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CATHAY PACIFIC AIRWAYS LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 293)

Objections to Application to Air Transport Licensing Authority

The appended press statements by Cathay Pacific Airways Limited (“Cathay Pacific”) and Hong Kong Dragon Airlines Limited (“Dragonair”) are being made following the publication by the Air Transport Licensing Authority of Hong Kong of particulars of an application by Jetstar Hong Kong Airways Limited (“Jetstar Hong Kong”) to operate scheduled air services.

This announcement is issued by Cathay Pacific pursuant to Part XIVA of the Securities and Futures Ordinance.

Investors are advised to exercise caution in dealing in shares of Cathay Pacific.

As at the date of this announcement, the Directors of Cathay Pacific are:

Executive Directors: Christopher Pratt (Chairman), James Barrington, Ivan Chu, Martin Murray and John Slosar;

Non-Executive Directors: Cai Jianjiang, Fan Cheng, James W.J. Hughes-Hallett, Peter Kilgour, Ian Shiu, Merlin Swire, Wang Changshun and Zhao Xiaohang; and

Independent Non-Executive Directors: Irene Lee, Jack So, Tung Chee Chen and Peter Wong.

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

Hong Kong, 5th September 2013

Statement by Cathay Pacific Airways Limited

5 September 2013

APPROVAL OF JETSTAR HONG KONG APPLICATION WOULD VIOLATE BASIC LAW AND UNDERMINE HONG KONG'S ECONOMY

Approval of the application for a licence to operate in Hong Kong by Jetstar Hong Kong would be a violation of Article 134 of Hong Kong's Basic Law because Jetstar Hong Kong does not meet the requirement that it must have its principal place of business in Hong Kong. That application was published in the Government of the Hong Kong Special Administrative Region Gazette and Cathay Pacific Airways can confirm that it has filed a formal objection to the application.

Public statements previously made in Australia by Jetstar and its parent company Qantas Airways make it clear that Jetstar Hong Kong is a franchise of Jetstar in Australia and that management control of Jetstar Hong Kong would rest in Australia with Jetstar and Qantas Airways. This means that Jetstar Hong Kong's principal place of business would be in Australia, not Hong Kong.

The Hong Kong residence of a particular shareholder of Jetstar Hong Kong and the number of shares held by that shareholder do not determine management control or principal place of business under the Basic Law. Nor does the fact that particular officers of Jetstar Hong Kong are residents in Hong Kong. Any local franchise operation has local managers. This does not stop it from being controlled from overseas. Management control of the Jetstar Hong Kong franchise clearly rests in Australia.

Our position that Jetstar Hong Kong does not meet the Basic Law requirement to have its principal place of business in Hong Kong is backed by strong legal advice.

In addition to violating the Basic Law, approval of this application would set a dangerous precedent by granting control of Hong Kong's hard-negotiated sovereign air traffic rights to a carrier that is nothing more than a franchise operation controlled by a foreign airline.

International air services exist because of bilateral agreements between governments and the principle of fair exchange of comparable value is an important element of these agreements. Air traffic rights are valuable economic assets for any government and must be used in the best interests of Hong Kong and its economy. Handing over Hong Kong's air traffic rights to a carrier that is a franchise controlled by an Australian airline that itself can influence the Australian government's negotiations with Hong Kong creates a clear conflict-of-interest where Hong Kong loses out.

The reality is that, by its own admission, Jetstar Hong Kong is a franchise of a foreign airline which is also controlled by that foreign airline. The setting up of Jetstar Hong Kong is an attempt by a foreign carrier to gain access to Hong Kong's pool of traffic rights without a fair exchange of value to Hong Kong. This is against the principle of fairness and reciprocity and is not in the best interests of Hong Kong.

Cathay Pacific Airways contends that Hong Kong air traffic rights should be used to support the development of truly Hong Kong-based aviation and the Hong Kong economy, not foreign airlines and their franchises. This is particularly important at a time when Hong Kong's airport is short of capacity in meeting existing air traffic demands.

Allowing a carrier that is a franchise controlled by a foreign airline to gain access to Hong Kong's air traffic rights would severely weaken Hong Kong's ability to negotiate with foreign governments for the expansion of Hong Kong's air services. Doing so would also open the door to similar attempts to grab Hong Kong's air traffic rights by other foreign airlines based in rival aviation hubs to Hong Kong. This can only damage the Hong Kong aviation industry and adversely affect the substantial contributions that industry makes to the Hong Kong economy.

Cathay Pacific Airways is not against competition. We successfully compete with other airlines every day in Hong Kong and around the world. This includes the 107 other Hong Kong and foreign airlines serving Hong Kong, 17 of which call themselves low-cost carriers (LCCs). Cathay Pacific Airways supports increased choice for consumers in Hong Kong, including the set up of LCCs with their principal place of business in Hong Kong. However, such developments must abide by Hong Kong law and they must be in the best interests of the Hong Kong economy. The proposed set up of Jetstar Hong Kong does not fit either of these important criteria.

This is not a simple matter of an airline seeking to establish operations in Hong Kong. It is much more than that. At the heart of this issue is the question, "Why should Hong Kong allow a foreign carrier to violate both the letter and the spirit of the Basic Law and put important economic assets into the hands of a franchise controlled by a foreign airline and, in the process, create a clear conflict-of-interest in terms of air traffic rights negotiations between Hong Kong and Australia?" We believe that action would undermine the Hong Kong economy and weaken its overall competitiveness and that is why we object to this application.

Statement by Hong Kong Dragon Airlines Limited

5 September 2013

JETSTAR HONG KONG'S APPLICATION DOES NOT MEET BASIC LAW REQUIREMENT AND APPROVAL WOULD ADVERSELY AFFECT HONG KONG'S ECONOMY AND POSITION AS AN AVIATION HUB

(HONG KONG) Dragonair has filed a formal objection to the application by Jetstar Hong Kong for a licence to operate in Hong Kong. Our objection is based on the following principal grounds:

1. Jetstar Hong Kong does not satisfy the requirement under Article 134 of the Basic Law that it must have its principal place of business in Hong Kong. It is clear that management control of Jetstar Hong Kong would rest in Australia with Jetstar Australia and Qantas Airways. This means that Jetstar Hong Kong's principal place of business would be in Australia, not Hong Kong.
2. Given the capacity constraints at Hong Kong International Airport (HKIA), the allocation of scarce slots for aircraft traffic should take into account what is best for the overall benefit of Hong Kong and its economy. We do not believe that Jetstar's business model will make the best use of the remaining available slots at HKIA. This is particularly important since the third runway at the airport, if approved, is not expected to be in operation before 2023.

We are not against competition. We compete successfully in Hong Kong and elsewhere in the region each and every day, but we do not believe this is a matter of competition. This application raises important legal and public interest issues which could have very clear negative implications for the Hong Kong economy. Granting a licence to a foreign-controlled airline would set a very negative precedent that would undermine the health of aviation in Hong Kong. Approval of this application, therefore, would not be in the best interests of the Hong Kong economy and it would be contrary to the Basic Law.