
THE STRATEGIC INVESTOR

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Founded in 1946, Cathay Pacific Airways Limited is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to more than 85 destinations around the world. As of the Latest Practicable Date, Cathay Pacific also held approximately 18.6% of the issued share capital of Dragonair. As of June 30, 2004, Cathay Pacific operated a fleet of 75 passenger and 11 cargo aircraft. In 2003, its consolidated turnover and profit before tax were HK\$29,578 million and HK\$1,756 million, respectively. In the six months ended June 30, 2004, its consolidated turnover and profit before tax were HK\$18,185 million and HK\$2,065 million, respectively. Cathay Pacific's principal shareholders are Swire Pacific Limited, which owned 46.14% of the shares as of June 30, 2004, and CITIC Pacific, which owned 25.74% of the shares as of June 30, 2004. Its shares have been listed on the Hong Kong Stock Exchange since 1986.

Areas of Strategic Co-operation

We recently agreed with the Strategic Investor to develop a long-term strategic relationship. The key components of this relationship will involve an investment by the Strategic Investor in us and mutual co-operation between the Strategic Investor and us in connection with the two companies' aviation-related businesses in Hong Kong and mainland China. We and the Strategic Investor believe the potential alignment of our respective route networks should maintain and strengthen both Hong Kong International Airport and Beijing Capital International Airport as gateways to, and hubs for, mainland China. We and the Strategic Investor have identified several areas for co-operation, including:

- joint marketing and sales activities to promote traffic between city pairs in the respective networks;
- co-ordination of operating schedules to facilitate the exchange of passengers and cargo between the two airlines;
- co-operation in the areas of engineering, ground handling, catering, cargo services, information technology, purchasing, safety and security;
- exchange and secondment of staff; and
- product development support.

We and the Strategic Investor believe the strategic investment will serve as a platform on which to base a closer partnership in future years.

The Strategic Placing

As part of the International Offering, the Joint Global Coordinators and we have entered into a strategic placing agreement with the Strategic Investor for the subscription by the Strategic Investor at the Offer Price for such number of Offer Shares that would constitute, in aggregate, 10.0% of our total issued share capital immediately following the completion of the Global Offering (including any exercise of the Over-allotment Option), being 905,061,818 H Shares assuming the Over-allotment Option is not exercised, or 943,321,091 H Shares, assuming the Over-allotment Option is exercised in full.

The sale of the Offer Shares to the Strategic Investor will be underwritten by certain International Underwriters and will not be affected by any reallocation of Offer Shares between the

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International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering.

Conditions Precedent

The Strategic Investor's subscription obligation under the strategic placing agreement is conditional upon the Underwriting Agreements being entered into and having become unconditional.

Restrictions on the Strategic Investor

The Strategic Investor has agreed that, without the prior written consent of the Joint Global Coordinators and us, it will not:

- for a period of twelve months following the Listing Date, dispose of any Shares subscribed for pursuant to the International Offering (or any interest in any company or entity holding any of such Shares), other than transfers to any of its wholly owned subsidiaries and on the basis that the transferee will be subject to the restrictions on disposals imposed on the Strategic Investor; and
- after the twelve-month lock-up period, (a) it may not dispose of H Shares representing more than 1% of our total issued share capital (whether in a single transaction or a series of related transactions) to any person(s) unless it has given sufficient notice to us in advance of its such intention, has consulted us as to the suitability of the purchaser(s), and has fully taken into account our views before effecting the disposal; and (b) it will not knowingly dispose of any Shares to another airline operator, or to another entity which is a holding company, subsidiary or fellow subsidiary of an airline operator.

For the above purpose, "dispose of" means, in respect of any H Shares, offering, pledging, charging, selling, mortgaging, lending, creating, transferring or otherwise disposing of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the H Shares or any securities convertible into or exercisable or exchangeable for such H Shares, or contracting to do so, whether directly or indirectly, or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such H Shares or securities, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities, cash or otherwise.

The Strategic Investor has also agreed that, absent our prior written consent, it will not acquire any shares in the capital of the Company such that the aggregate ownership position (direct and indirect) in us, including shares held by its associates, exceeds 10% of our entire issued share capital.

Right to Nominate One Non-executive Director

The Strategic Investor is entitled to nominate one Non-executive Director for appointment to our Board of Directors for so long as its aggregate shareholding represents or is equivalent to not less than 5% of our total issued share capital from time to time. Such nomination right is provided for any Shareholder holding more than 5% of our share capital as set out in our Articles of Association.

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With regard to the appointment of such Non-executive Director nominated by the Strategic Investor, arrangements are in place to avoid detriment to the interests of the Company where there is a conflict of interests between the Company and the Strategic Investor both at a board level and at a shareholders level. With respect to the arrangements at the board level, any Non-executive Director nominated by the Strategic Investor will be in the minority as one out of eleven Directors and as such the Board will remain independent of the Strategic Investor. At the shareholders level, as the Strategic Investor will upon completion of the Global Offering hold 10.0% of the issued shares of the Company, it would be a connected person of the Company for the purpose of the Hong Kong Listing Rules. All transactions between the Group and the Cathay Pacific Group have been and will be entered into on normal commercial terms based on arm's length negotiations and any transactions which do not fall below the de minimis threshold as stipulated by the Hong Kong Listing Rules will be subject to the announcement and independent shareholders' approval requirements for connected transactions under the Hong Kong Listing Rules. See the section headed "Business — Connected Transactions — Continuing Connected Transactions with the Cathay Pacific Group."