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## Cathay Pacific Airways



Cathay Pacific

Corporate deals take place every day, but few involve as many elements as Constellation, the covert project that resulted last year in strengthened ties

between Hong Kong's Cathay Pacific Airways and Chinese flag carrier Air China.

The complex deal, which gave Cathay long sought-after access to the fast-growing Chinese market through a takeover of fellow Hong Kong-based carrier Dragonair and an increased stake in Air China, was more than two years in the making. Talks eventually involved six companies in Hong Kong and China, each named after a star in a bid to keep the negotiations secret.

The deal that was ultimately agreed saw Cathay buying the more than 82% of Dragonair that it did not already own for HK\$8.2 billion (\$1.1 billion) from China National Aviation, CITIC Pacific, Swire Pacific and a handful of small minority shareholders.

At the same time Air China and subsidiary CNAC acquired 17.5% of Cathay from CITIC and Swire for HK\$5.4 billion, while Cathay increased its stake in Air China to nearly 17.5% for HK\$4.1 billion.

It was a groundbreaking agreement and one which Sir Rod Eddington, one of the Airline Strategy Awards judges, described as "quite remarkable" due to its complexity. Sir Rod knows just how important the deal is to Cathay, as he was its managing director until late 1996 when he left to join Ansett Holdings and later British Airways.

Although Cathay is the de facto flag carrier of Hong Kong, which became a Special Administrative Region of China in 1997, the airline had for years been frustrated in its attempts to boost its presence in China – a market that simply cannot be ignored.

Dragonair has an extensive China network and Cathay's acquisition gave it instant access to more than 20 Chinese cities. Cathay also now has an ideal partner in Air China, the strongest-performing mainland Chinese carrier financially.

Analysts almost universally labelled it a

deal that Cathay had to do, in part because new competitors are challenging it on routes between Hong Kong and mainland China. Cathay admits it paid a "fair price" for Dragonair, but says it was well worth it.

"It is very important for Cathay Pacific because Cathay Pacific has since 1997 changed into a hub operator and we are really expanding the hub operation over Hong Kong," Philip Chen, Cathay chief executive at the time of the deal, told *Airline Business* in an interview earlier this year.

"One major area obviously that we needed to strengthen was the mainland China market, and with Dragonair and Air China that will definitely give us the opportunities and the network in China, which is absolutely key."

Chen, who is now heading up the China business strategy of Cathay's main shareholder Swire Pacific, says Air China and Cathay will benefit greatly from increased feed, adding that there is much room for their partnership to strengthen in the coming years.

The deal came in the same year Cathay celebrated its 60th birthday. It enabled the carrier to enter its seventh decade in business with renewed confidence in its future.

### Nicholas Ionides



Philip Chen

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# "We are expanding the hub over Hong Kong"

Philip Chen, former chief executive, Cathay Pacific