

Hong Kong Capital Markets Update

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SEHK publishes conclusions of consultations on proposed exemption for aircraft leasing activities

On 17 August 2018, the Stock Exchange of Hong Kong Limited (the Exchange) published the conclusions of its consultation on exempting aircraft leasing activities from its notifiable transaction rules. The amendments will take effect from 15 October 2018.

Key amendments

- The Exchange will amend the Listing Rules to exempt qualified aircraft leasing activities, which include aircraft leasing with aircraft operators and acquisitions/disposals of aircraft, from its notifiable transaction rules; and
- The exemption will be available to qualified aircraft lessors, which are listed issuers actively engaged in aircraft leasing as a principal activity and satisfying certain qualification criteria.

Consultation and conclusions

On 17 November 2017, the Exchange published a Consultation Paper on the Proposed Exemption for Qualified Aircraft Leasing Activities conducted by qualified aircraft lessors from the specific disclosure and/or shareholders' approval requirements applicable to notifiable transactions. The consultation period ended on 22 December 2017. The Exchange, having considered the feedback, decided to adopt the proposals set out in the consultation paper with modifications to the scope of Qualified Aircraft Leasing Activities and the alternative disclosure requirements in the announcements and interim/annual reports.

Qualified Aircraft Lessors

A **Qualified Aircraft Lessor** is a listed issuer that is actively engaged in aircraft leasing with aircraft operators¹ as a principal activity in the ordinary and usual course of business. The issuer must also satisfy the following criteria to be eligible for the exemption:

- There is a clear disclosure of aircraft leasing as a current and continuing principal business activity in the issuer's latest published annual report and financial statements (or in the case of a newly listed issuer, its listing document).
- Aircraft leasing is reported as a separate and continuing segment (if not the only segment) in the issuer's latest published financial statements.
- The issuer's directors and senior management, taken together, have sufficient experience relevant to the aircraft leasing industry. Individuals relied on must have a minimum of five years' relevant industry experience.

The exemption is only applicable to issuers engaged in aircraft leasing with aircraft operators, which is the common operating model for aircraft leasing companies. The exemption is also available to aircraft leases through intermediate lessors related to aircraft operators.

¹ An aircraft operator refers to a company that carries on a business of operating aircraft as an owner or charterer for providing services for the carriage by air of passengers, cargo or mail

Qualified Aircraft Leasing Activities

Qualified Aircraft Leasing Activity is defined as:

- An acquisition or a disposal of aircraft;
- A finance lease in respect to the leasing of aircraft to an aircraft operator, including financing arrangements in a sale and leaseback transaction; or
- An operating lease in respect of leasing of aircraft to an aircraft operator.

Disclosure requirements for Qualified Aircraft Leasing Activities

Although Qualified Aircraft Leasing Activities conducted by Qualified Aircraft Lessors are exempt from the notification, publication and shareholders' approval requirements applicable to notifiable transactions, issuers are required to provide alternative disclosures by way of an announcement and in their interim/annual reports.

The disclosures required in the announcement include:

- The date of the transaction;
- The identities and a description of the principal business activities of the parties to the transaction;
- A description of the transaction and the aircraft which is the subject of the transaction (including the expected year of delivery of the aircraft in the case of an acquisition); and
- A confirmation by the lessor's board of directors that the lessor has fulfilled the criteria of a Qualified Aircraft Lessor and the transaction is conducted in the lessor's ordinary and usual course of business, with commercial terms which are fair and reasonable and in the interests of the lessor and its shareholders as a whole.

The disclosure requirements in annual and interim reports include:

- The aggregate number of aircraft owned and committed to purchase by the lessor (including relevant details of those aircrafts) as at the end of the reporting period;
- The aggregate number of aircraft sold for the reporting period (including their aggregate net book value and the aggregate net gain or loss on disposal); and
- The average lease rental yield of each of the operating and finance lease business in relation to aircraft leasing for the reporting period.

If you have any questions about the matters discussed in this publication, please feel free to contact the following capital markets partners and directors.

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