Transcript of remarks by FS at media session (with video)

The Financial Secretary, Mr Paul Chan, met the media today (June 9) on the Government's investment in Cathay Pacific Airways Limited to uphold Hong Kong's status as an international aviation hub. Also joining were the Secretary for Transport and Housing, Mr Frank Chan Fan; the Secretary for Financial Services and the Treasury, Mr Christopher Hui; and Deputy Chief Executive of the Hong Kong Monetary Authority Mr Howard Lee. Following is the transcript of remarks:

Financial Secretary: I would like to announce here Government's decision to invest in Cathay Pacific Airways Limited through the Land Fund.

The objective is to help protect Hong Kong's role as a leading international aviation hub in this region as well as the long-term overall economic development of Hong Kong, while generating a reasonable return for the Government.

Hong Kong is a world class international aviation hub. Our 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 logistic, financial services, and tourism, etc.

As we all know, the operating environment of 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 on other 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 credit guarantees to major airlines.

The total amount involved in this Government's investment is around $27.3 billion, comprising preference shares with detachable warrant of around $19.5 billion and a bridging loan of around $7.8 billion. Concurrently, 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.

Based on the assessment of the external financial consultant engaged by the HKMA, the projected return of this investment in terms of internal rate of return is expected to range from 4 per cent to 7.5 per cent, higher than the six-year moving average of 3.7 per cent of the investment portfolio of the Exchange Fund.

To safeguard the best interests of the Government, we will appoint two observers to the Cathay Group's Board of Directors until Cathay Group redeems all preference shares from the Government, and repays the Government in full the bridging loan with related interests.

When making this investment decision, I have taken 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 commercial advice of the Hong Kong Monetary Authority and its external consultant. We have also made reference to the support measures extended by different governments to their respective local airlines.

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 reinforcing our international aviation hub status and in preserving the necessary conditions to enable the much-needed post-COVID-19 revival of the economy.

Reporter: Hi, Mr Chan, we understand from sources that Cathay had a hard time raising money from private markets. Does the Government recognise the situation was difficult, given the political climate and especially when Cathay was caught in the political crossfire last year? Secondly, is this investment model unique to Cathay? What if some other airlines or flagship companies seek help from the Government in the near future? You mentioned about the gains of the deal, but can you also tell us about what financial risk is the Government exposing itself and the taxpayers to? Thirdly, concerning the two observers that the Government will put on the board, what are their roles and who are in your mind? Will they have a say, or can they make any decisions concerning appointments or removals? Thank you.

Financial Secretary: Thank you. During this period of unprecedented difficulties, it is indeed not possible for any airline to go to private market to raise funding. That's why you may have observed that Governments around the world extended different forms of support measures to their respective local airlines. If I may cite you some examples: in France, the relief measure is to the order of about HK$60 billion in the form of loans and credit guarantee; in the case of Germany, it is to the order of about HK$77 billion in the form of ordinary shares, grant and loans; in the case of Singapore, the amount is even bigger, about HK$104 billion in the form of ordinary shares, convertible notes and loans. So without the support of Government, it is indeed very difficult during this time for any airline to go to the private market to seek funding. With the involvement of the Government in this particular case, and the rights issue requiring additional commitment from their existing shareholders, it would be easier for Cathay to go back to the market if needed to raise commercial borrowing to sustain their future operations. This is my answer to your first question.

About the role of the observers, they are not directors of the company. As I explained earlier, it is not the intention of the Government to hold this investment long-term. It is not our intention to become a long-term shareholder of Cathay Pacific. It is not our intention to interfere with the operation and management of Cathay. But at the same time, we have to safeguard the interests of the Government because we have indeed extended substantial commitment to this company. That is the entire logic of putting two observers on the board. It is not my intention to appoint any government officials. What we have in mind is to appoint two individuals in the professional sector or in the business sector – seasoned professionals or business leaders – to serve on the board. These observers would have the right to attend board meetings, the right to receive papers, the right to speak at the board, but they would not have voting power because we do not want to interfere with the decision-making of the company.

Finally, in terms of this investment model, it is unique because we are trying to protect our international aviation hub status. Having taken into consideration the measures extended by different governments, taken into consideration the way to structure this investment to give the Government a safe return, we came to the conclusion that this recapitalisation plan is to consist of three components. One is government subscription of non-voting preference shares. Then the Government will extend a bridging loan. If required, Cathay Pacific can draw on the loan. The loan amount is to the extent of HK$7.8 billion. And in addition to that, the existing shareholders need to contribute funding to the group through rights issue.