

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.

[Relief fund for farmers affected by heavy rainstorm](#)

Local farmers who suffered serious losses caused by the recent heavy rainstorm can register with the Agriculture, Fisheries and Conservation Department (AFCD) from tomorrow (June 10) to June 18 for assistance from an emergency relief fund.

An AFCD spokesman said today (June 9) that an appropriate amount of the relief fund would be released to affected farming households according to established criteria.

The department's preliminary investigation has revealed that about 300 hectares of farmland in the New Territories were affected by the rainstorm.

"After each typhoon or natural disaster, AFCD staff will inspect farmland areas in the New Territories to assess the resulting damage," the spokesman said.

"Depending on the gravity of the damage, the department may launch an operation to provide some relief to affected farmers."

In order to avoid crowds gathering and to reduce the risk of spreading COVID-19, local crop farms that have been seriously affected by the heavy rainstorm may make prior registration appointments with the Agricultural Extension Office at 2476 2424 or 2477 9408 to facilitate the arrangement of farm inspections. If they choose to register their applications at the Office on 5/F, Yuen Long Government Offices, 2 Kiu Lok Square, Yuen Long, they should also make prior appointments.

Temporary closure of multi-purpose arena at Tsuen Wan West Sports Centre

The Leisure and Cultural Services Department announced today (June 9) that the multi-purpose arena at Tsuen Wan West Sports Centre in Tsuen Wan District will be temporarily closed from tomorrow (June 10) to June 30 for urgent repair works, while other facilities in the sports centre will remain open.

For the most up-to-date closure schedules of the above leisure and sports facility, the public may refer to the notices at the venue or contact venue staff directly.

Manager of unlicensed guesthouse fined

A woman was fined \$7,000 at the Eastern Magistrates' Courts today (June 9) for contravening the Hotel and Guesthouse Accommodation Ordinance.

The courts heard that in September last year, officers of the Office of the Licensing Authority (OLA), the Home Affairs Department, inspected a suspected unlicensed guesthouse on Paterson Street in Causeway Bay. During the inspection, the OLA officers posed as lodgers and successfully rented a room in the guesthouse on a daily basis.

According to the OLA's records, the guesthouse did not possess a licence under the Ordinance on the day of inspection. The woman responsible for managing the premises was charged with contravening section 5(1) of the Ordinance.

A department spokesman stressed that operating or managing an unlicensed guesthouse is a criminal offence and can lead to a criminal record. Upon conviction, the offender is liable to a maximum fine of \$200,000 and two years' imprisonment.

The spokesman appealed to anyone with information about suspected unlicensed guesthouses to report it to the OLA through the hotline (Tel: 2881 7498), by email (hadlaeng@had.gov.hk), by fax (2504 5805) using the report form downloaded from the OLA website (www.hadla.gov.hk), or through the mobile application "Hong Kong Licensed Hotels and Guesthouses".

[Operators fined for illegal club operation](#)

A woman and a company were each fined \$6,000 at the Eastern Magistrates' Courts today (June 9) for contravening the Clubs (Safety of Premises) Ordinance.

The courts heard that in September last year, officers from the Office of the Licensing Authority (OLA) of the Home Affairs Department conducted an inspection at a club on Foo Ming Street in Causeway Bay, which had been operating with a certificate of compliance (CoC).

During the investigation, the OLA officers posed as customers and patronised the club for food and drinks without being asked to show their membership status or being invited to join the club as members. The club's staff also failed to show a copy of the certificate of fire service installation and equipment upon the OLA officers' request. Moreover, the OLA officers found that the club had a layout that deviated from the registered drawing, and the number of people at the club exceeded the maximum allowable capacity as stipulated in the CoC as well. Conditions 3, 6, 12 and 14 of the CoC were breached.

The woman and the company, being the operator and the CoC holder of the club, were charged with contravening section 21(1) (a) and section 21(2) of the Ordinance respectively.

A spokesman for the department reminded all CoC holders to comply with the conditions as stipulated therein. Enforcement actions will continue to be taken against illegal club operations.