

**Asia's Financial Skies
8 May 2017 (Monday)**

Speech by Convenor of Working Group on
Transportation, and Chairman of the Hong Kong
Exchanges and Clearing Limited
Sir CK Chow

Aircraft leasing business in Hong Kong

Distinguished guests, ladies and gentlemen,

Good morning. It is my great pleasure today to speak at the inaugural event of the Asia's Financial Skies organised by the Orient Aviation Media Group. I understand that this is the first conference dedicated to the aircraft leasing industry in Asia.

This is an exciting week for the aircraft leasing industry. Apart from this event, Hong Kong will be hosting the Asia Conference of the International Society of Transport Aircraft Trading (ISTAT), which will begin tomorrow. I am sure many of you here today will also be participating in the ISTAT Conference.

I would like to congratulate you all that you have made a brilliant decision in organising and participating in these events in Hong Kong.

I am sure that my audiences here today are already aware of the Government's recent initiative to create a dedicated regime for aircraft leasing business in Hong Kong. A legislative amendment bill has been introduced into the Legislative Council, and is being examined.

Hong Kong, indeed, possesses many favourable conditions necessary to thrive as an aviation financing hub in Asia; notably: the rule of law and sophisticated legal services, robust financial services infrastructure with a wide variety of financial products, a mature banking system with effective and transparent regulations, excellent aviation infrastructure and a strong pool of talents in both the financial services and aviation sectors.

Hong Kong's active move comes at an opportune time. The coming two decades will see the golden age for the growth of aircraft leasing in the region. Passengers in the Asia Pacific region are expected to grow at about 6% per annum over the next 20 years. The numbers of new aircraft delivered in the Asia Pacific are estimated at over 15 000 respectively. According to industry's analysis, Mainland airlines will need nearly 6 000 new aircraft, accounting for more than 40% of the forecasted deliveries to the Asia Pacific region.

State Council's policy direction

The State Council of the People's Republic of China released in 2013 a circular on the "Opinions on Accelerating the Development of the Aircraft Leasing Industry", stating that aircraft leasing industry has an important role to play in providing crucial supporting services to the aviation industry in China, which include aeronautical manufacturing, transportation, general aviation industry and the financial services sector. The coming two decades will be a very important period for the development of

the Chinese aircraft market. Subsequently, it will be the golden age for the growth of aircraft leasing there.

One of the policy measures set out in the same State Council document is to make good use of Hong Kong's advantageous position as an international financial centre and transportation centre, and encourage aircraft leasing companies to set up operations in Hong Kong.

The proposed dedicated tax regime for aircraft leasing in Hong Kong is an active response to the State Council's policy direction. Together with Hong Kong's traditional strengths, including our unique relationship with Mainland China and prominent role as a business hub in Asia, as well as our sophisticated financial market, simple tax system with a low headline rate and sound legal system, I am confident that international aircraft lessors looking to do more business in China and Asia will naturally consider setting up bases in Hong Kong. I also want to add that Hong Kong is a convenient and lovely international city to live in. With a high-speed business environment, that is friendly to all businesses.

As a matter of fact, in the past few years, three Chinese aircraft leasing companies, including the China Aircraft Leasing Group, China Development Bank Financial Leasing and Bank of China Aviation, have already listed in our stock market. We are expecting more international companies to set up their presence in Hong Kong.

Hong Kong – a place for business

Coming back to Hong Kong itself. From the 2017 Index of Economic Freedom Report, the Heritage Foundation ranked us the freest economy in the world for 23 consecutive years. Last May, the International Institute for Management Development, or the IMD, named Hong Kong the most competitive economy in the world. The IMD also put us at the top in financial efficiency. According to the Global Competitiveness Report 2016-17 by the World Economic Forum, Hong Kong ranked 4th in Financial Market Development.

These are no small laurels, but solid proof that Hong Kong is one of the freest and most dynamic places for business in the world.

Favourable institutional and market environment

Now, let's look specifically into aircraft leasing.

Aircraft leasing requires substantial amounts of financing. Our robust banking system with ample liquidity, dynamic debt and capital markets, a large pool of investor capital and abundant presence of global banks provides a natural environment for leasing activities. In other words, Hong Kong is not short of money.

Our mature equity market will also enable aircraft lessors to raise capital with ease. In the past 10 years, the Hong Kong stock market finished among the top five global markets for initial

public offerings every year, raising an impressive 300 billion US dollars in total. We indeed came first in the world in five of 10 years, including the past two when we raised more capital than New York, London, Tokyo and Shanghai. The total market capitalisation of Hong Kong's equity market stood at some 3,200 billion US dollars at the end of last year.

Another unique advantage of Hong Kong is that we have secured mutual access between the markets of the mainland of China and Hong Kong. The Shanghai-Hong Kong Stock Connect was launched in 2014; the Shenzhen-Hong Kong Connect was just launched in December last year. The Stock Connect Programmes have created a common market with total market cap of over 10 trillion US dollars. The Mainland-Hong Kong Mutual Recognition of Funds Arrangement was introduced in 2015. Under all of these access programmes, the cumulative net fund flow from Mainland to Hong Kong, and vice versa, amounted to 70 billion US dollars in the past few years.

Many institutional investors, including pension funds, insurance companies and sovereign funds, have already established presence in Hong Kong. We can see many reasons for aircraft leasing investments to gain popularity in the Hong Kong market with such a deep pool of capital.

Sukuk, an alternative source of funding

Apart from using traditional instruments in our sophisticated capital markets, aircraft lessors can also explore

using Sukuk or Islamic bonds as an alternative source of funding in Hong Kong. Aircraft is an ideal asset for Sukuk issuances. In the market, lessors and airlines in the United States and Asia have already been using this instrument to diversify their financing sources.

Hong Kong has put in place a legal framework for Sukuk issuance. The Government has launched three batches of triple A (AAA) rating Islamic bonds, which were very well received by institutional investors. Our banks and financial services professionals are well versed in handling this product.

New opportunities on the horizon

Ladies and gentlemen, when the Working Group on Transportation first raised the idea of developing aircraft leasing business in Hong Kong, it appeared to be a somewhat uncertain or even far-fetched idea. But here we are now. With a competitive tax regime which can encourage more aircraft leasing companies to consider establishing themselves in Hong Kong to take advantage of the many benefits offered by our sophisticated capital markets.

In response to the Government's initiative, our industry has formed the Aircraft Leasing and Aviation Finance Association to promote this initiative, and to give the Government feedback as it finalises the implementation details of the proposed dedicated tax regime. The fact that you are here today is also a testimony of the keen market interests.

We look forward to working with you to capture these ideas and new market opportunities on the horizon.

Thank you very much.