Speech

Speech by SFST at 24th Annual AVCJ Hong Kong Forum: Investment Summit 2011 (English Only)

Wednesday, November 9, 2011

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the 24th Annual AVCJ Hong Kong Forum: Investment Summit 2011 today (November 9).

Distinguished guests, ladies and gentlemen,

Good morning. It gives me great pleasure to join you today at the Investment Summit. Please allow me to thank the Asian Venture Capital Journal (AVCJ) for putting in all the hard work in organising this conference. This has become quite the meeting place for senior figures in the private equity world every year.

The asset management industry in Hong Kong

Since the financial tsunami, the strong rebound of China's economy has spearheaded the overall economic recovery of Asia and created abundant investment opportunities in this region. The International Monetary Fund has projected real GDP growth in emerging Asian economies in 2011 and 2012 to be 8.2 per cent and 8 per cent respectively. In particular, China's real GDP growth rate is expected to reach 9.4 per cent and 9 per cent in 2011 and 2012 respectively.

Our asset management industry has benefited from the economic explosion in Asia, largely because finance professionals and investors alike appreciate Hong Kong's fundamental strengths. These strengths include a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law supported by an independent judiciary, a low and simple tax regime, a rich pool of professional talent and robust infrastructure support, and the free flow of information and capital.

Hong Kong's asset management businesses have scaled new heights in recent years. According to the latest Fund Management Activities Survey conducted by the Securities and Futures Commission, Hong Kong's combined fund management business, which consists of asset management, advisory business, private banking and real estate investment trusts, reached a record high of HK$10 trillion at the end of 2010. This figure also represented an average annual growth rate of about 18 per cent (on a comparable basis) in the past decade. Two thirds of the funds we manage come from non-Hong Kong investors while 80 per cent of the assets managed are invested in Asia, including Australia and New Zealand. These two figures combined give one clear message: international investors have confidence in our management of international investments.

Private equity in Asia and Hong Kong

Private equity is a very important part of our asset management business. Total capital under management (CUM) in private equity in Asia has been rising steadily in the past five years. Data provided by AVCJ shows that the total CUM in private equity reached US$290 billion in 2010, representing an increase of 14.6 per cent from 2009. This year will be another record breaking year with total CUM in just the first half of the year tipping over the US$310 billion mark.

How does Hong Kong's private equity business compare with such business in other financial centres in Asia? In terms of total CUM in 2010, Hong Kong was ranked second, accounting for 21.6 per cent of the Asian total, only slightly behind Mainland China's 22.6 per cent and ahead of Japan's 14.2 per cent. The Mainland and Hong Kong together manage nearly half of the total private equity in Asia.

Of the US$33 billion raised in Asia last year, Hong Kong accounted for 15.2 per cent, ranking second in Asia, behind the Mainland (43.9 per cent) and ahead of South Korea (11.8 per cent).

Given the importance of Hong Kong to the private equity world, it is not surprising that many private equity firms choose Hong Kong to be their home. As at end of June this year, 259 out of Hong Kong's 375 private equity firms had chosen Hong Kong for their Asia regional headquarters.

Hong Kong - a gateway to Asia and the Mainland

As China's global financial centre, Hong Kong is an ideal launching pad for private equity funds eyeing the business potential in the Mainland. Hong Kong is located in China but yet we have our own legal system and financial infrastructure. As we approach 15 years of experience post-handover, we have seen that the "One Country, Two Systems" model works very well. We enjoy deep and extensive means of connection with the Mainland and an intimate knowledge of how Chinese businesses operate, and yet we operate under our system.

The National 12th Five-Year Plan adopted in March this year explicitly demonstrates the Central Government's support for Hong Kong to develop into an offshore Renminbi (RMB) centre and an international asset management centre. With the first mover advantage and the long-established role of serving as the gateway for China's trade and investment links to the world, Hong Kong is well placed to develop our global offshore RMB business.

The Central Government has kept up with its encouragement to develop Hong Kong's offshore RMB business. In August, Vice-Premier Mr Li Keqiang of the State Council announced the Central Government's package of measures to support economic and social development in Hong Kong. Such measures include allowing investments in the Mainland equity market by means of the RMB Qualified Foreign Institutional Investor (RQFII) scheme, launching of exchange-traded funds with Hong Kong stocks underlying on the Mainland and allowing non-financial Mainland enterprises to issue RMB-denominated bonds and expanding the scale of issuance gradually. These moves increase the supply of RMB bonds in Hong Kong and facilitate the launch of more innovative RMB-denominated products. These measures not only facilitate the development of Hong Kong into an offshore RMB centre, but also help promote the development of the asset management industry in Hong Kong.

With these policies in place, Hong Kong is the ideal place to launch RMB private equity funds. The potential here is evident in the rate of increase in RMB funds raised. For the past five years the total amount of private equity funds raised in RMB increased sixfold from just under US$2 billion in 2006 to over US$12 billion in 2010. In 2010, there were 97 RMB private equity funds in Hong Kong.

Hong Kong's Stock Exchange

An important milestone for any private equity business is the IPO of a successfully nurtured business. Determining factors on where the business should be listed include maturity of the market, the depth of liquidity, the regulatory landscape and the quality of advice available in that market.

In 2010, Hong Kong maintained its position as the world's largest IPO market, with 113 newly listed companies raising US$58 billion. Our stock market, well known for its liquidity, attractive valuations and access to investors in Asia, should be very attractive to private equity funds.

Hong Kong Exchanges and Clearing Limited is continuously working to ensure our listing platform stays competitive. Its latest efforts include consulting on the requirements for overseas companies to list in Hong Kong. The intention is to streamline the procedures for overseas companies without compromising investor protection.

2010 was a year in which we saw many firsts in the nationalities of the companies that are coming to list in Hong Kong. The first of these firsts was the listing of UC Rusal, a Russian company, in January. We then had L'Occitane, a French company, in May, followed by Vale, a Brazilian Company, in December. 2011 has so far seen our exchange become even more international: we welcomed the first Swiss company, Glencore International, which is the world's largest commodities trading company; the first Kazakhstani company, Kazakhmys PLC, which is Kazakhstan's largest copper producer; Prada from Italy; and Samsonite International SA from the US.

The Government's role in promoting the private equity sector in Hong Kong

The Government is committed to enhancing the competitiveness of Hong Kong's asset management industry.

Hong Kong has a favourable tax system for your business - firstly, we have no capital gains tax on the sale of shares of private companies; secondly, dividend income is not subject to withholding tax. The Government is also providing fiscal incentives to the industry. Offshore funds are exempted from tax for profits derived from specified transactions in Hong Kong. Furthermore, the abolition of estate duty since February 2006 has encouraged people, including local and overseas investors, to hold assets in Hong Kong. A number of fiscal initiatives were also proposed in the Budget Speech last year.

We have also been busy establishing a network of comprehensive agreements for the avoidance of double taxation (CDTAs). 17 major trading and investment partners have signed up since the Inland Revenue (Amendment) Ordinance 2010 came into effect in 2010, and we are in negotiations with a number of other countries or territories.

Our efforts in overseas promotion will tell you we are committed to developing our asset management business. We launched a global promotional campaign on Hong Kong as China's global financial centre in London and New York in November 2010 and March 2011 respectively. The momentum of this campaign continues, with events ranging from a roadshow in Switzerland and Luxembourg that is happening as we speak, to the 5th Asian Financial Forum in Hong Kong in January 2012.

Concluding remarks

Ladies and gentlemen, the prospects of private equity have never looked brighter. Hong Kong will continue its efforts to create a business-friendly environment for venture capitalists like yourselves to carry out businesses here. We invite you to join us in seizing the massive opportunities that we are enjoying in Asia, and particularly those that are coming out of China.

Thank you very much.

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