

**Speech by SFST at Daiwa Investment Conference Luncheon
(English only)**

Wednesday, November 28, 2007

Following is a speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Daiwa Investment Conference Luncheon today (November 28):

Mr Yoshidome, distinguished guests, ladies and gentlemen:

It gives me much pleasure to join you today at the Daiwa Investment Conference Luncheon. As Confucius says, "friends from far away bring along joys". I understand that Daiwa has assembled over 50 companies from different parts of Asia to this conference today. I would like to extend a warm welcome to all of you.

This is the second time that Daiwa organised such a large-scale investment conference in Hong Kong. I commend Daiwa on making a good choice in terms of the location for holding this prestigious event. I hope that there will be more such conferences being held in Hong Kong in the years ahead.

Japanese Investment in Hong Kong's Financial Services Industry

Japan and Hong Kong have a lot in common. We are close to each other geographically, and both of us are key players in the Asian financial market. Our connections are many and multifarious. Indeed, Japanese investors have been known for their long-standing participation in and contributions to the Hong Kong's economy.

In the securities sector, the stock exchanges of Tokyo and Hong Kong are among the largest in Asia. As of end October 2007, there are 43 licensed corporations and four registered institutions in Hong Kong which had controlling shareholders from Japan. As regards the banking sector, 16 Japanese banks have maintained local representative offices in Hong Kong. Insurance-wise, there are five authorised insurers in Hong Kong, while seven others are known to be controlled by Japanese interests.

Asian Economic Landscape

Today, I do not venture to talk about the yen carry trade and its impact on the global financial markets, although this subject has hit the newspaper headlines many times this year. Across Asia, there are signs of continuous economic growth. Thanks to robust exports and a moderate rise in private consumption, Japan's economy expanded at a strong pace from July to September 2007, with GDP increasing by 0.6% from the previous quarter, or an annualised 2.6% in real terms. Furthermore, Japan's role as a global investor has been increasingly prominent. Foreign direct investment (FDI) from Japan has increased steadily during the last decade. Japanese FDI reached a record US\$450 billion at year-end 2006. It is expected by the International Monetary Fund that Japanese FDI outflows are likely to continue growing.

Equally impressive is the economic reform and its achievements in China in the past decades. Since its opening-up in the late 1970s, Mainland China's GDP has soared over 46 times. In 2006, China's GDP reached US\$2.6 trillion, securing her position as the world's fourth largest economy.

No wonder the focus of international financial markets has been migrating to Asia. China has become the powerhouse in the global economic development and Japan's continued economic recovery has been contributing to the sustainable economic development in the region.

HK's Strengths as an International Financial Centre (IFC)

With such an optimistic macro-economic backdrop, what are the opportunities for Hong Kong? There are considerable strengths in our financial market that we are well known for. We have a sound legal system, a stable currency, free capital flows, a low and simple tax regime and state-of-the-art infrastructures. More importantly, we have the critical China "know-how," and we are at the heart of Asia.

On top of our fundamental strengths, our financial services industry is renowned for its breadth and depth. As at end October 2007, our stock market ranked seventh in the world and third in Asia in terms of market capitalisation. Hong Kong is the premier capital formation centre for Mainland China. In terms of total IPO fund raised in 2006, which amounted to US\$42.94 billion, Hong Kong ranked second globally and first in Asia, ahead of New York and Tokyo.

Besides, Hong Kong is one of the largest asset management centres in Asia. As at end 2006, our combined fund management business amounted to US\$789 billion, representing an increase of 36% from 2005. Turning to banking, we are the world's 15th and Asia's third largest international banking centre and the sixth largest foreign exchange market. In addition, with 181 authorised insurers and total gross premiums of US\$20 billion in 2006, we have the highest concentration of insurers in Asia.

With these existing strengths and the ample economic opportunities in Asia, we have set a policy direction for our financial market. We are determined to develop Hong Kong into an international financial centre.

Advancing Financial Co-operation with the Mainland

This year, we celebrate the 10th anniversary of the establishment of the Hong Kong Special Administrative Region (HKSAR). In the decade since 1997, Hong Kong survived a series of unprecedented challenges, including the Asian financial turmoil, the avian flu and SARS crises, but still remains a magnetic destination for business and investment.

Of particular importance are our close ties with Mainland China which have given us an unparalleled edge in the global financial market. Being the springboard to Mainland China, our status as an IFC has been unequivocally affirmed by the Central Government's 11th Five-year Plan.

When the Chief Executive of HKSAR delivered his 2007-08 Policy Address last month, he clearly pointed out the policy direction that we will continue to promote the integration of the financial systems of Hong Kong and the Mainland. The relations between the Mainland and Hong Kong economies are interactive, mutually assisting and complementary. With the opportunities in Mainland China, Hong Kong's financial market will be more vibrant. In concrete terms, we have mapped out a strategy for advancing our cooperation with Mainland China in five broad areas.

Firstly, we would expand the presence of our financial institutions in the Mainland. Under the Closer Economic Partnership Arrangement, commonly known as "CEPA", the asset threshold for Hong Kong incorporated banks has been lowered from US\$20 billion to US\$6 billion. On the securities side, Hong Kong futures intermediaries may set up joint venture futures brokerage companies in the Mainland. In insurance, groups formed by Hong Kong insurance companies through re-grouping and strategic mergers may also enter the Mainland insurance market. These measures have created more opportunities for Hong Kong's financial services industry in the Mainland.

Secondly, we would increase our role in the outward mobility of funds from the Mainland. The bullish Mainland stock market, the gradual liberalisation of Mainland's capital account, the expansion of the Qualified Domestic Institutional Investors, or QDII, Scheme and the proposed "through-train" pilot scheme which allows Mainland individuals to invest directly in securities in Hong Kong all testify to the huge potentials for Hong Kong's fund management industry. We can be the hub for capital flows from the Mainland to the world market.

Thirdly, it is our hope that Hong Kong financial instruments could be offered in the Mainland. With stronger linkage, the overall size as well as the breadth and depth of the two markets will increase, and that would help to enhance intermediation efficiency and limit price volatility.

Fourthly, the renminbi business in Hong Kong has been developing progressively since 2004. Following the successful launch of the first renminbi bond in June 2007, Hong Kong has become the first place outside the Mainland which possesses a renminbi bond market. It is important for Hong Kong to continue to develop its handling of renminbi-denominated transactions.

Lastly, there is more room to dovetail the infrastructure of the two financial systems. Hong Kong has a world-class multi-currency system. One possible area we are looking at is facilitating the Mainland to settle its foreign currency transactions through Hong Kong. Looking ahead, there is also a need to develop new links to cater for the increasing flows of funds and instruments between Hong Kong and the Mainland.

New Policy Initiatives

While the Mainland of China represents a resourceful hinterland with numerous potentials to be harnessed, we have not lost sight of various opportunities available in the international market.

We position ourselves as a fund-raising centre for not just China, but also other parts of the world. Our deep pool of liquidity is obviously an attraction for any companies wanting to raise capital. But enterprises around the world are attracted to our market also for our corporate governance standards and internationally recognised regulatory standards.

Last week, I visited Vietnam and addressed an "IPO in Hong Kong Conference" at Ho Chi Minh City to promote our premier listing platform in the region. While the Hong Kong Exchange will continue its ongoing marketing roadshows to various emerging markets in Asia, I will lead more financial services delegations to selected cities in the Mainland and Asia to promote our strengths as the preferred capital formation hub in Asia.

Besides, we are also mindful of various burgeoning market niches, such as Islamic finance which offers potential for development. To further consolidate Hong Kong's position as a global financial centre, we will actively leverage on this new trend by developing an Islamic financial platform in Hong Kong. Apart from stepping up our efforts to promote Hong Kong's financial services to major Islamic countries and regions, we will work on developing an Islamic bond market. The Hong Kong Monetary Authority, in collaboration with the financial sector, has set up a dedicated team to study related issues and make recommendations for the early introduction of Islamic debt offerings in Hong Kong. Last week, our regulator has authorised the first Islamic fund for sale to retail investors in Hong Kong. The introduction of Islamic retail funds helps give added variety to our retail fund market and underscores the versatility of our asset management industry.

Concluding Remarks

Ladies and gentlemen, I have outlined the opportunities ahead and our strategy to capitalise on the unprecedented economic development of Mainland China and the rest of Asia. With our unique position as China's IFC under the principle of "One Country, Two Systems", Hong Kong is best placed to be the most effective intermediary for the matching of business and investment opportunities between China and the rest of the world. We welcome all of you to make use of our capital formation and investment platform to access the various business opportunities in Hong Kong, the Mainland China and other parts of Asia.

Finally, I would like to congratulate Daiwa Securities for this well-organised conference and thank Daiwa for its long-term commitment to Hong Kong which spans over three decades. I wish you all an enjoyable stay in Hong Kong.

Thank you.

Ends