Existing Principal Shareholding Structure

Source: Announcement on 9th June 2006
Proposed Transaction Steps (1)

1. Cathay Pacific acquires all the Dragonair shares that it does not already own in consideration for the issue of 548 million new Cathay Pacific shares at HK$13.50 each and HK$822 million cash
   - Values 100% of equity of Dragonair at HK$10 billion

2. Air China acquires 399 million Cathay Pacific shares from Swire Pacific and CITIC Pacific at HK$13.50 each to hold 10.16% of Cathay Pacific (17.5% including its subsidiary CNAC Limited)

3. Cathay Pacific increases its stake in Air China to 20% by subscribing for 1,179 million new H shares at HK$3.45 cash per Air China share
   - CNAHC (45.5%)
   - Cathay Pacific (20.0%)
   - CNAC Group (13.0%)
   - Public (21.5%)

(a) Subject to regulatory and shareholders' approvals
Proposed Transaction Steps (2)

4 Swire Pacific and CITIC Pacific sell Cathay Pacific shares in the open market to achieve final shareholding structure for Cathay Pacific of:

- Swire Pacific (40.0%)
- Air China(b) (17.5%)
- CITIC Pacific (17.5%)
- Public (25.0%)

Following the Transaction(a)

- Operating Agreement between Air China and Cathay Pacific implemented
- Cathay Pacific distributes a HK$0.32 per share special dividend (HK$1,258 million)

(a) Subject to regulatory and shareholders’ approvals
(b) Including Cathay Pacific shareholding held by Air China subsidiary, CNAC Limited
Post Transaction Principal Shareholding Structure

Source: Announcement on 9th June 2006

- **SWIRE PACIFIC**
  - CITIC Pacific
  - 40.00%
  - 17.50%

- **Air China**
  - CNAC(HK)
  - 68.36%
  - 10.16%
  - 20.00%

- **CATHAY PACIFIC**
  - 7.34%

- **Dragonair**
  - 100.00%
Operating Agreement between Air China and Cathay Pacific

- **Sales and Marketing**
  - Reciprocal sales representation for passenger services in Greater China
    - Air China will be responsible for passenger sales for Cathay Pacific in Mainland China
    - Cathay Pacific will be responsible for passenger sales for Air China in Hong Kong, Macau and Taiwan

- **Code Share and Joint Ventures**
  - Code share arrangements for all passenger services between Hong Kong and Mainland China; and
  - Joint venture, on a profit share basis, between HKG / Beijing, HKG / Dalian, HKG / Chengdu, HKG / Hangzhou, HKG / Chongqing
Operating Agreement between Air China and Cathay Pacific (Cont’d)

- **Business Cooperation**
  - Align and co-ordinate the passenger networks
  - Promotion of traffic on each others’ networks and through the Beijing and Hong Kong hubs
  - Explore opportunities for joint purchasing and the use of each other’s services; product development support; and co-operation in the areas of engineering, ground handling, catering, cargo services, information technology, purchasing, safety and security

- **New Cargo Joint Venture**
  - Air China and Cathay Pacific intend to establish an air cargo joint venture based in Shanghai

- **Dragonair will remain as a principal airline (including its brand and identity) within the Cathay Pacific Group**
Benefits for customers

- More destinations, greater travel choice
- Enhanced convenience for travel between Mainland China and the rest of the world
- Shorter connection time and enhanced connectivity
- More flight frequency
- Flexibility: one ticket, unrestricted travel on three airlines
Benefits for the China aviation industry

- Greater international traffic flows through Beijing and Hong Kong hubs
- Enhancement of Beijing and Hong Kong as major Asian aviation hubs
- Hong Kong and Mainland China will benefit from an aviation industry better able to compete in a global marketplace
- The multiplier effect: more business opportunities for tourism, retail, ground handling and the hospitality industries
- Stronger and more coordinated marketing efforts for tourism in and out of Hong Kong and Mainland China
Transaction Rationale: all three airlines and their shareholders benefit

- Greater network reach and connectivity
  - Integration of Cathay Pacific and Dragonair networks and increased co-operation between Air China and Cathay Pacific

- Promotes Beijing and Hong Kong Airports as major Asian hubs and gateways into China
  - Increased traffic flows, transit customers and network utilisation

- Improved service quality through transfer of knowledge and know-how between the airlines

- Revenue and costs synergies through increased connectivity and thus load factors, network alignment and adoption of best practices

- Further business opportunities between Air China and Cathay Pacific from cargo JV, Operating Agreement
Comparison of CX and KA

<table>
<thead>
<tr>
<th>Operational Data – Year 2005</th>
<th>Cathay Pacific</th>
<th>Dragonair</th>
<th>Cathay Pacific + Dragonair</th>
<th>Air China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fleet (Number of Aircraft)</td>
<td>102#</td>
<td>34</td>
<td>136</td>
<td>176</td>
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<tr>
<td>Passenger</td>
<td>82</td>
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<td>Freighter</td>
<td>20#</td>
<td>6</td>
<td>26</td>
<td>6</td>
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<tr>
<td>Routes</td>
<td>92</td>
<td>36</td>
<td>118*</td>
<td>316</td>
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<tr>
<td>Revenue passengers carried (mn)</td>
<td>15</td>
<td>5</td>
<td>20</td>
<td>28</td>
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<tr>
<td>Staff</td>
<td>15,806</td>
<td>2,976</td>
<td>18,782</td>
<td>18,447</td>
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<tr>
<td>RPK (mn)</td>
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<tr>
<td>ATK (mn)</td>
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<td>3,028</td>
<td>21,131</td>
<td>11,422</td>
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</table>

* Includes 10 overlapping Cathay Pacific and Dragonair routes
# Includes Air Hong Kong
Source: Corporate websites and annual reports
Creating one of the Strongest Airline Groupings In The World

Source: Corporate websites and annual reports
Notes:
1) Cathay Pacific’s ATK figure includes Air Hong Kong
2) Singapore Airlines’ ATK figure includes SIA Cargo
3) All airlines’ (except Emirates) RPK and ATK figures correspond to the 12 months period ended 31 December 2005
4) Emirates’ figures are extracted from its annual report for financial year ended 30 March 2006
Transaction outcome

Creating one of the strongest airline groupings in the world

Enhancing the position and boosting the development of the Beijing and Hong Kong hubs

Great for Mainland China
Great for Hong Kong
## Operating data comparison

<table>
<thead>
<tr>
<th></th>
<th>Cathay Pacific + Dragonair</th>
<th>Air China</th>
<th>Singapore Airlines</th>
<th>Qantas</th>
<th>Emirates</th>
<th>British Airways</th>
<th>Lufthansa Group</th>
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<tbody>
<tr>
<td>Fleet (Number of Aircraft)</td>
<td>136</td>
<td>176</td>
<td>103</td>
<td>200</td>
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<td>316</td>
<td>60</td>
<td>145</td>
<td>83</td>
<td>206</td>
<td>373</td>
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<tr>
<td>Revenue passengers carried (m)</td>
<td>20</td>
<td>28</td>
<td>17</td>
<td>33</td>
<td>14</td>
<td>36</td>
<td>51</td>
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<tr>
<td>Staff</td>
<td>18,782</td>
<td>18,447</td>
<td>14,391</td>
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<td>RPK (mn)</td>
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<td>15,803</td>
<td>22,982</td>
<td>26,486</td>
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</table>

* Includes 10 overlapping Cathay Pacific and Dragonair routes

Source: Corporate websites and annual reports

Notes:
1) Cathay Pacific’s fleet and ATK figures include Air Hong Kong
2) Singapore Airlines’ figures include SIA Cargo
3) All airlines’ (except Emirates) Revenue Passengers Carried, RPK, ASK and ATK figures correspond to the 12 months period ended 31 December 2005
4) Emirates’ figures are extracted from its annual report for financial year ended 30 March 2006
Share price history

### Cathay Pacific

- **Last price prior to announcement**: HK$13.50
- **1 month average**: HK$13.23
- **3 month average**: HK$13.61
- **6 month average**: HK$13.77

### Air China

- **Last price prior to announcement**: HK$3.45
- **1 month average**: HK$3.30
- **3 month average**: HK$3.10
- **6 month average**: HK$2.87

Source: Bloomberg
## Transaction costs and cash impact for Cathay Pacific

<table>
<thead>
<tr>
<th>Description</th>
<th>HK$ million</th>
<th>Note</th>
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</thead>
<tbody>
<tr>
<td>Cash consideration</td>
<td>822</td>
<td>A</td>
</tr>
<tr>
<td>Value of new shares to be issued</td>
<td>7,399</td>
<td>B</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>8,221</strong></td>
<td>A+B</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>HK$ million</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash consideration for Dragonair acquisition</td>
<td>822</td>
<td>A</td>
</tr>
<tr>
<td>Increasing shareholding in Air China to 20%</td>
<td>4,068</td>
<td>C</td>
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<tr>
<td>Special dividend</td>
<td>1,258</td>
<td>D</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>6,148</strong></td>
<td>A+C+D</td>
</tr>
</tbody>
</table>

**Notes:**
- A: 10% of total consideration paid for 82.21% in Dragonair
- B: 548 million new Cathay Pacific shares to be issued at HK$13.50 per share (90% of total consideration paid for 82.21% in Dragonair)
- C: Purchase of 1,179 million new Air China shares at HK$3.45 per share
- D: HK$0.32 per share special dividend to post transaction shareholders (3,931 million shares in issue post transaction)