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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)**

**(1) DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED  
TRANSACTIONS: FINANCIAL SERVICES AGREEMENTS**  
**(2) CONTINUING CONNECTED TRANSACTION:  
TRADEMARK LICENSE FRAMEWORK AGREEMENT**

**FINANCIAL SERVICES AGREEMENTS**

On 28 August 2020, the Company and CNAF proposed to renew the Air China Financial Services Agreement. On the same day, CNAHC and CNAF proposed to renew the CNAHC Financial Services Agreement.

CNAHC is the substantial shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules, and the transactions under CNAHC Financial Services Agreement constitute continuing connected transactions of the Company. CNAF is a non-wholly owned subsidiary of the Company. Since CNAHC can exercise more than 10% of the voting power at CNAF's general meeting, CNAF is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules, and the transactions under Air China Financial Services Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable Percentage Ratios in respect of the Air China New Annual Caps exceed 5% but below 25%, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable Percentage Ratios in respect of the CNAHC New Annual Caps exceed 5% but below 25%, the Credit Services to be provided to the CNAHC Group by CNAF under the CNAHC Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## **NEW TRADEMARK LICENSE FRAMEWORK AGREEMENT**

As the current term of the Trademark License Framework Agreement will expire on 31 December 2020, to maintain the consistency of the business operation, the Company and CNAHC entered into the New Trademark License Framework Agreement on 28 August 2020. The New Trademark License Framework Agreement contains no material or substantial changes and only contains certain non-material changes to the terms of Trademark License Framework Agreement such as updating the name of CNAHC and the parties' correspondence addresses. The term of the New Trademark License Framework Agreement shall be three years commencing from 1 January 2021 and ending on 31 December 2023.

The Trademark License Transaction under the New Trademark License Framework Agreement constitutes a continuing connected transaction of the Company under the Hong Kong Listing Rules. As the transaction is on normal commercial terms or better and on a royalty-free basis, it falls below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and therefore is fully exempt from Independent Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. Pursuant to the Shanghai Listing Rules, the Trademark License Transaction is subject to the Independent Shareholders' approval.

## **SHAREHOLDERS' CIRCULAR**

A circular containing, among others, (i) details regarding Air China Financial Services Agreement, CNAHC Financial Services Agreement and the Proposed Annual Caps; (ii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding its advice on the Non-exempt Continuing Connected Transactions contemplated under such agreements and the Proposed Annual Caps; and (iii) the recommendation from the Independent Board Committee regarding such transactions and the Proposed Annual Caps, will be despatched to Shareholders on or around 14 September 2020 in accordance with the Hong Kong Listing Rules.

## I. FINANCIAL SERVICES AGREEMENTS

### 1. Air China Financial Services Agreement

The current term of the Air China Financial Services Agreement will expire on 31 December 2020. As the Company expects that the transactions thereunder will continue to be conducted after 31 December 2020, on 28 August 2020, the Company and CNAF proposed to renew the Air China Financial Services Agreement.

#### *Parties*

The Company and CNAF

#### *Financial services to be provided by CNAF to the Group*

Pursuant to the Air China Financial Services Agreement, CNAF has agreed to provide the Group with a range of financial services including the following:

- a. deposit services;
- b. Credit Services;
- c. other financial services, including but not limited to:
  - (i) negotiable instrument and letter of credit services;
  - (ii) trust loan and trust investment services;
  - (iii) underwriting services for debt issuances;
  - (iv) intermediary and consulting services (including financial information services);
  - (v) guarantee services;
  - (vi) settlement services;
  - (vii) internet banking services;
  - (viii) insurance agency services;
  - (ix) spot exchange settlement and sale services;
  - (x) cross-border bilateral RMB capital pooling services; and

- (xi) other businesses of CNAF upon obtaining approval from CBIRC, PBOC or SAFE, such as forward settlement and sales of foreign exchange services.

### ***Pricing basis***

#### *Deposit services*

The interest rates applicable to the Group for deposits with CNAF shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of deposits; (ii) be not lower than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

#### *Credit Services*

The interest rates applicable to the Credit Services provided by CNAF to the Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; (ii) be not higher than the interest rates charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

#### *Other financial services*

The fees charged by CNAF to the Group for providing paid services in the other financial services shall (i) be in line with the relevant standards (if any) prescribed by PBOC, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) be not higher than the fees charged by state-owned commercial banks to the Group for the same type of services under the same conditions; and (iii) be not higher than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the Air China Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amounts will be monitored closely to ensure that the aggregate annual fees to be paid by the Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

### ***Other terms***

Pursuant to the Air China Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities. CNAF is not allowed, during the term of the Air China Financial Services Agreement, to make use of the deposits of the Group for investments involving high risks including, but not limited to, investments in equity securities and corporate bonds. CNAF is obliged to provide convenience for the auditors of the Company. If the auditors of the Company intend to inspect the accounts of CNAF, CNAF shall make arrangements for such inspection after receiving notice from the Company.

The renewal of the Air China Financial Services Agreement is subject to the approval by the Independent Shareholders. If approved by the Independent Shareholders, the term of the Air China Financial Services Agreement shall be renewed for three years commencing from 1 January 2021 and ending on 31 December 2023, which is automatically renewable for successive terms of three years after the expiry of the term subject to the fulfillment of the requirements under Hong Kong Listing Rules and the required approval procedures thereunder. Upon expiry of the Air China Financial Services Agreement, the Board will re-assess the terms and conditions of the Air China Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules. During the term of the Air China Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

### ***Reasons and benefits for the transaction***

The Directors believe that it is in the best interest of the Group to enter into the above transactions with CNAF having taken into account the following factors:

- a. in respect of transactions between the Group and CNAHC Group, CNAF is able to provide more efficient settlement services compared with independent third party banks;
- b. CNAF is able to provide safe, convenient, fast, comprehensive and tailor-made financial services to the Group. From 2004 and up to the date of this announcement, the connected transactions between CNAF and the Group have been carried out in compliance with the relevant laws and regulations and the relevant listing rules, and CNAF has a good track record on compliance. With its continuous improvement of professional level and financial services, CNAF is fully qualified for providing the relevant services to the Group;
- c. as a professional financial institution in the Group, CNAF could act more proactively in protecting the interest of the Group than external institutions; and

- d. a good cooperative relationship has been established between CNAF and the relevant departments of the Group over the years which makes their cooperation more efficient.

The Directors (including the independent non-executive Directors) consider that the Air China Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### ***Historical Figures and the Air China New Annual Caps***

Set forth below is a summary of the historical annual caps, the actual maximum amount and the Air China New Annual Caps for the daily balance of deposits (including accrued interests) placed or to be placed by the Group with CNAF:

Transaction	Historical Annual Caps			Actual maximum amount			Air China New Annual Caps		
	for the year ended 31 December	for the year ended 31 December	for the year ending 31 December	for the year ended 31 December	for the year ended 31 December	for the period from 1 January to 30 June	for the year ending 31 December	for the year ending 31 December	for the year ending 31 December
	2018	2019	2020	2018	2019	2020	2021	2022	2023
Financial Services (daily balance of deposits)	RMB12 billion	RMB14 billion	RMB15 billion	RMB10.485 billion	RMB9.610 billion	RMB9.665 billion	RMB15 billion	RMB15 billion	RMB15 billion

As the Group strengthened its management of funds and improved the efficiency of utilization of its own funds in 2018 and 2019, the growth rate of monetary funds of the Group was lower than expected. Therefore, the daily maximum amount of monetary funds of the Group in the years 2018 and 2019 and the maximum daily balance of deposits of the Group placed with CNAF in these two years were lower than expected.

### ***Basis for the Air China New Annual Caps***

The Air China New Annual Caps are determined based on the following factors:

- a. *The historical maximum amount of daily balance of deposits placed by the Group with CNAF.* Taking into consideration the historical maximum amount of the Group's daily balance of deposits placed with CNAF for the two years ended 31 December 2019 and the six months ended 30 June 2020 as shown in the table above, especially the maximum amount of the Group's daily balance of deposits placed with CNAF for the year 2018, being RMB10.485 billion (the "**Historical Maximum Amount**"), it is estimated that the amount of the Group's daily balance of deposits

placed with CNAF in each of the next three years ending 31 December 2023 will be no more than RMB10.5 billion (without taking into account the factors stated in paragraph b below).

- b. *Possible further increase in the balance of deposits placed by the Group with CNAF.* Direct financing is one of the main financing methods of the Company. The Company determines whether or not to conduct direct financing and the scale of financing based on the Company's capital needs and financing environment. In 2017, the Company used part of the proceeds raised from the non-public issuance of A shares to replace self-raised funds previously invested in the proceeds-funded projects. This led to an increase of approximately RMB4.7 billion in the balance of deposits placed by the Group with CNAF within a short period of time (the "**Historical Replaced Amount**"). Due to unsatisfactory financing environment in 2018 and 2019, the Company did not arrange direct financing in both years. Taking into account the Company's capital needs and current market condition, the Company may raise funds by way of direct financing in the next three years, which may lead to a temporary increase in the balance of deposits placed by the Group with CNAF. With reference to the Historical Replaced Amount, it is expected that raising funds by way of direct financing by the Company may result in an increase in the daily balance of deposits to be placed by the Group with CNAF by RMB4 billion for each of the three years ending 2023.
- c. A buffer of approximately 3% is applied for each of the three years ending 31 December 2023 to cater the Group's needs from time to time.

Taking into account the aforesaid factors, it is proposed that the maximum daily balance of deposits (including accrued interests) placed by the Group with CNAF for the three years ending 31 December 2021, 2022 and 2023 shall be RMB15 billion, RMB15 billion and RMB15 billion, respectively.

## 2. **CNAHC Financial Services Agreement**

The current term of the CNAHC Financial Services Agreement will expire on 31 December 2020. As CNAF expects that the transactions thereunder will continue to be conducted after 31 December 2020, on 28 August 2020, CNAF and CNAHC proposed to renew the CNAHC Financial Services Agreement.

### *Parties*

CNAF and CNAHC

### ***Financial services to be provided by CNAF to CNAHC Group***

Pursuant to the CNAHC Financial Services Agreement, CNAF has agreed to provide the CNAHC Group with a range of financial services including the following:

- a. deposit services;
- b. Credit Services;
- c. other financial services, including but not limited to:
  - (i) negotiable instrument and letter of credit services;
  - (ii) trust loan and trust investment services;
  - (iii) underwriting services for debt issuances;
  - (iv) intermediary and consulting services;
  - (v) guarantee services;
  - (vi) settlement services;
  - (vii) internet banking services;
  - (viii) insurance agency services;
  - (ix) spot exchange settlement and sale services;
  - (x) cross-border bilateral RMB capital pooling services; and
  - (xi) other businesses of CNAF upon obtaining approval from CBIRC, PBOC or SAFE, such as forward settlement and sales of foreign exchange services.

### ***Pricing basis***

#### ***Deposit services***

The interest rates applicable to CNAHC Group's deposits with CNAF shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of deposits; (ii) be not higher than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not higher than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.



### *Credit Services*

The interest rates applicable to the Credit Services provided by CNAF to the CNAHC Group shall (i) be in compliance with the requirements on interests prescribed by PBOC for such type of loans; (ii) be not lower than the interest rates charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the interest rates charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

### *Other financial services*

The fees charged by CNAF to the CNAHC Group for providing paid services in the other financial services shall (i) be in line with the relevant rate standards (if any) prescribed by the PBOC, CBIRC, CSRC, NAFMII or other regulatory authorities; (ii) be not lower than the fees charged by state-owned commercial banks to the CNAHC Group for the same type of services under the same conditions; and (iii) be not lower than the fees charged by CNAF to other CNAHC Member Companies for the same type of services under the same conditions.

Currently, other financial services which are free of charge and provided by CNAF to the CNAHC Group include the settlement services and financial information services (namely, providing statistics and information in relation to different types of financing products in the market). If CNAF charges fees for the settlement services and financial information services during the term of the CNAHC Financial Services Agreement, the pricing basis set out in the above paragraph shall apply, and the relevant transaction amount will be monitored closely to ensure that the aggregate annual fees to be paid by the CNAHC Group to CNAF for other financial services will not exceed the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

### *Other terms*

Pursuant to the CNAHC Financial Services Agreement, CNAF shall not carry out any business that has not been approved by CBIRC or any illegal activities.

The renewal of the CNAHC Financial Services Agreement is subject to the approval by the Independent Shareholders. If approved by the Independent Shareholders, the term of the CNAHC Financial Services Agreement shall be renewed for three years commencing from 1 January 2021 and ending on 31 December 2023, which is automatically renewable for successive terms of three years after the expiry of its initial term subject to the fulfillment of the requirements under Hong Kong Listing Rules/Shanghai Listing Rules and the required approval procedures thereunder. Upon expiry of the CNAHC Financial Services Agreement, the Board will re-assess the terms and conditions of the CNAHC Financial Services Agreement, and the Company will re-comply with the relevant rules governing connected transactions under the Hong Kong Listing Rules/Shanghai Listing

Rules. During the term of the CNAHC Financial Services Agreement, the agreement can be terminated on any 31 December by either party thereto by serving the other party a written notice of termination of not less than three months.

***Reasons and benefits for the transaction***

CNAF has been providing financial services to the CNAHC Group for years. The business with the CNAHC Group contributed a steady and significant portion to CNAF’s revenues in the past. Such transaction is beneficial for CNAF to make full use of its function as a financial platform to further improve the utilization efficiency and effectiveness of funds, as well as enhance its gains on capital, which is in line with the needs of the Company’s operation and development. The Directors believe that it would be in the best interest of CNAF and the Group to continue the provision of financial services by CNAF to the CNAHC Group.

The Directors (including the independent non-executive Directors) consider that the CNAHC Financial Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

***Historical Figures and the CNAHC New Annual Caps***

Set forth below is a summary of the historical annual caps, the actual maximum amount and the CNAHC New Annual Caps of the daily balance of Credit Services (including accrued interests) granted or to be granted by CNAF to the CNAHC Group:

Transaction	Historical Annual Caps			Actual maximum amount			CNAHC New Annual Caps		
	for the year	for the year	for the year	for the year	for the year	for the	for the year	for the year	for the year
	ended 31 December 2018	ended 31 December 2019	ending 31 December 2020	ended 31 December 2018	ended 31 December 2019	period from 1 January to 30 June 2020	ending 31 December 2021	ending 31 December 2022	ending 31 December 2023
Financial Services (daily balance of Credit Services)	RMB8 billion	RMB9 billion	RMB10 billion	RMB1.445 billion	RMB1.025 billion	RMB0.540 billion	RMB6.5 billion	RMB6.5 billion	RMB6.5 billion

The low utilization rate of the historical annual caps is due to the facts that (i) CNAHC and its subsidiaries had ample liquidity in the years of 2018 and 2019, therefore their demands for loans were much lower than expected; and (ii) for those members of the CNAHC Group who had loan demands, they borrowed some of their loans from independent third-party banks rather than CNAF.

### ***Basis for the CNAHC New Annual Caps:***

The CNAHC New Annual Caps are determined based on the following factors:

- a. *The historical maximum amount of daily balance of Credit Services provided by CNAF to the CNAHC Group.* The maximum amount of daily balance of Credit Services provided by CNAF to the CNAHC Group for the three years ended 31 December 2017, 2018 and 2019 was RMB3.125 billion, RMB1.445 billion and RMB1.025 billion, respectively, with an average of approximately RMB1.865 billion (the “**Average Historical Maximum Amount**”). Taking into consideration such Average Historical Maximum Amount, it is estimated that CNAF will continue to provide Credit Services to the CNAHC Group with an amount of approximately RMB1.865 billion for each of the three years ending 31 December 2023, without taking into account the factors set out in paragraph b below.
- b. CNAF may further make full use of its functions as a finance company to replace CNAHC’s existing needs for loans from external banks with a view to effectively improve the overall efficiency of use of funds. Taking into account the amount of one-year liquidity loans previously obtained by CNAHC from external banks, being RMB4 billion in 2019, and assuming CNAHC will maintain the same level of demand for liquidity loans in the next three years ending 31 December 2023, it is expected that CNAF may provide further Credit Services to CNAHC with an amount of RMB4 billion for each of the three years ending 31 December 2023.
- c. In addition, according to the loan requirement plan of certain subsidiaries of CNAHC regarding their liquidity, it is expected that the subsidiaries of CNAHC will have addition demands for loans from CNAF with an amount of approximately RMB350 million for each of the three years ended 31 December 2023.
- d. A buffer of approximately 5% is applied for each of the three years ending 31 December 2023 to cater the CNAHC Group’s needs from time to time.

Taking into account the aforesaid factors, it is proposed that the maximum daily balance of Credit Services (including accrued interests) to be provided by CNAF to the CNAHC Group for the three years ending 31 December 2021, 2022 and 2023 shall be RMB6.5 billion, RMB6.5 billion and RMB6.5 billion, respectively.

### **3. Risk Profile and Management of CNAF**

CNAF, as a non-banking financial institution providing financial services to the Group and the CNAHC Group, is subject to regulations promulgated by CBIRC from time to time. These regulations may not be the same as those regulating commercial banks. As CNAF and commercial banks have different target customers for their respective financial services, they may be subject to different risk profiles. Set out below are the major risk exposures of CNAF:

### ***Compliance risks***

According to the Measures for the Administration of Finance Companies of Enterprise Groups《(企業集團財務公司管理辦法)》 issued by the CBIRC on 27 July 2004 (as amended on 28 December 2006), CNAF shall comply with various ratios in respect of its assets and liabilities, including the capital adequacy ratio, inter-bank borrowing balances to total capital ratio, outstanding guarantees to total capital ratio, short-term securities investment to total capital ratio, long-term investment to total capital ratio and self-owned fixed assets to total capital ratio. Since its establishment until the date of this announcement, CNAF has complied with all the relevant requirements from the CBIRC in respect of the above-mentioned ratios and the applicable rules and regulations stipulated by the CBIRC.

### ***Liquidity risks***

CNAF utilises deposits received by it by lending the funds out to members of the Group and the CNAHC Group. Since the terms of the deposits and loans are often different, CNAF faces liquidity risks if any deposit becomes due and it has no immediately available fund for making payment. The nature of such risk does not differ materially from the liquidity risks faced by PRC commercial banks.

To manage its liquidity risks, CNAF strictly adheres to a 25% current ratio requirement (i.e. its current liabilities shall not exceed 25% of its current assets). The liquidity risks of CNAF are also mitigated as it could obtain financing through inter-bank loans or pledged repurchase from the inter-bank market if and when necessary. In addition, since the customers of CNAF are limited to the members of the Group and the CNAHC Group, CNAF is shielded from the risk of bank runs by individual depositors faced by commercial banks. Since its establishment until the date of this announcement, CNAF had always been able to meet the repayment schedules in respect of deposits placed by its customers.

### ***Credit risks***

Like state-owned commercial banks, CNAF faces credit risks in providing its loans and other credit services to its customers. CNAF, being a member of the CNAHC Group, is in a better position to gain information on the member companies who are its customers in a more timely and comprehensive manner as opposed to other PRC commercial banks who conduct business with clients of various credit ratings and backgrounds. To control the credit risks, CNAF carefully evaluates the operation situation and financial position of the member companies within the Group and the CNAHC Group when receiving loan applications from them and only provides loans to member companies who have sound financial position and cash flow. CNAF normally requires guarantees from the shareholders of the applicant if the applicant's credit standing exposes CNAF to relatively high risks. If a loan is approved, CNAF conducts regular post-loan examination

on the borrower to monitor and safeguard against the credit risks. If a borrower defaults on the loan or falls into financial difficulty in repayments, CNAF may enforce the guarantee provided by the shareholders of the borrower. Moreover, according to the relevant laws and regulations promulgated by the CBIRC and as set out in the articles of association of CNAF, in the event that CNAF falls into financial difficulty in payments, CNAHC has the obligation to take all necessary steps including injecting capital into CNAF based on its funding needs, to restore its financial position. Due to the careful management of the credit risks, CNAF has not had any non-performing loan since its establishment until the date of this announcement.

#### ***Directors' view***

Based on the foregoing, the Directors are of the view that the risk profile of CNAF, as a provider of financial services to the Group and the CNAHC Group, is remained not greater than that of PRC commercial banks.

#### **4. Internal Control Measures for the Non-exempt Continuing Connected Transactions**

To safeguard the interest of the Group, the Group will adopt the following internal control measures in respect of the deposit services to be provided by CNAF to the Group and the Credit Services to be provided by CNAF to the CNAHC Group, respectively.

##### ***Deposit services under the Air China Financial Services Agreement***

The Company would take the following review procedure against the following assessment criteria when obtaining the deposit services from CNAF under the Air China Financial Services Agreement:

- a. the designated staff of the Company and CNAF would closely monitor the deposit balance of the Group with CNAF on a daily basis to ensure that it does not exceed the Air China New Annual Caps;
- b. the designated staff of the Company would update the list of the Company's subsidiaries on a regular basis to ensure the aggregate deposit balance of the Group (including the subsidiaries in the updated list) with CNAF does not exceed the Air China New Annual Caps; and
- c. the designated staff of the Company would compare the rates and terms offered by CNAF and several state-owned commercial banks when the need for deposit arises to ensure those rates and terms of the Group's deposits with CNAF are in line with the relevant pricing basis.

### *Credit Services under the CNAHC Financial Services Agreement*

CNAF would take the following review procedure against the following assessment criteria when providing the Credit Services to the CNAHC Group under the CNAHC Financial Services Agreement:

- a. after receiving the Credit Services application from members of the CNAHC Group, the credit department of CNAF would carry out the following works: verifying the materials submitted by the applicant, considering the credit risk and financing ability of the applicant, checking the records such as if CNAF has provided the same type of services to CNAHC Member Companies under the same condition, learning about the current level of market interest charged by state-owned commercial banks and offering quotation;
- b. after securing the loan business, CNAF would issue a report to the loan review committee of CNAF, which in turn would make the final decision on the approval of the Credit Services and the determination of relevant terms of the Credit Services, including the loan interest rate;
- c. if it is discovered in the various quotations for a transaction under the same conditions that the loan interest rates intended to be offered by CNAF to the CNAHC and its subsidiaries are more favorable than those provided to the Group, or more favorable than those provided by independent third parties to the CNAHC and its subsidiaries, such findings shall be reported to the loan review committee of CNAF. The loan review committee of CNAF would assess whether to adjust the price for services provided by CNAF or to amend relevant terms with reference to various factors, such as loan demand and the applicant's qualifications and credibility;
- d. CNAF would complete the approval procedures of the risk management department, and grant the loan to the applicant after obtaining approval from the leader of credit department and leaders of CNAF;
- e. after the grant of the loan, the credit department of CNAF will conduct regular post-loan examination on the applicant and issue examination reports; and
- f. the accounting department of CNAF will deduct the principal and accumulated interests of the loan from the applicants' deposit accounts in CNAF on the loan repayment date. If the applicant falls short of cash to repay the loan, the applicant should request for extension in writing to CNAF prior to the maturity of the loan, and may carry out relevant formalities upon obtaining approval.

Since the Group has established adequate and appropriate internal control procedures to review the Non-exempt Continuing Connected Transactions, the Directors (including the independent non-executive Directors) consider that such methods and procedures can ensure and safeguard the Non-exempt Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable, and in the interest 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. The Company's parent and ultimate holding company is CNAHC, a PRC state-owned enterprise under the supervision of the State Council. CNAHC is mainly engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance.

### ***CNAF***

CNAF is a company with limited liability incorporated in the PRC, and is a non-wholly owned subsidiary of the Group. CNAF is primarily engaged in providing financial services to CNAHC Member Companies. Since CNAHC can exercise more than 10% of the voting power at CNAF's general meeting, CNAF is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules.

### ***CNAHC***

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB15,500 million. Its registered address is Rooms 101-C709, B1-9/F, Building 1, No. 30 Tianzhu Road, Shunyi District, Beijing, the PRC and its legal representative is Mr. Cai Jianjiang. CNAHC is primarily engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

## **6. Hong Kong Listing Rules Implications**

### ***Air China Financial Services Agreement***

#### *Deposit services*

As one or more of the applicable Percentage Ratios in respect of the Air China New Annual Caps exceed 5% but below 25%, the deposit services to be provided to the Group by CNAF under the Air China Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

#### *Credit Services*

Credit services to be provided to the Group by CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions in accordance with Rule 14A.90 of the Hong Kong Listing Rules.

#### *Other financial services*

The other financial services to be provided by CNAF to the Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to CNAF for such services for each of the three years ending 31 December 2021, 2022 and 2023 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***CNAHC Financial Services Agreement***

#### *Deposit services*

The deposits placed by the CNAHC Group with CNAF are expected to be conducted on normal commercial terms or better, and not to be secured by the assets of the Group. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions as provided under Rule 14A.90 of the Hong Kong Listing Rules.



### *Credit Services*

As one or more of the applicable Percentage Ratios in respect of the CNAHC New Annual Caps exceed 5% but below 25%, the Credit Services to be provided to the CNAHC Group by CNAF under the CNAHC Financial Services Agreement are subject to (i) the requirements applicable to discloseable transaction under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

### *Other financial services*

The other financial services to be provided by CNAF to the CNAHC Group will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the CNAHC Group to CNAF for such services for each of the three years ending 31 December 2021, 2022 and 2023 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for continuing connected transactions.

### *Approval by the Board*

At the 22nd meeting of the fifth session of the Board of the Company held on 28 August 2020, the Board approved the proposed renewal of the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Feng Gang and Mr. Xue Yasong, holding positions in CNAHC, are considered to have a material interest in the renewal of the Financial Services Agreements and therefore have abstained from voting in the relevant Board resolutions in respect of the renewal of the Financial Services Agreements and the transactions contemplated thereunder and the Proposed Annual Caps. Save as disclosed above, none of the Directors has a material interest in the renewal of the Financial Services Agreements and hence no other Director is required to abstain from voting on the relevant Board resolutions.

## **7. Shanghai Listing Rules Implications**

Pursuant to the Shanghai Listing Rules, the renewal of the Financial Services Agreement shall be approved by Independent Shareholders.

## **8. General**

The Company will seek approval from Independent Shareholders for the renewal of the Financial Services Agreements, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps. The Independent Board Committee comprising all the independent non-executive Directors has been established to make a recommendation to

the Independent Shareholders regarding the Air China Financial Services Agreement and the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps under the CNAHC Financial Services Agreement. Gram Capital has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **II. TRADEMARK LICENSE FRAMEWORK AGREEMENT**

### **1. The New Trademark License Framework Agreement**

#### ***Description of the New Trademark License Framework Agreement, pricing of and reasons for the transaction***

At the time of the incorporation of the Company, CNAHC contributed certain registered trademarks to the Company at nil consideration as the Company's intangible assets. As the trademarks are related to the daily business of CNAHC and its controlled companies, the Company licensed certain trademarks to CNAHC and its controlled companies at nil consideration for their use in its ordinary course of business as a reciprocal arrangement pursuant to the 2004 Trademark License Agreement. On 1 November 2004, the Company and CNAHC entered into the 2004 Trademark License Agreement, which expired on 31 December 2014. On 28 October 2014, the Company and CNAHC entered into the Trademark License Framework Agreement, which was renewed on 30 August 2017 for a term of three years starting from 1 January 2018.

According to the Trademark License Framework Agreement, the Company granted CNAHC and its controlled companies (excluding the Group) a non-exclusive license for the use of a total of 83 registered trademarks of the Company. The granting of the non-exclusive license under the Trademark License Framework Agreement is made on a royalty-free basis at nil consideration.

As the current term of the Trademark License Framework Agreement will expire on 31 December 2020, to maintain the consistency of the business operation, the Company and CNAHC entered into the New Trademark License Framework Agreement on 28 August 2020. The New Trademark License Framework Agreement contains no material or substantial changes and only contains certain non-material changes to the terms of Trademark License Framework Agreement such as updating the name of CNAHC and the parties' correspondence addresses. Given the circumstances described in the paragraph above, the New Trademark License Framework Agreement still adopts the same method of non-exclusive licensing of these 83 registered trademarks to CNAHC and its controlled companies at nil consideration. CNAHC and its controlled companies undertook to use such licensed trademarks subject to the terms of the non-competition agreement between CNAHC and the Company dated 20 November 2004, and to ensure the quality of the services using the licensed trademarks in order to maintain their reputation.

The term of the New Trademark License Framework Agreement shall be three years commencing from 1 January 2021 and ending on 31 December 2023, which is renewable for successive terms of three years after the expiry of the current term.

## **2. Parties and Connected Relationship between the Parties**

### *The Company*

The Company's principal business activity is air passenger, air cargo and airline-related services. The Company's parent and ultimate holding company is CNAHC, a PRC state-owned enterprise under the supervision of the State Council. CNAHC is mainly engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance.

### *CNAHC*

CNAHC is a state-owned company incorporated in the PRC with a registered capital of RMB15,500 million. Its registered address is Rooms 101-C709, B1-9/F, Building 1, No. 30 Tianzhu Road, Shunyi District, Beijing, the PRC and its legal representative is Mr. Cai Jianjiang. CNAHC is primarily engaged in the management of its state-owned assets and its equity holdings in various investment enterprises, aircraft leasing and aviation equipment maintenance. CNAHC is the controlling shareholder of the Company and is therefore a connected person of the Company as defined under the Hong Kong Listing Rules.

## **3. Hong Kong Listing Rules Implications**

The Trademark License Transaction under the New Trademark License Framework Agreement constitutes a continuing connected transaction of the Company under the Hong Kong Listing Rules. As the transaction is on normal commercial terms or better and on a royalty-free basis, it falls below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and therefore is fully exempt from independent shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

## **4. Shanghai Listing Rules Implications**

Pursuant to the Shanghai Listing Rules, the Trademark License Transaction is subject to the Independent Shareholders' approval. The Company therefore will seek approval from Independent Shareholders for the New Trademark License Framework Agreement entered into between the Company and CNAHC and the transactions contemplated thereunder.

## **5. Approval by the Board**

At the 22nd meeting of the fifth session of the Board of the Company held on 28 August 2020, the Board approved the execution of the New Trademark License Framework Agreement for a term of three years from 1 January 2021 to 31 December 2023. Mr. Cai Jianjiang, Mr. Song Zhiyong, Mr. Feng Gang and Mr. Xue Yasong, holding positions in CNAHC, are considered to have a material interest in the Trademark License Transaction and therefore have abstained from voting on the relevant Board resolution. Save as disclosed above, none of the Directors has a material interest in the Trademark License Transaction and hence no other Director is required to abstain from voting on the relevant Board resolution.

The Board (including the independent non-executive Directors) considers that the Trademark License Transaction under the New Trademark License Framework Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group. The terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **III. SHAREHOLDERS' CIRCULAR**

A circular containing, among others, (i) details regarding Air China Financial Services Agreement, CNAHC Financial Services Agreement and the Proposed Annual Caps; (ii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding its advice on the Non-exempt Continuing Connected Transactions contemplated under such agreements and the Proposed Annual Caps; and (iii) the recommendation from the Independent Board Committee regarding such transactions and the Proposed Annual Caps, will be despatched to Shareholders on or around 14 September 2020 in accordance with the Hong Kong Listing Rules.

## **DEFINITIONS**

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

“2004 Trademark License Agreement”	the trademark license agreement entered into between the Company and CNAHC on 1 November 2004
“Air China Financial Services Agreement”	the financial services framework agreement entered into between the Company and CNAF on 30 August 2017

“Air China New Annual Caps”	RMB15 billion, RMB15 billion and RMB15 billion, being the proposed maximum daily balance of deposits (including accrued interests) to be placed by the Group with CNAF under the Air China Financial Services Agreement for the three years ending 31 December 2021, 2022 and 2023, respectively
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“CNAF”	China National Aviation Finance Co., Ltd. (中國航空集團財務有限責任公司), a limited liability company incorporated under the laws of the PRC
“CNAHC”	China National Aviation Holding Corporation Limited (中國航空集團有限公司)
“CNAHC Financial Services Agreement”	the financial services framework agreement entered into between CNAHC and CNAF on 30 August 2017
“CNAHC Group”	CNAHC, its subsidiaries and their associates, companies falling within the definition of commonly held entity under the Hong Kong Listing Rules, as well as any other CNAHC Member Company which, in accordance with the listing rules of the places where the shares of the Company are listed as in force and as amended from time to time, is a connected person or related party of the Company, but excluding the Group
“CNAHC Member Companies”	the member companies of the enterprise group of which CNAHC is the parent company, specific scope of the CNAHC Member Companies shall be determined in accordance with the Administrative Measures for Finance Companies of Enterprise Groups and other relevant regulations
“CNAHC New Annual Caps”	RMB6.5 billion, RMB6.5 billion and RMB6.5 billion, being the proposed maximum daily balance of Credit Services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement for the three years ending 31 December 2021, 2022 and 2023, respectively

“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
“Credit Services”	loan, finance lease, and other credit services
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Financial Services Agreements”	the Air China Financial Services Agreement and the CNAHC Financial Services Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Independent Board Committee”	a board committee comprising Mr. Wang Xiaokang, Mr. Duan Hongyi, Mr. Stanley Hui Hon-chung and Mr. Li Dajin, all being the independent non-executive Directors
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps
“Independent Shareholders”	the independent shareholders of the Company
“NAFMII”	National Association of Financial Market Institutional Investors
“New Trademark License Framework Agreement”	the trademark license framework agreement dated 28 August 2020 entered into between the Company and CNAHC in respect of the Trademark License Transaction

“Non-exempt Continuing Connected Transactions”	the deposit services to be provided by CNAF to the Group under the Air China Financial Services Agreement and the Credit Services to be provided by CNAF to the CNAHC Group under the CNAHC Financial Services Agreement
“PBOC”	the People’s Bank of China
“Percentage Ratio”	shall have the meaning ascribed to it by the Hong Kong Listing Rules
“Proposed Annual Caps”	the Air China New Annual Caps and the CNAHC New Annual Caps
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC
“Shanghai Listing Rules”	the Rules Governing the Trading of Stocks on the Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of the shares of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trademark License Framework Agreement”	the trademark license framework agreement dated 28 October 2014 entered into between the Company and CNAHC in respect of the Trademark License Transaction
“Trademark License Transaction”	the continuing connected transaction contemplated under the Trademark License Framework Agreement/New Trademark License Framework Agreement in relation to the granting by the Company to CNAHC and its controlled companies (excluding the Group) of a non-exclusive license for the use of 83 registered trademarks of the Company

By Order of the Board  
**Air China Limited**  
**Zhou Feng Huen Ho Yin**  
*Joint Company Secretaries*

Beijing, the PRC, 28 August 2020

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

*\* Independent non-executive director of the Company*