

Government upholds Hong Kong's international aviation hub status through Land Fund investment

The Financial Secretary, Mr Paul Chan, announced today (June 9) an investment in Cathay Pacific Airways Limited ("Cathay Group") through the Land Fund. This would uphold Hong Kong's status as an international aviation hub, and at the same time generate a return for the Government.

Hong Kong is a world-class international aviation hub. Its comprehensive international air network not only facilitates the flow of passengers and cargoes through Hong Kong, but also underpins the development of a wide spectrum of economic activities, notably trading and logistics, financial services and tourism among others. In 2012, the economic contribution of Hong Kong International Airport (HKIA) (including direct, indirect and induced contributions) amounted to some \$94 billion, representing 4.6 per cent of Hong Kong's gross domestic product. About 78 000 people were working in HKIA before the outbreak of the COVID-19 pandemic.

The operating environment of the aviation industry worldwide has been hard hit by the COVID-19 pandemic, leading to a near halt in passenger flights, and causing serious impact to air cargo business. As Hong Kong's most important local airline and the key driver of Hong Kong's aviation development, Cathay Group is also facing unprecedented operational and financial pressure. If this challenge is not properly addressed, it would harm Hong Kong's international aviation hub status and adversely impact other local economic activities to the detriment of the overall interest of Hong Kong. In the face of COVID-19, governments around the world have provided support in different forms (such as share capital, loans and government credit guarantees) to major airlines.

Mr Chan said, "Cathay Group plays a key role in Hong Kong's becoming a leading international aviation hub. I have decided to invest in Cathay Group to help it overcome its present challenge so that it may continue to contribute to Hong Kong's international aviation hub development as well as overall economic development, and at the same time generate a return for the Government."

Under the Resolution of the Provisional Legislative Council on Land Fund (Cap. 20), the Financial Secretary may, at his discretion, authorise and direct the investment of any assets of the Land Fund which are not immediately required to meet expenses in respect of the Land Fund at any time in such a manner as he may determine. When making the decision on the investment of the Land Fund in Cathay Group, the Financial Secretary took into account the policy advice of the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury, as well as the advice of the Hong Kong Monetary Authority and its external financial consultant on the commercial aspects. Other relevant factors have also been considered,

including the support rendered by different governments to their local airlines.

The total amount involved in the Government's investment is around \$27.3 billion, comprising preference shares with detachable warrants of around \$19.5 billion and a bridging loan of around \$7.8 billion. Cathay Group will also launch a \$11.7 billion rights issue of shares to existing shareholders. Cathay Group's two major shareholders, Swire Pacific and Air China, have undertaken to subscribe the rights issue according to their respective shareholding, providing funding support to the Group.

Mr Chan added, "The aviation industry is unique and plays a strategic role in the economic development of Hong Kong. The Government's investment signifies our determination in upholding our international aviation hub status, and in preserving the necessary conditions and providing impetus to the much-needed post-COVID-19 revival of the economy in Hong Kong."