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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: 753)



CATHAY PACIFIC

CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

JOINT ANNOUNCEMENT

This joint announcement is made under Listing Rule 13.09.

Reference is made to (a) the MOU Announcement made by Air China and Cathay on 20 October 2004, and (b) the joint announcement made by Air China, Cathay, CNAC Limited, CITIC and SPAC on 8 June 2006.

Air China and Cathay announced in the MOU Announcement that they had entered into the MOU, which, amongst other things, set out the framework for discussing the objective of the parties of exploring opportunities for cooperation in respect of certain operational matters. On 8 June 2006, Air China and Cathay entered into the Operating Agreement to record the agreement of the parties as to the carrying into effect of certain matters referred to in the MOU so as to enhance cooperation between Air China and Cathay in a number of key operational areas. Air China and Cathay believe that the close cooperation contemplated by the Operating Agreement will further the development of Beijing Capital International Airport and Hong Kong International Airport as gateways to and hubs for Mainland China, and will enable Air China and Cathay to optimise the allocation of their current operating resources and streamline the organisation of their sales functions. The Operating Agreement will take effect upon the Restructuring Agreement becoming unconditional.

Introduction

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Key Cooperation Areas

Sales and Marketing: With a view to streamlining the organisation of the sales functions of Air China and Cathay, Air China and Cathay will implement reciprocal sales representation for passenger services in Mainland China, Hong Kong, Macau and Taiwan. Cathay will be responsible for passenger sales for Air China in Hong Kong, Macau and Taiwan, and Air China will be responsible for passenger sales for Cathay in Mainland China. Air China and Cathay will comply with any relevant requirements of the Listing Rules prior to such sales and marketing taking effect.

Code Share and Joint Ventures: Air China and Cathay will operate all the passenger services of Cathay and Air China between Hong Kong and Mainland China under a code-share arrangement. In addition, Air China and Cathay will, over time, operate all shared routes between Hong Kong and Mainland China as joint venture routes under revenue and cost pooling arrangements. As a general principle, revenues of Air China and Cathay earned from, and costs incurred by Air China and Cathay in operating, each joint venture route will be shared equally between Air China and Cathay. However, where the capacities of Air China and Cathay are different on any route, such revenues and costs will be shared between them on an equitable and proportionate basis, having regard to such difference. Air China and Cathay will comply with any relevant requirements of the Listing Rules prior to such joint ventures taking effect.

Cargo Joint Venture: Air China and Cathay intend to establish a jointly-owned cargo airline based in Shanghai, in which their respective economic interests will be 51% and 49%. Air China and Cathay will comply with the relevant requirements of the Listing Rules upon establishment of the cargo joint venture.

Dragonair: Cathay will maintain Dragonair (including its brand and identity) as a principal airline within the Cathay group for a period of six years. During that period, Dragonair will continue to operate substantial air services between Hong Kong and Mainland China.

As Cathay currently owns 10% of the total issued shares of Air China, it is a substantial shareholder of Air China and is therefore a connected person of Air China as defined under Chapter 14A of the Listing Rules. After the proposed restructuring contemplated by the Restructuring Agreement, Air China is expected to own more than 10% of the enlarged issued share capital of Cathay and therefore it will also be a connected person of Cathay. Accordingly, the transactions contemplated by the Operating Agreement will constitute connected transactions on normal commercial terms for each of Air China and Cathay under Chapter 14A of the Listing Rules.

Definition

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

“Air China”	Air China Limited, a company incorporated in the People’s Republic of China and whose H shares are listed on the Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue
“Cathay”	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange
“CITIC”	CITIC Pacific Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange

“CNAC Limited”	China National Aviation Company Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange
“Dragonair”	Hong Kong Dragon Airlines Limited, a company incorporated in Hong Kong
“Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mainland China”	The People’s Republic of China excluding Hong Kong, Macau and Taiwan but including (for the avoidance of doubt) the Pearl River Delta
“MOU”	A non-binding Memorandum of Understanding between Cathay and Air China relating to the matters referred to in the MOU Announcement
“MOU Announcement”	The joint announcement made by Cathay and Air China on 20 October 2004
“Operating Agreement”	The operating agreement dated 8 June 2006 pursuant to which Air China and Cathay have agreed to cooperate in various operational areas
“Restructuring Agreement”	The restructuring agreement dated 8 June 2006 entered into by SPAC, CITIC, CNAC Limited, Air China and Cathay
“SPAC”	Swire Pacific Limited, a company incorporated in Hong Kong and whose shares are listed on the Exchange

Directors

As at the date of this announcement, the directors of Air China are:

Non-Executive Directors: Li Jiaxiang (Chairman), Kong Dong, Wang Shixiang, Yao Weiting;
 Executive Directors: Ma Xulun, Cai Jianjiang, Fan Cheng; and
 Independent Non-Executive Directors: Hu Hung Lick, Henry, Wu Zhipan and Zhang Ke.

As at the date of this announcement, the directors of Cathay are:

Executive Directors: Christopher Pratt (Chairman), Robert Atkinson, Philip Chen, Derek Cridland and Tony Tyler;
 Non-Executive Directors: Martin Cubbon, Henry Fan, James Hughes-Hallett, Davy Ho, Vernon Moore, Carl Yung and Zhang Xianlin; and
 Independent Non-Executive Directors: Peter Lee, Raymond Or, Jack So and Tung Chee Chen.

By Order of the Board
Air China Limited
Zheng Baoan Li Man Kit
Joint Company Secretaries

By Order of the Board
Cathay Pacific Airways Limited
David Fu
Company Secretary

Beijing, 8 June 2006

Hong Kong, 8 June 2006

“Please also refer to the published version of this announcement in The Standard”