
Cathay Pacific Airways (CX, *Airways*, Mar/Apr 1997 & October 2005) ended a quarter of a century of sparring with a local rival in June when it agreed to acquire the remaining 82.21% shareholding in Dragonair that it did not already own for HK$8.22 billion (US$1.05 billion). The convoluted transaction involves the stakes of the China National Aviation Company (43.29%), CITIC Pacific (28.5%), Swire Pacific (7.71%), and miscellaneous shareholders (2.71%).

At the same time, Air China acquires a 10.16% shareholding in Cathay Pacific from CITIC Pacific and Swire Pacific, giving Air China (which has subsequently purchased CNAC) a 17.5% stake. In turn, CX increases its shareholding in Air China from 10% to 20%. Swire Pacific, the principal shareholder in the enlarged Cathay Pacific group, and CITIC Pacific have reduced their interests in CX to 40% and 17.5%, respectively.

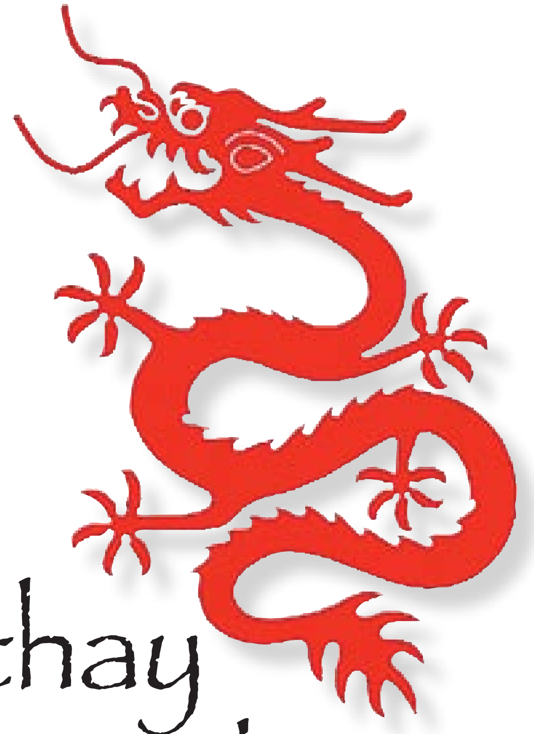
In Chinese folklore and mythology, the dragon is an auspicious symbol of good fortune and excellence and the Dragonair name will be retained for six years by Cathay Pacific, which now has unfettered access to one of the world's fastest growing and lucrative air travel market.

**Dawn of the dragon**

Traffic between Hong Kong and the People's Republic of China burgeoned after 1979, when the UK-PRC Air Services Agreement was signed, and the available flights were usually fully booked a week in advance. The 1984 Sino-British Declaration for the colony to become part of the PRC paved the way for other companies to apply to offer services in competition with the British-owned Cathay Pacific.

Dragonair (IATA: KA/ICAO: HDA) was the first to receive a certificate, in 1985. Headed by local entrepreneur K P Chao, with funding from mainland investors, Dragonair (formally registered as Hong Kong Dragon Airlines) first sought to compete with CX on prime

ROB FINLAYSON



# Cathay Tames the Dragon

*by Luigi Vallero*

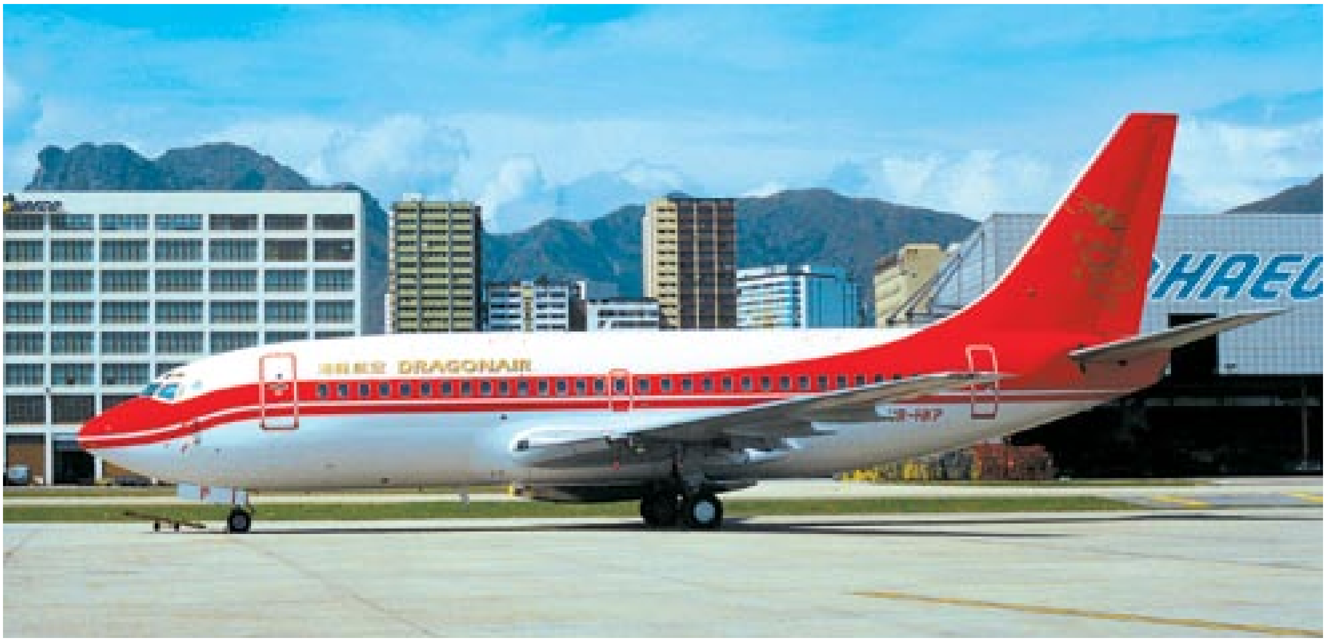
routes to Europe and Asia. This idea was dismissed by the Hong Kong Air Transport Licensing Authority (ATLA), which eventually granted Dragonair rights to three dozen secondary cities in China, Japan, and Thailand.

A second-hand Boeing 737-200 'Advanced' was acquired by the fledgling carrier, but Dragonair's application to operate scheduled service to eight cities in China was initially refused. Meanwhile, charters took off to Kota Kinabalu, Malaysia.

Popular tourist destinations such as U-Tapao (Pattaya) in Thailand, Kuantan (Malaysia), and Jeju (South Korea) were added to the airline's charter network, and in November 1985, permission was granted for non-scheduled flights to Xiamen [Amoy], about an hour's flying time north of Hong Kong. By the end of the following year, Dragonair was operating two 737s and offered scheduled charters to other Chinese destinations, such as Guilin and Haikou (Hainan Island).

Although the ATLA had awarded licenses to Dragonair for scheduled service to Beijing and Shanghai, the Hong Kong government refused permission for flights to start. In 1987 the frustrated Dragonair—which was losing an estimated $500,000 per month—took a different tack. The relationship with CX, whose feathers had been further ruffled when Dragonair announced an order (later cancelled) for the McDonnell Douglas MD-11, improved when the two airlines signed an interline agreement.

Similar accords were made with US and European airlines and, in May 1987, Dragonair became the first Hong Kong-based airline to be admitted as an active member of IATA. By then, traffic figures averaged only 166,000 passengers per year. Dragonair also became part of AMR Airlines Services's Sabre CRS (computer reservations system), and persuaded the *ABC World Airline Guide* and the *OAG* (*Official Airline Guide*) to list its scheduled charters to China, which then covered nine points—including Beijing and Shanghai—with 20 flights a week. Another 15 destinations in Asia were served regularly, including five on a scheduled basis (Dhaka, Kagoshima, Kathmandu, Phuket, and U-Tapao).




ARTHUR J PAYNE

*Dragonair began operations with a sole 126-seat Boeing 737-200 (registered VR-HKP) leased from Guinness Peat Aviation. Cockpit crews came from the UK, Australia, and New Zealand.*


ROB FINLAYSON

*Dragonair leased L-1011s from Cathay Pacific in a F30Y270 cabin layout. From 1993, CX flight crews were replaced by Dragonair personnel.*

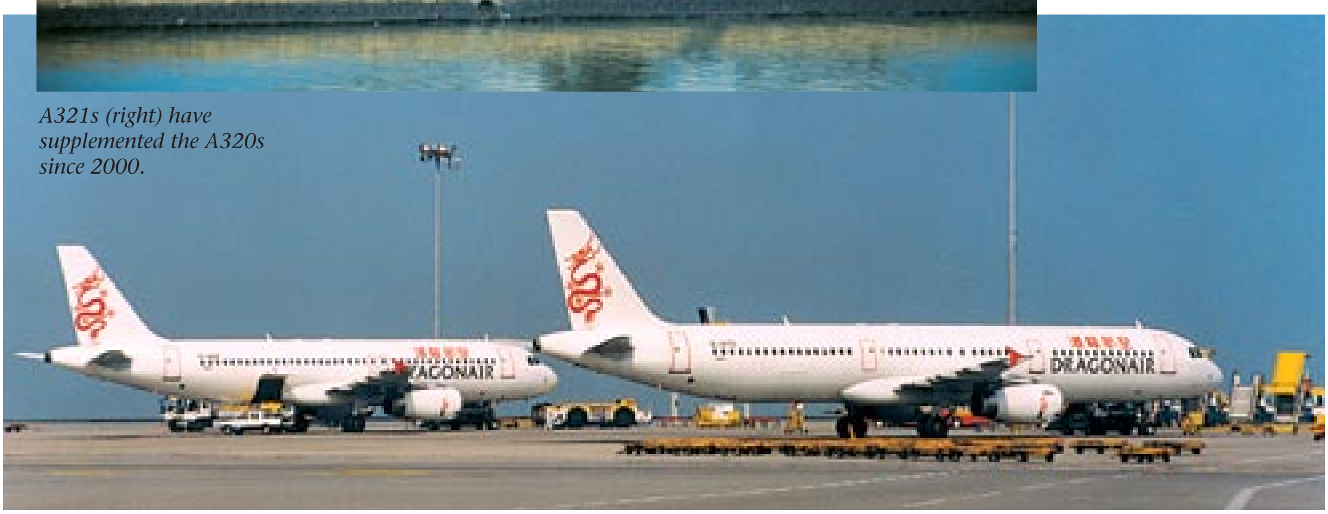
By 1989 the fleet numbered four 737s, and utilization had increased from four hours a day to 7.5, while passenger traffic doubled, to 340,350, despite political and social unrest in China. Although plans for a 757 did not materialize, a fifth 737 arrived in 1990.

That year Dragonair's future was assured when the PRC agency CITIC (China International Trust and Investment Corp)—which already held a 12.5% stake in CX—acquired a 38% share. Cathay Pacific itself took a 30% stake, with the airline's parent, Swire Pacific, taking 5%. Besides a welcome cash infusion, some $40 million in debt was written off. By the end of 1990, CX's stake in the airline increased to 43%, making Dragonair an almost wholly-owned *de facto* subsidiary.

Under the government's one airline, one route policy, Dragonair was designated to operate scheduled services from Hong Kong to Beijing and Shanghai, and from April 1990 the airline took over the authority of Cathay Pacific for those cities and wet-leased a Lockheed L-1011 TriStar from CX. Subsequently, flights to Xiamen,

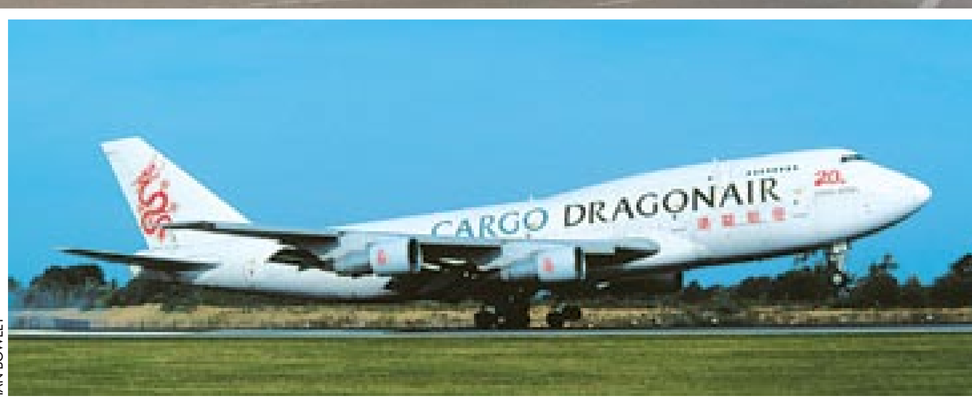


*Dragonair's first IAE V2500-powered,168-seat A320-231s arrived in 1993 on lease from ILFC (International Lease Finance Corporation), which was also the source for the airline's first two 320-seat A330-342s that were delivered two years later.*




*A321s (right) have supplemented the A320s since 2000.*

PHOTOS: ROB FINLAYSON




*The first two Dragonair Cargo Boeing 747-300Fs were ex-Singapore Airlines and converted to freighters by TAECO at Xiamen. A third aircraft was formerly a combi with Malaysia Airlines. Freighter services currently serve ten cities, including Frankfurt, New York, and Shanghai.*

IAN BOWLEY


MINORU ISHIBASHI

DRAGONAIR

*To celebrate its 20th anniversary in 2005, an A330-300 received a commemorative livery featuring an image of a dragon stretched along the fuselage, with other Chinese iconographic elements. Hong Kong is represented on one side of the airplane, with mainland China on the other.*

*Stanley Hui (center), CEO of Dragonair since 1997, together with executives and crew, was on hand for the arrival of the A330 in Hong Kong.*

Dalian, Hangzhou, and Kunming were upgraded to a scheduled basis.

Additionally, Dragonair's participation in the ABACUS global distribution system (GDS) greatly enhanced its access to the region; soon afterward a link with Cathay Pacific's CUPID reservations system further improved flight inventory access.

As a regional complement to CX's wide-body, long-haul and trunk route operations, Dragonair's business expanded rapidly, to three-quarters of a million passengers in 1991.

The airline's first of seven Airbus A320s—painted in the now-familiar 'Matterhorn White' scheme with a red dragon on the tail—entered service in March 1993, heralding a new era for the company. By then it had become imperative to retire the L-1011, prompting the company to acquire A330-300s.

In 1996, with the impending withdrawal of Britain from administration of Hong Kong (on July 1, 1997), China forced Cathay Pacific to relinquish its control of Dragonair. Consequently, CNAC became the major shareholder with a 35.86% interest. (CITIC and CX/Swire Pacific holdings were reduced to 28.5% and 25.5%, respectively.)

Later that year, the progressive Dragonair signed an agreement with ILFC (International Lease Finance Corp), IAE (International Aero Engines), and Airbus to replace its still 'young' A320s in 1998 with later versions of the type, while introducing larger-capacity A321s to supplement A330s on popular routes.

Continuous change occurred late in the Nineties, not least affecting Dragonair's investors. In December 1997, CNAC's stake in Dragonair increased to 43.29%.

After the closure of historic Kai Tak in July 1998 (*Airways*, September 1994 & November 1998), another of the region's aviation milestones occurred in February 2000 when, under a new air services arrangement between Hong Kong and the PRC, all regular charter flights operated by Dragonair to the cities of Changsha, Guilin, Haikou, Nanjing, and Wuhan were granted the status of scheduled services. Two months later, on March 26, 2000, all remaining Dragonair charter flights to the PRC were converted to scheduled services.

Dragonair launched all-cargo services to the Middle East and Europe, as well as to Shanghai, in 2000 with a wet-leased Boeing 747-200F. The following year two 747-300 freighters were added.

## Recent developments

In 2002 Dragonair began to expand beyond its traditional sphere of operations, with the launch of service to Taipei, Taiwan, followed two years later by flights to Bangkok, Thailand, and, in 2004, service to Tokyo, Japan.

Cargo services have also continued to grow, and in June 2004 Dragonair wet-leased an A300B4 freighter, from US-based Express.net Airlines, for regional operations to Nanjing, Osaka, and Shanghai. A similar agreement was signed in 2005 with Taiwan's China Airlines for a Boeing 747-400F, which is now being used on a thrice-weekly cargo service to New York-JFK, via Anchorage.

In the past two decades China has transformed itself almost beyond recognition, and is fast becoming one of the world's major economies. The Individual Travel Scheme was unveiled in selected mainland Chinese cities in 2003, allowing individuals to travel to Hong Kong on their own, rather than as part of a group. That year, for the first time China surpassed Japan in the number of outbound travellers, becoming the main Asian-originating market for overseas travel.

Compared to CX's two destinations on the mainland (Beijing and Xiamen), Dragonair flies to 23 cities. Thus, with the takeover, Cathay Pacific becomes far and away the leading foreign airline operating to China, with the promise of the dragon's prosperity. ✈

## Fast Facts

**IATA:** KA **ICAO:** HAD
**IATA/ARC:** 043
**Radio:** Dragon

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**Code-shares:** Air China, China Southern Airlines

**Traffic** (2005, compared to previous year)
Passengers: 5,029,285 (+9.9%)
Cargo (tonnes): 385,338 (+12.5%)
Number of flights: 40,123 (+12.7%)

**Financial** (2005)
Net profit: HK$270 million (US$34.5 million) (-59%)

**Founded:** April 1, 1985
**Start date:** July 26, 1985
**CEO:** Stanley Hui Hon-Chung
**Employees** (at March 2006): 2,877

**Ownership:** Cathay Pacific Airways (100%)

**Interests:** Hong Kong International Airport Services (100%), LSG Lufthansa Service Skychefs (31.94%), Hong Kong Airport Services (30%), Dah-Chong Hong-Dragonair Airport GSE Service (30%), HAS GSE Solutions (30%)

**Fleet**

| Type | N° | Seats | Engines |
|---|---|---|---|
| Airbus A320-232 | 10 | C8Y150 | IAE V2527-A5 |
| Airbus A321-231 | 6 | C24Y148 | IAE V2533-A5 |
| Airbus A330-342/-343X | 15 | F18C42Y230 or C42Y273 | RR Trent 772/772B-60 |
| Boeing 747-200F | 1 | (freighter) | PW JT9D-7R4G2 |
| Boeing 747-300F | 3 | (freighter) | PW JT9D-7R4G2 |

Plus two leased A300B4Fs and one 747-400F.

**On order**

| | | |
|---|---|---|
| A330-343 | 1 | (leased from ILFC for 7 years, due October 2006) |
| 747-400F | 5 | (2006-2008, conversions by TAECO) |

(Airways *thanks Dragonair Assistant Manager-Public Relations (Outports) Corporate Communications Ken To for his help in preparing this article.*)