

Dear colleague,

Like many of us, you will have been concerned to learn that the Flight Attendants Union has announced threats to disrupt our operations in the coming weeks. This behaviour is irresponsible at any time but particularly now as it comes at the festive season when many Hong Kong people are looking forward to a year-end break.

Threats of sick-outs, refusing to serve passengers and strike actions are designed to pressure the Company and unnecessarily alarm the public and our passengers. It will not only undermine the travelling public's confidence in Cathay Pacific, it would also affect all Cathay Pacific employees.

Cathay Pacific is introducing enhancements to its RightChoice medical plans to provide better protection to our employees and their dependents and in updating the plans we also need to better align them with the wider marketplace. This includes making the benefits job-level driven and also introducing a user contribution i.e. co-pay element.

My purpose in writing at this time is to explain the steps we have taken to communicate the changes and to listen to employee feedback. The changes to the RightChoice medical plan, which apply to the majority of our employees, are necessary because the current arrangements are out of alignment with the market and if we are to retain and attract quality employees, we need to provide market-competitive benefits.

The major changes include:

- Higher limits to cover consultations and supplementary services such as x-rays, laboratory tests as well in-patient benefits.
- Better protection against financial burden in the event of serious illness or accidents - The Major Medical Supplemental scheme (MMS).
- The introduction of a variable user contribution on a job level basis for outpatient plans i.e. co-pay.
- Special protection for those of our employees and their dependants facing health and financial hardship.

Whilst cost was not a consideration, these improvements are nevertheless costing the Company more money and we believe they are both necessary and the right thing to do. We believe the changes will ensure that our staff and their dependents are better protected. We also want them to share some ownership for the way they use their medical benefits. Overall, there is an increase in benefits.

The RightChoice plans were changed following consideration of feedback received from users, the evidence of plan usage over the years and a survey of what the marketplace is doing in respect of medical scheme provision.

The changes were presented to the various staff representative groups and their feedback, together with that of other colleagues, has helped us make some refinements. Indeed, we made two presentations to the FAU after which they circulated a note advising their members that the proposed plan contained a number of improvements. This, together with the contributions from the LSU, are examples of the constructive outcomes possible from this kind of dialogue and have helped in the lowering of the proposed co-pay for our Level A & B employees, which I announced last week.

We look forward to strengthening this dialogue when, together with other employees and their representatives, we sit down in a dedicated Working Group to review how the new RightChoice plan is meeting its objectives. The Working Group will commence its review in 3Q 2008 when sufficient data is available. If, as a result of this review, further changes are identified we will consider implementing them in the RightChoice 2009 plans.

I hope that the FAU will take all this into account and adopt a more constructive approach in dealing with this matter. In doing so, they would benefit not only their members, but also their other colleagues throughout the company and our customers.



W.P. William Chau
Director Personnel