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Clerk to Bill Committee on the Inland Revenue (Amendment) (No.2) Bill 2017
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Hong Kong

Email: bc_104_16@legco.gov.hk

19th April 2017

Dear Sir/Madam,

RE: Inland Revenue (Amendment) (No.2) Bill 2017

Hong Kong Dragon Airlines Limited (Cathay Dragon) welcomes the opportunity to comment on the captioned bill, because of its potential impact on the aviation sector in Hong Kong. In making our submission we refer to the Bill as gazetted on Friday, 10/03/2017, No. 10 Vol. 21 - Legal Supplement No. 3.

We note that the Bill seeks to give profits tax concessions to qualifying aircraft lessors and qualifying aircraft leasing managers; to make provisions for profits tax purposes about businesses in connection with aircraft; and to make consequential and minor textual amendments. Cathay Dragon is supportive of the Bill. Our aircraft purchasing function however resides at group level, and so the summary of our viewpoint provided here will largely echo points made by our parent company.

Hong Kong as an aviation hub

Hong Kong is already one of the world's most sophisticated aviation hubs. HKIA enjoys state of the art cargo facilities and its engineering facilities bring airline customers from all over the world. The inflight kitchens supplying the airport are world class, and are also growing as passenger traffic continues to increase. The focus in years past has thus been on building aviation infrastructure. However we agree that Hong Kong does also have the potential to develop offshore aircraft leasing to complete the spectrum of aviation services available in the HKSAR. This would be a useful piece to complete the jigsaw.

The Four Pillar Industries

The Four Pillar Industries identified by the government - trading and logistics, financial services, professional and producer services, and tourism – are recognized as being driving forces for Hong Kong's economy over many years. Offshore aircraft leasing provides a good "fit" amongst these pillars. Aviation covers, or touches upon, all of the pillars. The requirements of aircraft leasing are naturally intrinsically linked to finance and legal professionals. But the oversight and professional specifics of the aeronautical industry, including engineering expertise, is also an area where Hong Kong already has a wealth of experience, and is thus well placed to support such a development.

In order for the proposals to attract this sector of the aviation industry, the tax regime has to be attractive and competitive. The proposals outlined so far by the government appear to be well focused with that objective in mind.



Hospitality and Travel Benefits to Hong Kong

Aircraft leasing is an activity requiring face to face meetings and discussions, and thus establishing such an industry in Hong Kong would also benefit both the commercial airlines operating to Hong Kong, and hotels and hospitality providers in the city. Hong Kong's hub position and liberal visa regime means that the wealth of necessary meetings and personal transactions would be fast and efficient to coordinate, to the benefit of all parties in the process.

Global environment, China Opportunities

As the government has noted, the rapid development of China's aviation industry has triggered a growing demand for new aircraft. Forecasts indicate that in the period from 2012 to 2013 its airlines will require 6,000 new aircraft. Currently leasing finances around 30% of new aircraft deliveries, but in the coming three years the proportion is predicted to reach 40%. The compound annual growth rate in the demand for aircraft financing has been estimated at 6.7%. It makes total sense therefore that such a growing and strategically important business facility should be available to Chinese airlines in Hong Kong, with all the business advantages and efficiencies that Hong Kong traditionally offers.

Demonstrating the Hong Kong advantage

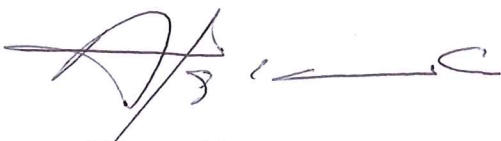
As an airline that has thrived in Hong Kong we can certainly testify to the Hong Kong advantage. The necessary tools are here for aircraft leasing to be another success story, doing the HKSAR credit, and providing new employment and business for associated companies. The range of Hong Kong's advantages have been catalogued many times before, but they undoubtedly include the rule of law, Hong Kong's sophisticated legal services, a level playing field, robust financial services infrastructure and variety of financial products, and its mature banking system incorporating effective and transparent regulations. Combined with the proposed tax regime changes, these features of Hong Kong are also essentials for a transparent and trusted aircraft leasing industry.

Whilst we claim no deep expertise to comment on the specifics of the tax regime proposed for the aircraft leasing industry, we concur that in order to attract this activity, certain features and peculiarities of this commercial activity have surely to be taken into account and we take note of the measures and specific rates therefore outlined.

For the reasons mentioned we believe that adoption of the Inland Revenue (Amendment) (No.2) Bill 2017 would be a positive development for Hong Kong, and Cathay Dragon is therefore supportive.

We also take this opportunity to note that currently Cathay Dragon is a customer of the aircraft leasing industry, and does not operate as an aircraft lessor. Any consideration of our interests in this amendment may take these facts into account.

Yours sincerely,



Algernon Yau
Chief Executive Officer