

**CATHAY PACIFIC AIRWAYS LTD:
IS IT TIME FOR THE CHAIRMAN TO BE REPLACED ?**

**Who Is Really Responsible For
This Airline's Record-Breaking Losses ?**

After all the propaganda, the obsequiousness, and the servility, published in certain popular media of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), perhaps it is time to apply a little ratiocination.

Scanning the Interim Announcement of Cathay Pacific Airways Ltd () (Code: 293, Main Board, The Stock Exchange of Hongkong Ltd), one discovers how those, who had been given the covert mandate to soften the impact of the dramatic financial failures of this airline, during the First Half of the 2017 Financial Year, had managed to paint a picture that tended to blur the topography, very materially, in many aspects.

Cathay Pacific Airways Ltd published its Interim Report on Wednesday, August 16, 2017, but prior to the official Company announcement, there had been (unofficial) reports, published in a number of the territory's media, to the effect that the Company was about to present to its shareholders that the airline had suffered that which was termed as a little '*turbulence*' (not much mention of material losses) with regard to the financials of the First Half of the Company's Financial Year.

The (unofficial) reports, as far as they went, were spot on – naturally!

On Wednesday, August 16, Cathay Pacific Airways Ltd informed the world, officially, that the Company had incurred a Net Loss Attributable to Shareholders of about \$HK2.05 billion in respect of the six months, ended June 30, 2017.

It was a record-breaking loss, to be sure.

In the like period with regard to the 2016 Financial Year, the Company reported a Net Profit Attributable to Shareholders of about \$HK353 million.

In the 2016 Financial Year, the Company had reported a Net Loss Attributable to Shareholders of about \$HK575 million.

That Net Loss in respect of the 2017-Year's First Half contrasted markedly with the results of the 2015 Financial Year when the Company reported a Net Profit Attributable to Shareholders of about \$HK6 billion.

In respect of the Revenue of Cathay Pacific Airways Ltd in the First Half of the 2017 Financial Year, one was informed that it had come in at about \$HK45,858,000,000.

This figure was very close to the Revenue, recorded in the comparable period in 2016-Year when it was recorded at about \$HK45,863,000,000.

Which, of course, meant that the airline had not just been hit by '*turbulence*', as described by certain media reports of the territory, but, in terms of Revenue, it had not seen any growth at all, during the first six months

of the 2017 Financial Year.

The Chairman of Cathay Pacific Airways Ltd, Mr John Slosar (), in his missive to Shareholders, published in the 2017 Interim Report, said, inter alia:

‘Fundamental structural changes within the airline industry continue to affect the operating environment for our airlines and created difficult operating conditions in the first half of 2017. The factors which affected our performance were largely the same as in 2016. Intense competition with other airlines was the most significant. Other major adverse factors were higher fuel prices (including the effect of our hedging), the adverse effect of the strength of the Hong Kong dollar on revenues denominated in other currencies, and higher aircraft maintenance costs.

‘Several special factors affected the results in the first half of 2017. In March, the European Commission issued a decision finding that a number of international air cargo carriers, including Cathay Pacific, had agreed to cargo surcharge levels prior to 2007 and that such agreements infringed European competition law and imposed a fine of Euros 57.12 million (equivalent to approximately HK\$498 million) on Cathay Pacific. Although an application has been made to the General Court of the European Union to annul the decision which led to the fine, the full amount of the fine has been recognised. In March, Air China (Air China Ltd []) announced the completion of the issue of 1.44 billion A shares. As a result, Cathay Pacific’s shareholding in Air China was diluted from 20.13% to 18.13% and a gain of HK\$244 million was recognised on the deemed partial disposal. In April, Cathay Pacific disposed of its entire interest in Travelsky Technology Limited () at a profit of HK\$586 million. In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme intended to address the fundamental challenges that it is facing in the current airline industry environment. In May, as part of this programme, we announced a reorganisation of our head office. The amount of the associated redundancy costs (HK\$224 million) has been recognised in staff expenses...

‘Total fuel costs for Cathay Pacific and Cathay Dragon (Hongkong Dragon Airlines Ltd []) (before the effect of fuel hedging) increased by HK\$2,871 million (or 33.4%) compared with the first half of 2016, reflecting a 31.5% increase in average fuel prices and a 1.6% increase in consumption. Fuel is the Group’s most significant cost, accounting for 30.4% of total operating costs in the first half of 2017 (compared to 29.1% in the same period in 2016). Fuel hedging losses were reduced. After taking them into account, fuel costs increased by HK\$1,678 million (or 12.7%) compared with the first half of 2016...

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