would be 10 to 12 years.

2. Proposed Maximum Transaction Amounts of the Aircraft Finance Lease Transactions

As at the date of this announcement, CNACG Group has not carried out any aircraft finance lease transaction with the Group.

The total fee payable under the Aircraft Finance Lease Transaction(s) is the sum of the rental fee, the arrangement fee and the buy-back fee, and the total rental fee payable under the Aircraft Finance Lease Transactions equals to the sum of the principal and the interest payable under each Finance Lease Agreement for the entire lease period for each of the Leased Aircraft. The buy-back fee payable will be at a nominal level which is negligible when calculating the Maximum Transaction Amounts (normally ranges from nil to RMB10).

In arriving the proposed Maximum Transaction Amounts, considering the lease period for each of the Leased Aircraft would be 10 to 12 years, the Company adopted the prevailing benchmark interest rate i.e. 4.9%, for RMB loan for over 5 years promulgated by the PBOC (the “**PBOC Benchmark Rate**”) for the calculation of estimated interest of the Aircraft Finance Lease Transactions. When entering into the separate Finance Lease Agreement for each of the Leased Aircraft, the actual interest rate will be determined through requests for proposals or other procurement processes with reference to the PBOC Benchmark Rate. During the term of the Aircraft Finance Lease Transactions, if the PBOC Benchmark Rate is adjusted by the PBOC, the interest rate for the Aircraft Finance Lease Transactions shall be adjusted accordingly in the same direction. However, based on the previous proposals received by the Group from independent third parties, the interest rate for each of the Leased Aircraft usually would not be higher than the PBOC Benchmark Rate.

The Company adopted 1% of the principal amount of the Leased Aircraft to calculate the estimated arrangement fee with reference to prevailing market conditions.

Based on (i) the above-mentioned calculation basis of the interest payable and arrangement fee payable under the Aircraft Finance Lease Transactions; (ii) the aircraft scheduled to be introduced by the Company for the period from 1 June 2018 to 31 December 2018 and for the year 2019 according to confirmed orders; and (iii) the assumption that the maximum aggregate principal amount of the Aircraft Finance Lease Transaction(s) between the Company and CNACG Group for the period from 1 June 2018 to 31 December 2018 and for the financial year ending 31 December 2019 shall not exceed half of the aggregate consideration amount of the aircraft scheduled to be introduced during such period/financial year according to confirmed orders, it is estimated that, for the Aircraft Finance Lease Transactions to be entered into during the period from 1 June 2018 to 31 December 2018, the rental fee payable for the entire lease period will be approximately US\$1,038.34 million and the arrangement fee payable will be approximately US\$8.25 million; for the Aircraft Finance Lease Transactions to be entered into during the financial year ending 31 December 2019, the rental fee payable for the entire lease period will be approximately US\$1,480.28 million and the arrangement fee payable will be approximately US\$11.75 million. As such, the proposed Maximum Transaction Amounts under the Aircraft Finance Lease Transactions are set out below:

Units: US\$ in millions

	For the period from 1 June 2018 to 31 December 2018	For the financial year ending 31 December 2019
Proposed Maximum Transaction Amount	1,046.59	1,492.03

3. Reasons for and Benefits of the Aircraft Finance Lease Transactions

Entering into the 2018-2019 Aircraft Finance Lease Service Framework Agreement will broaden the aircraft financing channels to satisfy the business development need of the Group. The aircraft finance lease would provide more flexibility for the financing channels in respect of the aircraft to be introduced by the Group and have less impact on the cash flow of the Group. The Company is of the view that it is beneficial for the Company to enter into the 2018-2019 Aircraft Finance Lease Service Framework Agreement with CNACG after considering other financing options.

Firstly, compared with traditional bank loans, finance lease transaction(s)' application process is generally more relaxed and offers a higher loan-to-value ratio. Also, finance lease transaction is able to avoid the potential dilution effect from equity financing. In addition, by utilizing the finance lease structure to introduce the Leased Aircraft, the Lessor(s) can provide value added tax invoices for the principal amount and interest payments under the Finance Lease Agreements to the Lessee(s), and therefore, the Lessee(s) can use it to deduct value added tax. The respective arrangement fee for each of the Leased Aircraft would also be lower than the deductible value added tax in respect of the interest payments, which can help to reduce the financing costs of the Lessee(s).

Calculated based on the proposed Maximum Transaction Amounts of the Aircraft Finance Lease Transactions for the period from 1 June 2018 to 31 December 2018 and for the financial year ending 31 December 2019 respectively, through adopting the finance lease arrangement provided by CNACG Group under the 2018-2019 Aircraft Finance Lease Service Framework Agreement, the estimated total savable financing costs for the Group as compared to adopting secured loans arrangements with equivalent interest rates provided by the market over the same period will be approximately US\$22.96 million in 2018, and US\$32.75 million in 2019.

Secondly, based on the fact that (i) CNACG Group has an management team with wealthy experiences and is in stable operation; (ii) CNACG Group possesses a fairly strong financing ability with comparatively favorable credit policies provided by numerous domestic and foreign banks; and (iii) the relevant subsidiaries of CNACG Group providing aircraft finance lease service were registered in Beijing Tianzhu Free Trade Zone and Tianjin Dongjiang Free Trade Port Zone, and can therefore enjoy preferential financial policies supported by local governmental agencies, CNACG Group possesses a fairly strong capital advantage, and can guarantee adequate funding sources, and has the qualification and ability to engage in large-scale aircraft finance lease transaction(s).

Thirdly, the relevant business team of CNACG Group possess extensive knowledge and experience in aviation finance industries and has well comprehension on the business needs of the Group, therefore the business communication between the Group and CNACG Group would be more smoothly, and it is easier to achieve a mutual understanding with the principle of maximizing both parties' benefits in the agreement negotiation stage.

4. Internal Control Measures

The Company adopted the following measures to ensure that the Aircraft Finance Lease Transactions with the CNACG Group will be conducted on normal commercial terms and in accordance with the terms of the 2018-2019 Aircraft Finance Lease Service Framework Agreement and the pricing policy of the Company:

- The Company's finance department will request for proposals from potential service providers in relation to aircraft finance lease. If any member of the CNACG Group has been selected as the service provider, the Company's finance department, legal department, asset management department (under which there is a division responsible for the management of connected transactions) and certain other relevant departments (if applicable) will review the proposed terms of the Aircraft Finance Lease Transaction(s) to ensure that the Aircraft Finance Lease Transaction(s) will be conducted (i) in ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the 2018-2019 Aircraft Finance Lease Service Framework Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The reviewed final financing plan will be reported to the management of the Company for approval.
- 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 Aircraft Finance Lease Transactions on a regular basis, including but not limited to the implementation of pricing policies, payment arrangements and actual transaction amount under each Aircraft Finance Lease Transaction to ensure that the transactions are conducted in accordance with the 2018-2019 Aircraft Finance Lease Service Framework Agreement. In addition, the asset management department will be responsible for inspection and assessment of the balance of the Maximum Transaction Amounts for the Aircraft Finance Lease Transactions on a monthly basis. If it is expected that the relevant Maximum Transaction Amount would be exceeded, the asset management department will report to the management of the Company and take appropriate measures in accordance with the relevant requirements of the Hong Kong Listing Rules.

- The Company's internal audit department is responsible for performing the annual evaluation procedure on the internal control procedures of the Group, including but not limited to the relevant information on the management of the continuing connected transactions. In addition, the internal audit department is responsible for compiling the annual internal control evaluation report and submitting the report to the Board for examination and approval.
- The Company's independent auditor and independent non-executive Directors will conduct annual review of the Aircraft Finance Lease Transactions.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Company has implemented effective internal control and risk management measures, and such methods and procedures can ensure that the transactions contemplated under the 2018-2019 Aircraft Finance Lease Service Framework Agreement will be conducted on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

5. Parties and Connected Relationship of the Parties

The Company

The Company's principal business activity is air passenger, air cargo and airline-related services.

CNACG

CNACG is an investment holding company whose principal businesses include airport ground support services, airline catering services, aircraft maintenance and repair services, aircraft related materials lease services, property investment, ticket and tourism services, logistics and finance lease and operating lease services conducted through its subsidiaries.

II. HONG KONG LISTING RULES IMPLICATIONS

CNACG is a substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules. According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Aircraft Finance Lease Transactions shall be aggregated with the Previous Transaction. As the highest of the applicable Percentage Ratios is higher than 5.0% but less than 25%, the Aircraft Finance Lease Transactions constitute continuing connected transaction and discloseable transaction of the Company under the Hong Kong Listing Rules. Therefore, the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts are subject to: (i) the disclosure, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules; and (ii) the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules.

At the fifth meeting of the fifth session of the Board held on 27 March 2018, the Board approved the 2018-2019 Aircraft Finance Lease Service Framework Agreement, the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts thereunder. Mr. Cai Jianjiang and Mr. Song Zhiyong are considered to have a material interest in the 2018-2019 Aircraft Finance Lease Service Framework Agreement and therefore have abstained from voting in the relevant board resolution in respect of the 2018-2019 Aircraft Finance Lease Service Framework Agreement, the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts thereunder. Save as disclosed above, none of the Directors has a material interest in the 2018-2019 Aircraft Finance Lease Service Framework Agreement and hence no other Director is required to abstain from voting on the relevant board resolution.

III. SHANGHAI LISTING RULES IMPLICATIONS

Pursuant to the Shanghai Listing Rules, CNACG is a related party of the Company as it is controlled by the controlling shareholder of the Company. Therefore, the 2018-2019 Aircraft Finance Lease Service Framework Agreement shall be approved or ratified by Independent Shareholders at the AGM.

IV. GENERAL

The Company will seek Independent Shareholders' approval for the 2018-2019 Aircraft Finance Lease Service Framework Agreement, the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts thereunder.

The Independent Board Committee comprising all independent non-executive Directors has been set up to advise the Independent Shareholders in respect of the Aircraft Finance Lease Transactions and the proposed Maximum Transaction Amounts thereunder. Challenge Capital Management Limited has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

V. SHAREHOLDERS' CIRCULAR

A circular containing, among other things, (i) details of the 2018-2019 Aircraft Finance Lease Service Framework Agreement and the proposed Maximum Transaction Amounts thereunder; (ii) a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Aircraft Finance Lease Transactions contemplated thereunder and the proposed Maximum Transaction Amounts; and (iii) the recommendation of the Independent Board Committee in respect of such transactions and the proposed Maximum Transaction Amounts, will be despatched to Shareholders on or about 4 April 2018 in accordance with the Hong Kong Listing Rules.

DEFINITIONS

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

“2018-2019 Aircraft Finance Lease Service Framework Agreement”	the 2018-2019 aircraft finance lease service framework agreement entered into between the Company and CNACG on 27 March 2018, pursuant to which CNACG Group agreed to provide finance lease service to the Group in relation to the Leased Aircraft in accordance with its terms and conditions and the relevant implementation agreements contemplated thereunder
“AGM”	the 2017 annual general meeting of the Company to be held on Friday, 25 May 2018
“Airbus S.A.S.”	Airbus S.A.S., a company incorporated under the laws of France
“Aircraft Finance Lease Transactions”	the finance lease of the Leased Aircraft pursuant to the 2018-2019 Aircraft Finance Lease Service Framework Agreement
“Board”	the board of Directors
“Boeing Company”	Boeing Company, a company incorporated in the State of Delaware of the United States of America
“Company”	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

“CNAC”	China National Aviation Holding Corporation Limited (中國航空集團有限公司), a state-owned enterprise incorporated under the laws of the PRC and the controlling Shareholder of the Company
“CNACG”	China National Aviation Corporation (Group) Limited (中國航空(集團)有限公司), a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CNAC as at the date of this announcement
“CNACG Group”	CNACG and its subsidiaries
“Delivery Date”	the date on which the Lessor(s) delivers the Leased Aircraft to the Group pursuant to the respective Finance Lease Agreement
“Directors”	directors of the Company
“Finance Lease Agreement(s)”	the individual finance lease agreement(s) in relation to the Leased Aircraft to be entered into by the Group pursuant to the 2018-2019 Aircraft Finance Lease Service Framework Agreement from time to time
“Group”	the Company and its subsidiaries
“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
“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 Stock Exchange (as primary listing venue) and has been admitted into the Official List of the UK Listing Authority (as secondary listing venue)
“Independent Board Committee”	a board committee comprising Mr. Wang Xiaokang, Mr. Liu Deheng, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors

“Independent Financial Adviser” or “Challenge Capital”	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Aircraft Finance Lease Transactions under the 2018-2019 Aircraft Finance Lease Service Framework Agreement and the proposed Maximum Transaction Amounts thereunder
“Independent Shareholders”	The Shareholders other than CNAC and CNACG
“Lessee(s)”	the Company or its subsidiaries
“Lessor(s)”	subsidiary(ies) of CNACG which is/are qualified for providing aircraft finance lease services
“Leased Aircraft”	part of the aircraft scheduled to be introduced by the Company in 2018 and 2019, and to be entered into the finance lease agreement(s) in respect of the Aircraft Finance Lease Transactions (subject to adjustment from time to time)
“Maximum Transaction Amount”	the maximum aggregate amount payable under the Aircraft Finance Lease Transactions, which includes the rental fee payable and the arrangement fee payable throughout the entire lease period
“PBOC”	the People’s Bank of China
“Percentage Ratio”	has the meaning ascribed to it by the Hong Kong Listing Rules
“PRC” or “China”	the People’s Republic of China (other than, for the purpose of this announcement only, Hong Kong, Macau and Taiwan)
“Previous Transaction”	the transactions contemplated under the framework agreement dated 30 August 2016 entered into between the Company and CNACG (i.e. the ground support services, aircraft repair and maintenance services, administrative management services and finance lease and operating lease services provided by CNACG Group to the Group), the details of which are set out in the announcement of the Company dated 30 August 2016
“RMB”	Renminbi, the lawful currency of the PRC

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America

By Order of the Board
Air China Limited
Zhou Feng Tam Shuit Mui
Joint Company Secretaries

Beijing, the PRC
27 March 2018

As at the date of this announcement, the directors of the Company are Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. John Robert Slosar, Mr. Wang Xiaokang, Mr. Liu Deheng*, Mr. Stanley Hui Honchung* and Mr. Li Dajin*.*

* *Independent non-executive director of the Company*