

FORMAL OFFER ON *THE 49ERS*

Ladies and Gentlemen,

For the last three and a half years the clear priority of your Association has been to seek an acceptable resolution to the plight of our *49er* colleagues.

You are all well aware that your General Committee has been following a strategy of constructive re-engagement with the Company in an attempt to create an environment favourable to the resolution of the *49er* situation through dialogue. This strategy has proven successful.

Starting in November 2003, a series of five meetings were held between Cathay Pacific Chairman James Hughes-Hallett and myself, which culminated early last month in the Chairman agreeing to enter into formal discussions with a view to formulating a settlement proposal that would be acceptable to all parties. Of necessity, and at the Company's insistence, those discussions were conducted with complete confidentiality during the course of the past month.

Our approach to these negotiations drew heavily on the considerable comment we have previously had from *49ers* as to their needs from a resolution as well as the advice of our legal counsel concerning the strength of the legal cases and the likely remedies available from that process.

Following a number of recent meetings where your negotiators were able to develop and significantly improve the initial Company Offer, I met with the Chairman again on Tuesday 14th December. At this meeting he confirmed to me that the Company were unable to make any further concessions. Whilst we have left no stone unturned in seeking improvements, we have now arrived at the point where both your negotiators and GC believe that the Offer before us is the best the Company are prepared to make.

This final Offer from the Company was considered by your GC over the course of the last few days and the *49ers* have now been individually advised of the Terms. The view of the GC is that the proposal represents the best outcome that is going to be achievable through dialogue and it is significantly more favourable to the *49ers* than the only other recourse realistically possible, which is the finalisation of the legal cases. Legal advisors in all three jurisdictions agree with this view.

There are two main aspects of the Offer:

- Re-employment
- Financial settlement

Re-employment

- All *49ers*, other than those not eligible due to having passed retirement age, or through being unable to hold a Hong Kong licence for medical reasons, would be offered an opportunity to be assessed for re-employment by Cathay Pacific Airways Ltd. Limits normally applied on age at recruitment would not be applied.
- The assessment process would consist of a medical check and series of three interviews, the purpose of which would be to determine suitability to resume employment with Cathay Pacific.
 - Professional competence would be assumed; there would be no questions relating to professional matters or simulator assessments.
 - The first step would be a psychological evaluation conducted by Dr John Fowler and/or Dr John Gardner. Dr Fowler is well known to most of the *49ers*. Dr Gardner is an independent and well respected psychologist, whose services both the Company and your Association have retained in the past. A successful evaluation in this phase would ensure that the *49er* would then complete the entire assessment process through to a decision.
 - The medical check would be to ensure that medical status has not changed in any significant way since 2001.
 - The first interview would be conducted by two Flight Operations Managers. Pilot Managers would be drawn from a pool of those not involved in the termination process in 2001. Names that have been suggested by your Association and agreed by the Company are Captain Nick Martin, Captain Bruno Siciliano, Captain Chris Kempis, Captain Phil Elliot, Mr John Holmes and Mr Paddy Cavanagh.
 - The second interview would be conducted by the DFO and a colleague, with Dr John Gardner in attendance.
 - A decision on each applicant would subsequently be made by a Selection Panel, chaired by the DFO, consisting of all those involved in the interview process.
- The HKAOA would not be involved in the decision making process. However, we have had an input into both the process itself, as well as the

make up of the panel. We firmly believe that the assessment procedure will permit a fair and objective decision to be made in each case.

- Those who are assessed favourably would be offered initial reemployment as Freighter First Officers. Successful applicants would rejoin as soon as practicable, in previous Seniority order, but would not displace brand new recruits already offered firm start dates. The Company have now stopped offering start dates to Freighter First Officers, reserving the next positions for returning 49ers, and start dates could be expected to be late in the second half of next year.
- Successful applicants would be assigned a 'batch' DOJ, which would be the day on which the first re-joining 49er commences training. Within that batch, successful applicants would be placed according to the seniority they formerly held.
- Successful applicants would be eligible to apply for Command vacancies on the Freighter immediately as per present policy. Therefore, those with previous command experience may well achieve Command on this fleet very quickly.
- In accordance with the COS, rejoining 49ers would be eligible to transfer to the passenger fleet 36 months after 'check to line' or 42 months from course commencement date, whichever is the sooner. Those expatriates relocating to Hong Kong at that time would be entitled to full expatriate benefits in accordance with the COS.
- Salary Increments would commence at year 1 in rank and thereafter would be in accordance with normal COS progression. Those Officers previously employed on A Scale would receive A Scale *salary* when eligible to return to, and having bid for a return to the Passenger fleet. At that point, the A Scale salary will be at an increment based upon their rank and length of service since re-joining the Company.
- Seniority would be restored as follows:
 - Initially, 'New' DOJ Seniority would apply to all aspects of the career.
 - Once the Officer becomes eligible to transfer to the Passenger fleet in accordance with the COS, Seniority based upon his Aircrew Seniority List position on 9th July 2001 will be restored for the purposes of career progression and other FOPS functions such as type transfer, basings and roster requests. At that time, therefore, the Officer will become eligible for any position to which his original Seniority would now entitle him. At current rates of progression,

those Officers would, at that point, hold sufficient seniority for passenger command.

- Pay increments and other Benefits entitlements such as Staff Travel would continue to be derived from the 'New' DOJ.
- No other monetary compensation, nor adjustment for loss of Provident Fund earnings, would be paid to these Officers.
- During the normal contractual probationary period of 12 months, the Company or the Officer may elect, in accordance with the COS, to part ways. In this case, the Officer would still be entitled to the ex-gratia payment referred to below.

Financial Settlement

- Those who do not wish for, are not eligible for, or are not successful with, the assessment would be offered an ex-gratia payment of an additional ten (10) months *salary* (as at 9th July 2001) to that already paid out, subject to the proviso that no 49er would receive more than they would have earned had they worked through to normal retirement age. Thus, two 49ers who were quite close to retirement at the time of termination would receive less than the full ten months. The estate of Greg England is eligible for this ex-gratia payment in full.

Additional Terms of the Offer

- Prior to being eligible to participate in the Offer, each 49er would have to agree to withdraw permanently from all legal actions relating to the dismissals and accept the Offer as 'full and final settlement', prior to participating in the Offer.
- The Association would be required to cease funding all legal actions related to the dismissals.
- It has been agreed that in future discussions on COS, the parties would discuss ways of preventing a recurrence of the events that took place in July 2001.
- The Company has agreed to work with the Association to provide suitable letters of service for those Officers who do not rejoin Cathay Pacific Airways.

We recognise that this Offer does not contain all the elements that we might have hoped for. Certainly, the 49er will not be recompensed for the pain of the past three and a half years. However, we are conscious that all parties have already lost greatly out of this dispute, the 49ers more than any, and what is needed is a resolution that allows us all to move forward.

Your GC believes that these proposals can do that. Moreover, these are the best terms possible through any realistic option we might employ to gain closure. Therefore, your GC and I have recommended this Offer to the 49ers and we recommend it to you.

Many 49ers would have the opportunity to resume a career with Cathay Pacific and for those who do not, the ex-gratia payment is a better option than continued pursuit of the legal actions. Our legal advisors in each jurisdiction have provided their best estimate of settlement amounts likely to be awarded assuming a favourable ruling, and in nearly every case they are substantially less than the ex-gratia payment offered.

Under the Terms of this Offer, the Association is also required to make a decision regarding its acceptability and we anticipate that a motion with the following wording will be put to the Membership at an Extraordinary General Meeting in very early February 2005:

Be it resolved that the Membership of the Association accepts the Company Offer of 14th December 2004 on the 49ers.

In the run up to that vote the Membership will be appraised of any feedback we receive from the 49ers including, at the appropriate time, how many of them have elected to accept the Offer.

Following that Urgent General Meeting, I will meet with the Company again and relay to them the decision of each 49er, and that of the Membership. Should the motion pass, your GC will also, in accordance with the Terms of the Offer, instruct the 49er's solicitors that the Association will henceforth cease funding the related legal actions.

In recognition of the importance of the issue and of the likelihood that there will be many questions, we are preparing to send senior members of the GC to various locations worldwide where they will meet with each 49er and provide them an opportunity to discuss the Offer in person should they so wish. We are also arranging Focus nights in the New Year for the benefit of the wider Membership.

I trust that you will share the relief of your GC in being able, at long last, to put something tangible by way of an Offer of Resolution on the 49ers in front of you for consideration. We cannot even imagine the anguish and loss that the 49ers

and their families have experienced over the past three and a half years. However we are optimistic that within this Offer is the vehicle for them and their families to be able to gain the necessary closure and move forward. Therefore, we recommend this Offer to you.

Sincerely

A handwritten signature in black ink that reads "Murray Gardner". The signature is written in a cursive style. To the right of the signature is a vertical red line.

Murray Gardner
President
16 December 2004