

Speech

Speech by SFST at IPO in Hong Kong Conference in Russia (English only)

Wednesday, June 4, 2008

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at IPO in Hong Kong Conference in Russia today (June 4, Moscow time):

Distinguished guests, ladies and gentlemen:

It is my great pleasure to attend this Listing Conference and address a distinguished gathering of Government officials and business leaders in Russia. I must first express my heartfelt thanks to the Russian-Chinese Business Council, the All-Russia Organisation and the Hong Kong Exchanges and Clearing Limited for their concerted efforts in staging this event. The conference has afforded a valuable opportunity for the Russian and Hong Kong financial and business communities to forge closer co-operation ties. I hope all of you will gain from the insightful presentations and discussions this afternoon.

Russia's Growth

In recent years, Russia's impressive economic growth has caught the world's attention, and has drawn investment bankers and fund managers from around the globe to look for investment opportunities in this emerging market. Indeed, a GDP growth averaging more than 7% each year in the past five years is no small achievement. Financial activities in Russia have also surged in tandem with the economic growth. This is best illustrated by the more than 25-fold increase in annual turnover covering all the markets of the Moscow Interbank Currency Exchange, MICEX, in 2007 as compared to 2000.

Strengths of Hong Kong

Although the paths of Russia and Hong Kong seldom crossed in the past, today we see attractive prospects for Hong Kong to participate in the growth and development of Russian enterprises through our well-established capital markets.

Maybe to most of you, Hong Kong is best known as a Special Administrative Region in China after the return of sovereignty to our motherland in 1997. But Hong Kong is more than a city in China. Under the “One Country, Two Systems”, Hong Kong has maintained a unique role through our distinct legal, economic and financial systems which are fully bridged with the international world in both operation and regulation. Most of all, our status as an international financial centre has distinguished us from other cities in China. This special position has been recognised in China’s 11th Five-year Plan. More recently, the Western world has placed Hong Kong third worldwide, just behind London and New York, in terms of financial centre competitiveness.

Hong Kong's success as an international financial centre is premised on our core values and fundamental strengths. These include our rule of law, free economy with no foreign exchange control, low and simple tax regime, a clean and efficient government, a regulatory framework that is on a par with international standards and a critical mass of international investors. Also, we have been successful because we have an open economy which has been rated as the world’s freest by the Heritage Foundation for the 14th consecutive year.

Financial Markets in Hong Kong

With these attributes and the dedication of our financial workforce, our financial services sector has performed impressively. As of the end of April 2008, our stock market ranked 7th in the world and 3rd in Asia in terms of market capitalisation. About US\$37.1 billion was raised in initial public offerings (IPOs) in 2007, putting us 4th globally and 2nd in Asia on world ranking. We are also one of the world’s largest banking centres, with the presence of about 70 out of the world’s top 100 banks. On insurance, we have the highest concentration of insurers in Asia. More than 170 insurers have established their operations in Hong Kong to provide a wide range of insurance services to meet our business needs. Moreover, we are one of the largest asset

management centres in the region. Our combined fund management business amounted to more than US\$789 billion in 2006.

Gateway to China

As an international financial centre located at the heart of Asia with strong global linkages, Hong Kong provides a premium capital formation and global investment platform for enterprises worldwide. Most important of all, being on the doorstep of the Mainland, Hong Kong is at the best strategic location for being a gateway to China. In fact, ever since China adopted its open door policy in 1978, Hong Kong has been the prime gateway connecting mainland China and the rest of the world. The economic links between Hong Kong and mainland China have always been strong. Hong Kong is the Mainland's largest source of realised direct foreign investment. The total amount reached US\$319.4 billion as at March 2008, accounting for about 40% of the national total. On the other hand, many mainland companies have set up regional headquarters or offices in Hong Kong as a first step to establish their presence in an international financial market.

With our strong mainland connections geographically, culturally and economically, Hong Kong is obviously the top choice for foreign investors to tap the tremendous business opportunities in mainland China. Hong Kong is the second largest recipient of foreign direct investment in Asia after mainland China. Foreign direct investment inflow into Hong Kong reached nearly US\$60 billion in 2007, representing a year-on-year growth of about 33%.

Listing Platform in Hong Kong

Ever since the listing of the first mainland enterprise in Hong Kong in 1993, Hong Kong has assumed a new dimension in promoting mainland China's economic development by raising funds for its enterprises. Today, Hong Kong has developed into a premier capital formation centre for mainland China. A total of 443 mainland enterprises are listed in Hong Kong. They have in total raised about US\$243 billion from our stock market. They include some of the biggest and most prominent companies in China, such as PetroChina, China Mobile, the Industrial and Commercial Bank of China, Sinopec. Indeed, the

listing of the Industrial and Commercial Bank of China in Hong Kong in October 2006 has raised about US\$21.9 billion and has set a new world record in the size of global offering.

Hong Kong's successful experience in conducting mega IPOs has testified to our strong fund-raising capability, in particular our ability to attract international capital. About 43% of the cash market turnover is contributed by overseas investors, and around 60% of our fund management business is sourced from overseas investors as well. Besides, many of you here may be aware that China has recently relaxed rules for overseas investment by authorised financial institutions through the Qualified Domestic Institutional Investor Scheme. Hong Kong has naturally benefitted as the first stop in the capital outflow from mainland China. Mainland intermediaries such as banks, insurance companies, securities and future brokers and dealers, are establishing their operations in Hong Kong. We expect to see mainland fund managers set up their operations in our city later this year. With all this, I am confident that Hong Kong possesses strong credentials to provide quality services to Russian enterprises looking to list in an international market.

Concluding Remarks

Ladies and gentlemen, Russia and Hong Kong may look far apart. But in today's globalised financial markets which mark no boundary in their operation, Hong Kong is your best partner in reaching out to the international market. Our unique role as China's city and Asia's world city has made us the most favourable location for overseas investors to expand into the mainland market and capitalise on the growth of the mainland economy. Our proven track record in conducting mega IPOs has won the confidence of issuers, investors and financial institutions worldwide. Today, a team of elite financial professionals from Hong Kong will explain to you the top quality listing services we can offer. We hope you find the information useful and that you will visit Hong Kong some day to experience our city life and see the world-class financial infrastructure we have.

Thank you.