

LCQ16: Monitoring financial situation of airlines

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (June 5):

Question:

It is learnt that since December last year, there has been a spate of personnel changes to the board of directors of and financial difficulties encountered by the Hong Kong Airlines Limited (HKA). Since then, the Air Transport Licensing Authority (ATLA) has requested, on several occasions and under the law, HKA to give an account of the situation and report the progress in a timely manner. In this connection, will the Government inform this Council:

(1) as ATLA has requested HKA, on a number of occasions, to give an account of its financial situation and submit a specific plan for improving its financial situation in the short run, whether it knows if ATLA will make public HKA's replies; if ATLA will not, whether ATLA can disclose the causes for the financial difficulties encountered by HKA, as well as the specific solutions;

(2) whether it knows, on each occasion after HKA had given an account, the mechanism based on which ATLA determined if there was a need to take further actions; and

(3) as it is reported that recently, some management staff members of HKA have resigned, and an accounting firm which served as its auditor has also resigned, whether it knows if ATLA (i) has assessed whether those incidents will affect the operations of HKA, its passengers and flight services, and (ii) will request HKA to give an account to ATLA in this regard?

Reply:

President,

The Air Transport Licensing Authority (ATLA) is an independent statutory body set up under the Air Transport (Licensing of Air Services) Regulations (Cap. 448 Subsidiary Legislation A) (the Regulations). ATLA is responsible for considering licence applications to operate scheduled air services, and at the same time monitors and reviews the financial situation of licence holders (viz. airlines) on a continuous basis.

Our reply to the various parts of the Hon Kenneth Leung's question is as follows:

(1) As stated in ATLA's press releases issued in the past with regard to the financial situation of the Hong Kong Airlines Limited (HKA), ATLA is highly

concerned about the financial situation of HKA. In accordance with the Regulations, ATLA requested HKA to submit a concrete plan for improving its financial situation shortly and, in light of the latest developments, continues to request for clarifications and supplementary information from HKA for ATLA's review. ATLA will take appropriate actions as and when necessary in accordance with the Regulations, and will make public the particulars of its decisions as appropriate pursuant to the Regulations.

As the financial information submitted to ATLA by HKA is subject to the confidentiality requirement under regulation 28(2) of the Regulations, ATLA is unable to disclose the details in this regard. According to information that HKA has announced to the public, the airline is making adjustments to its business strategy, and is implementing a series of changes to its fleet and operation in order to cope with the changes in the market and operating environment. These include scaling down its long-haul flight services to and from North America during certain periods, deferring the introduction of Airbus A350 and A330 planes, offering its pilots with opportunities of transferring to other airlines, and launching a voluntary separation scheme.

(2) According to the Regulations, if the holder of a licence is a body corporate, it must provide its annual audited financial statements for scrutiny by ATLA. If necessary, ATLA may, under regulation 15D of the Regulations, at any time require the holder of a licence to provide other relevant information for ATLA to assess its financial situation in detail.

Regulation 15E of the Regulations stipulates that on an assessment of the financial situation of the holder of a licence under regulation 15D, if ATLA is no longer satisfied that the holder of a licence concerned is able to meet at any time its actual and potential obligations for a period of 12 months beginning on the date of the assessment; or insolvency or similar proceedings are commenced against the holder; or the holder is wound up voluntarily, ATLA may suspend or revoke the licence, attach any new conditions to the licence, or vary any existing conditions of the licence.

ATLA will consider the actual circumstances of individual cases and make appropriate decisions in respect of the licences issued by ATLA in accordance with the Regulations.

(3) As understood, ATLA is aware of the recent key changes in HKA's management team. HKA has provided written assurance to ATLA that its daily operation has not been and will not be affected by the changes in its management team. ATLA has also been following up on the annual audited financial statements that HKA is required to submit under the Regulations and relevant matters. ATLA has been and will continue monitoring the situation of HKA closely in accordance with the Regulations.