

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Pre-sent/November-2017-Exemption-for-Aircraft-Leasing-Activities/Consultation-Paper/cp-2017113.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

- 1. Do you agree with the proposal to provide a general exemption for aircraft leasing activities?

Yes

No

If your answer is “No”, please give reasons for your views.

- 2. Do you agree with the proposed Rule amendments to define a Qualified Aircraft Lessor to be an issuer that is actively engaged in aircraft leasing with aircraft operators as a principal activity in its ordinary and usual course of business?

Yes

No

If your answer is “No”, please give reasons for your views.

3. Do you agree with the proposed criteria for determining a Qualified Aircraft Lessor set out in paragraphs 27(a) and (b) of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

4. (a) Do you agree with the proposed requirement that a Qualified Aircraft Lessor's directors and senior management, taken together, shall have sufficient experience relevant to the aircraft leasing industry?

Yes

No

If your answer is "No", please give reasons for your views.

(b) Do you agree that the individuals relied on must have a minimum of five years' relevant industry experience?

Yes

No

If your answer is "No", what is the appropriate period?

5. Do you recommend other criteria or factors for determining an issuer as a Qualified Aircraft Lessor?

No.

6. Do you agree with the proposed Rule amendments to define Qualified Aircraft Leasing Activities to include acquisitions, disposals and finance leases of aircraft?

Yes

No

If your answer is "No", please give reasons for your views.

7. Do you agree that we should limit the exemption for finance leases of aircraft to only those entered into by the aircraft lessors with aircraft operators?

Yes

No

If your answer is "No", please give reasons for your views.

8. Do you agree that the proposed exemption should not apply to operating leases (see paragraph 32 of the Consultation Paper)?

Yes

No

If your answer is “No”, please give reasons for your views.

It is respectfully submitted that the proposed exemption shall also apply to operating leases. Although aircraft leasing companies engaged in operating leases are very likely to get exempted from the notifiable transaction requirements pursuant to Rule 14.04(1)(d), operating leasing is a principal business of aircraft leasing companies and the issuers may be subject to the notifiable transaction requirements along with the expansion of its operating lease business when such business conducted through operating leases represents a 200% or more increase in the scale of the issuer's existing operations. As such, it is respectfully submitted that it would be appropriate to apply the exemption to operating leases as it is a core “aircraft leasing activity”.

9. Do you agree with the proposed disclosure requirements for announcement of exempted aircraft leasing activities?

Yes

No

If your answer is “No”, please give reasons for your views.

10. Do you agree with the proposed disclosure requirements for annual and interim reports to provide information about aircraft leasing activities on an aggregated basis?

Yes

No

If your answer is “No”, please give reasons for your views.

It is respectfully submitted that we do not agree with the proposed disclosure requirements with respect to aircraft transactions in annual and interim reports in the following aspects:

(a) We agree with the proposal to disclose the aggregate number of aircraft purchased and committed to purchase for the reporting period, but do not agree with the proposal to provide a breakdown by aircraft model and expected year of delivery.

This is because the breakdown by expected year of delivery for committed orders (i.e. delivery positions) is regarded as confidential by the aircraft manufacturers and such information is proprietary and highly-sensitive. The aircraft manufacturers do not usually permit us to publicly disclose our delivery positions by year. In addition, if other lessors knew our delivery positions by year, we would be prejudiced in sales campaigns when competing with such lessors. Our US listed peers do not disclose and are not required to disclose their delivery positions by year. Hong Kong listed aircraft lessors would be prejudiced because other lessors would know our supply data, and while we would not know theirs. Also, our US listed peers are not required to disclose their commitments by aircraft model. Additionally, it is industry practice to convert, accelerate, slide or re-allocate delivery positions, so commitment amounts by year and aircraft model are always in flux. We suggest continuing to disclose the aggregate commitment amounts without breakdown of the commitment amounts or aircraft type by year.

(b) We agree with the disclosure of the aggregate purchase price for the reporting period but do not agree with the disclosure of commitment amounts for future commitments as at the end of the reporting period with a breakdown of the commitment amounts by year.

Any disclosure on commitment amounts for future commitments should be based on the manufacturer catalogue list price rather than actual purchase price. In any circumstances, list price instead of the actual purchase price should be disclosed for the issuer's aircraft purchase transactions. Actual purchase prices of aircraft commitments are commercially sensitive information because they reflect significant price adjustments to the list price of the aircraft. The issuer is usually under strict confidentiality obligations with the lessee or aircraft manufacturer. Any disclosure on the actual purchase price, either for an individual transaction or in aggregation, would be in breach of the strict confidentiality obligations for the aircraft under the relevant agreements with the aircraft manufacturer. Disclosing the actual purchase price (whether on individual or aggregation basis) may result in the loss of the significant discount against the list price that may be granted by the aircraft manufacturer to the issuer/lessee. It will therefore not be in the best interests of the issuer and its shareholders as a whole to disclose the actual purchase price either on individual or aggregated basis. It is a market practice of aircraft leasing industry to disclose the list price instead of the actual purchase price of the aircraft.

In addition, the disclosure of commitment amounts by year is not typically disclosed by Hong Kong listed aircraft lessors and not something our US listed peers report. Disclosure of such information may also indirectly result in us disclosing the actual purchase price for individual aircraft if at the end of the relevant reporting period, there are a number of aircraft of the same type that we have committed to purchase in a single year.

(c) We agree with the disclosure of the aggregate number of aircraft sold for the reporting period.

(d) We agree with the disclosure of the aggregate net book value and the aggregate net gain or loss on disposal of aircraft for the reporting period.

(e) We agree with the disclosure of the average lease rental yield related to the Qualified Aircraft Lessor's aircraft fleet for the reporting period, given that the lease rental yield is not strictly defined and we believe we already report the data points that would allow such calculation to be made.

To summarize, it is respectfully proposed that a Qualified Aircraft Lessor should only be required to disclose the following information with respect to its aircraft transactions in the annual and interim reports on an aggregated basis:

- a. the list price instead of the actual purchase price of the aircraft;
- b. the aggregate number of aircraft purchased for the reporting period and the aggregate number of aircraft committed to purchase for the reporting period without breakdown of the commitment amounts or aircraft type by year;
- c. the aggregate number of aircraft sold for the reporting period;
- d. the aggregate net book value and the aggregate net gain or loss on disposal of aircraft for the reporting period; and
- e. the average lease rental yield related to the Qualified Aircraft Lessor's aircraft fleet for the reporting period.

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