HONG KONG: CHINA'S GLOBAL FINANCIAL CENTRE

HONG KONG

Offshore Renminbi Centre

Global offshore renminbi business centre

In 2004, Hong Kong became the world's first market to conduct offshore renminbi* business. By now, banks in Hong Kong are offering a full range of services, including deposit-taking, loans, currency exchange and remittances, debit/credit card services, trade settlement and other related services.

* Renminbi is the official currency of the People's Republic of China. The principal unit is yuan.

First and largest offshore renminbi investment hub

Hong Kong is the first and largest offshore market to launch investment products denominated and settled in renminbi. A wide range of renminbi financial products ranging from loans, bonds, certificates of deposit, insurance to fixed income funds, currency futures, exchange-traded funds (ETFs), real estate investment trusts, and stock and derivative products are available in the market.

Premier Asset Management Hub

Leading fund management centre

Hong Kong is an international asset management centre. It ranked the largest in Asia in terms of asset management business. At the end of 2012, the combined fund management business in Hong Kong achieved a record high of US$1,624 billion, representing a year-on-year growth of approximately 39%. It is also a hedge fund centre, a private equity hub and ETF market leader.

Private banking centre

Hong Kong is the gateway to 3.68 million high net worth individuals (HNWIs) in Asia Pacific, the region with almost one-third of HNWIs in the world, and private banking business has been growing in recent years.

Market development initiatives

Multi-pronged strategies are adopted to further consolidate Hong Kong's leading role as the asset management centre in Asia Pacific, and develop Hong Kong into a more comprehensive fund and asset management centre.

International Capital Formation Centre

Global equity funding leader

Hong Kong is the world's equity funding leader, becoming a preferred listing place for both Mainland and international corporations. The Stock Exchange of Hong Kong Limited was the top stock exchange for IPOs for three consecutive years in 2009-2011 and top five exchange in the past decade.

A vibrant international bond market

The Hong Kong debt market is characterised by vibrant activities and global issuers. Hong Kong plays host to the first offshore renminbi bond market (also known as dim sum bond market).

Hong Kong: Where Global and China Advantages Converge

The centre of economic gravity is shifting. Few would disagree that Asia and other emerging markets have been expanding rapidly and will continue to be the key growth drivers in the near future. In particular, the growth of Mainland China continues to outpace other major economies by a wide margin. The Mainland is pursuing market-oriented reforms in the financial sector and liberalising the use of renminbi for cross-border transactions. There are ample investment opportunities embedded in the vibrant Asian economies, and investors worldwide are closely watching Asia, particularly Mainland China.

What does this mean for Hong Kong?

Throughout its modern history, the unique role of Hong Kong can be encapsulated in two brief descriptions: as a gateway between Mainland China and the rest of the world and a testing ground for the Mainland's financial market liberalisation.

Hong Kong is the only place in the world where the global advantage and China advantage converge in one single city. This unique convergence allows Hong Kong to be Mainland China's gateway to the world's financial markets – leading global investors to opportunities on the Mainland and giving them access to its increasing wealth pool. Last but not least, Hong Kong doesn't just bring about China opportunities – it is an international business centre where you can tap into opportunities in Asia and the world.

For anyone seeking to expand in Mainland China and the rest of the world, particularly Asia, Hong Kong is the place to be.

Global Opportunities + China Opportunities = Hong Kong Advantage

Global Advantage

Competitiveness

Hong Kong's leading role as a global financial centre is highlighted by various international ranking reports. Hong Kong's general competitiveness is also widely recognised.

Global Rankings of Hong Kong

Rank	Global Financial Centres Index 14	Financial Development Index 2012	2013 Index of Economic Freedom	Economic Freedom of the World: 2013 Annual Report	World Bank Doing Business 2013	World Competitiveness Yearbook 2013
1	London	Hong Kong	Hong Kong	Hong Kong	Singapore	United States
2	New York	United States	Singapore	Singapore	Hong Kong	Switzerland
3	Hong Kong	United Kingdom	Australia	New Zealand	New Zealand	Hong Kong
4	Singapore	Singapore	New Zealand	Switzerland	United States	Sweden
5	Tokyo	Australia	Switzerland	United Arab Emirates	Denmark	Singapore
6	Zurich	Canada	Canada	Mauritius	Norway	Norway
7	Boston	Japan	Chile	Finland	United Kingdom	Canada
8	Geneva	Switzerland	Mauritius	Bahrain; Canada	Korea	United Arab Emirates
9	Frankfurt	Netherlands	Denmark	—	Georgia	Germany
10	Seoul	Sweden	United States	Australia	Australia	Qatar

Sources: Global Financial Centres Index 14, Financial Development Index 2012, 2013 Index of Economic Freedom, Economic Freedom of the World 2013 Dataset, World Bank Doing Business 2013 Report and World Competitiveness Yearbook 2013

Hong Kong's Cornerstone of Success

Key Area	Strength
People	▶ A highly educated labour force and rich pool of professional talents ▶ "Very high human development" described by the United Nations Human Development Report 2013
Business Environment	▶ The freest economy in the world for 19 years in a row ranked by the Heritage Foundation in the United States and consistently ranked number 1 in terms of economic freedom by Fraser Institute in Canada ▶ Free flows of information and capital ▶ Open and competitive business environment ▶ Sound regulatory framework on par with international standard ▶ Responsive government ▶ Simple and efficient tax system with low tax rates
Market Access	▶ Located in the time zone of GMT +8 to form a seamless link to the American and European markets ▶ Ready access to international financial markets, business capital and customers ▶ Mature and vibrant stock market ▶ Effective and stable banking system
Infrastructure	▶ Sophisticated and extensive business infrastructure ▶ Closely connected with the world at the heart of Asia; 5 hours of flight from half of the global population ▶ Robust transport network and efficient telecommunications systems

Cornerstone of our success

Common law system: Under the "One country, Two systems" principle, Hong Kong has retained its common law system. The rule of law, upheld by an independent judiciary, is the cornerstone of Hong Kong's success as a leading commercial and financial centre, providing an efficient and secure environment for individuals and businesses.

Robust regulatory regime: Hong Kong has put in place a robust regulatory regime which has stood the tests of numerous financial crises: 1994 Mexican and Latin America "Tequila" crisis; 1997 Asian financial crisis; 1998 Russian default and Long-Term Capital Management crisis; 2000 dotcom crash; and 2008 global financial meltdown. Hong Kong's regulatory regime has evolved with consistency and predictability. As an essential player in the global financial arena, Hong Kong has built a fair, open and orderly financial system on par with international best practice. And we actively contribute to help define the international regulatory standards in many aspects, from risk management to investor protection.

Simple and transparent taxation system: Hong Kong has a simple, transparent and stable taxation system. Company profits tax is 16.5% and personal income tax is capped at 15%. There is no sales tax, no withholding tax on dividends and interest, no capital gains tax, no value-added tax and no estate duty.

Hong Kong also has a growing network of comprehensive double taxation agreements (CDTAs) with its major trading and investment partners, and more discussions ongoing. The resulting tax certainty for companies from a jurisdiction with which Hong Kong has signed a CDTA better supports their future business development and expansion strategies. As at the end of September 2013, we had signed CDTAs with 29 jurisdictions[a] and concluded CDTAs with four jurisdictions[b]. We are having or will soon have CDTA talks with about 10 jurisdictions.

(a) Austria, Belgium, Brunei, Canada, Mainland China, Czech Republic, France, Guernsey, Hungary, Indonesia, Ireland, Italy, Japan, Jersey, Kuwait, Liechtenstein, Luxembourg, Malaysia, Malta, Mexico, Netherlands, New Zealand, Portugal, Qatar, Spain, Switzerland, Thailand, Vietnam and United Kingdom.

(b) India, South Africa, Korea and United Arab Emirates.

Engaging the industry: The Government and regulators have been exchanging views with the industry and formulating proposals to promote the further development of our financial services industry through the Financial Services Development Council (FSDC) and other platforms. The FSDC, established in January 2013, works closely with the industry to support the development of financial services in Hong Kong and map out the industry's strategic direction.

China Advantage

The growth story

Mainland China has enjoyed an average annual economic growth of 10% per annum in the past 20 years. It is not only the world's second largest economy in terms of economic size, but also the largest exporter and second largest importer globally. In 2012, its value of merchandise trade amounted to US$3,867 billion. Hong Kong is where the world meets to invest in the Mainland growth story through a diverse offering of companies from various economic sectors.

Hang Seng China Enterprises Index and MSCI AC Asia excluding Japan Index

Source: Bloomberg

Mainland China is not only the world's second largest economy in terms of economic size, but also the largest exporter and second largest importer globally.

As renminbi is increasingly used outside Mainland China, Hong Kong continues to build upon its role as the Mainland's testing ground for financial reforms.

Strengthening Hong Kong's financial co-operation with the Mainland is vital for the city's financial services sector, which is best placed to contribute to the modernisation of the Mainland's financial system. Apart from helping Mainland enterprises to raise capital through various channels like the issuance of equities and bonds, project financing and loan syndication, Hong Kong also serves as the wealth management centre for the increasingly affluent Mainland residents. Furthermore, Hong Kong is a major destination and source of Mainland China's outward and foreign direct investment.

Under the Closer Economic Partnership Arrangement between the Mainland and Hong Kong, which went into force in 2004, financial service providers and professionals in Hong Kong can enjoy a greater market access and flexibility for their operations in Mainland China, positioning them well to capture the vast potential offered by the burgeoning demand for high quality financial services.

Testing ground for Mainland China's financial reforms

Mainland China is the world's largest exporter, yet the US dollar remains the major settlement currency for global trade. As the Mainland's financial system further integrates with the world, Mainland authorities have set out clearly the policy direction for freer cross-border capital flow and higher degree of convertibility of renminbi in the "Financial Development and Reform Plan for the 12th Five-Year Plan Period (2011-2015)" published in September 2012.

Hong Kong is playing a vital role in this development. As renminbi is increasingly used outside Mainland China, Hong Kong continues to build upon its role as the Mainland's testing ground for financial reforms, becoming the place in which international use of renminbi as a settlement, investment and funding currency is being tested.

Offshore Renminbi Centre

Global Offshore Renminbi Business Centre

2004
Personal renminbi business

2007
Renminbi bonds

2009
Trade settlement scheme in renminbi

2010
Investment in Mainland China's interbank bond market

2011

January
Pilot scheme for settlement of overseas direct investments in renminbi

August
Measures announced by Vice-Premier Li Keqiang, including:

- Expansion of trade settlement scheme in renminbi to cover the entire Mainland China
- Renminbi Qualified Foreign Institutional Investors (RQFII) scheme
- Encouraging the use of renminbi in direct investment in Mainland China
- Issuance of renminbi bonds by Mainland enterprises

2012
Measures announced by the Central Government, including:

- Issuing further renminbi sovereign bonds in Hong Kong
- Arranging for Mainland banks and enterprises to issue further renminbi bonds in Hong Kong

2013
Expansion of RQFII pilot scheme; Launch of CNH HIBOR fixing

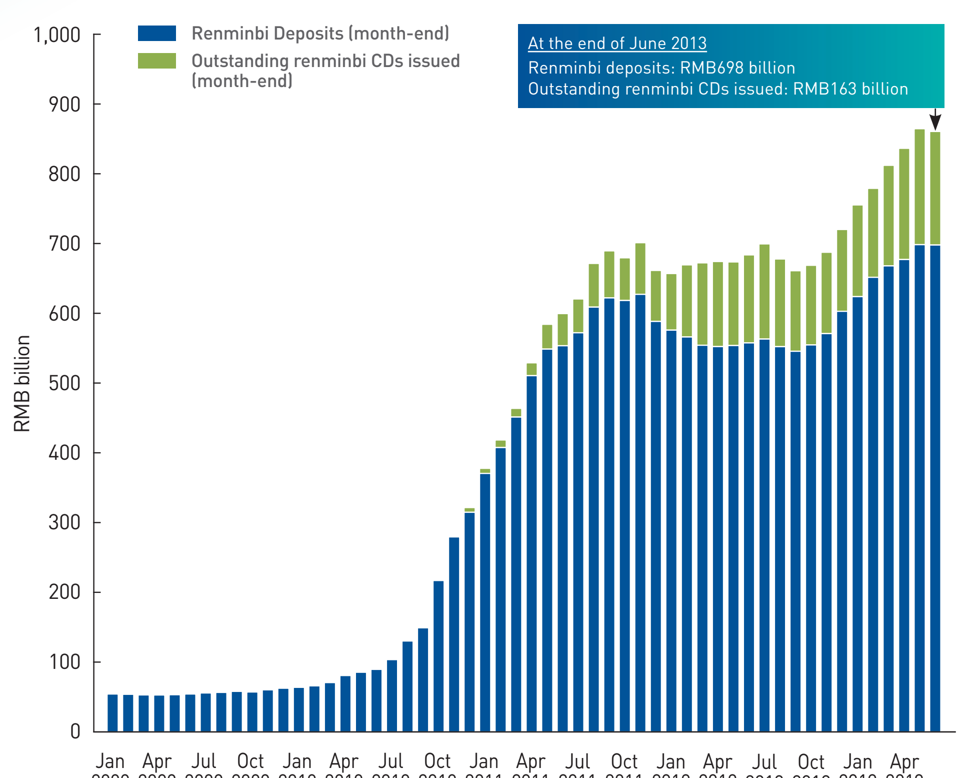
In 2004, Hong Kong became the first market to conduct offshore renminbi business, and the scope of business has expanded since then. Banks in Hong Kong now offer a range of services including deposit-taking, loans, currency exchange and remittances, debit/credit card services, trade settlement and other related currency hedging services in renminbi.

Largest offshore renminbi liquidity pool

In addition to supporting the use of renminbi outside Mainland China and providing a platform for free exchange between renminbi and other currencies, Hong Kong has the world's largest offshore pool of renminbi liquidity. At the end of June 2013, renminbi deposits and outstanding renminbi certificates of deposit totalled RMB861 billion.

Renminbi Deposits and Certificates of Deposit (CDs) in Hong Kong

Source: Hong Kong Monetary Authority



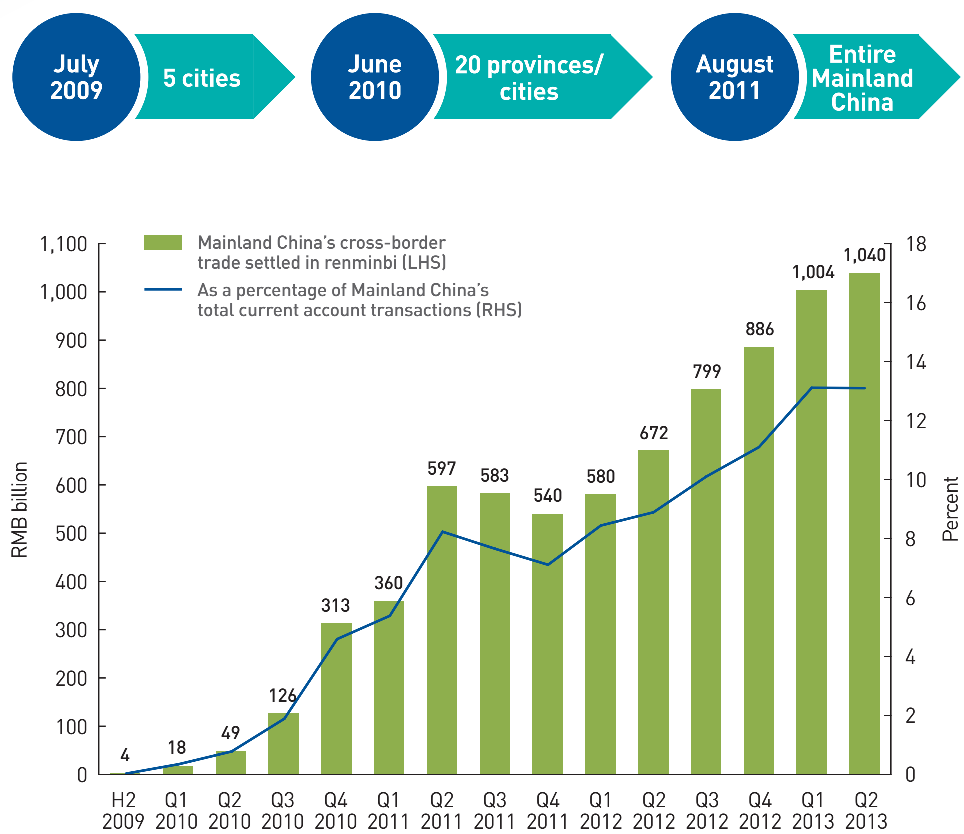
Largest renminbi trade settlement centre

The renminbi trade settlement pilot scheme was launched in July 2009, and the scheme was expanded subsequently. All Mainland enterprises can now settle their cross-border trade transactions in renminbi.

In 2012, Mainland China's cross-border trade settled in renminbi amounted to RMB2.9 trillion, equivalent to 10% of Mainland's total current account transactions. The ratio during the first half of 2013 rose further to 13%, with the amount of renminbi trade settlement exceeding RMB2 trillion. Along this development, renminbi trade settlement handled by banks in Hong Kong in 2012 amounted to RMB2.6 trillion, growing by 37% from 2011. It further increased to RMB1.7 trillion in the first half of 2013, a 40% growth compared with the same period in 2012.

Mainland China's Cross-border Renminbi Trade Settlement

Source: People's Bank of China



In 2012, Mainland China's cross-border trade settled in renminbi amounted to RMB2.9 trillion.

Largest renminbi funding centre

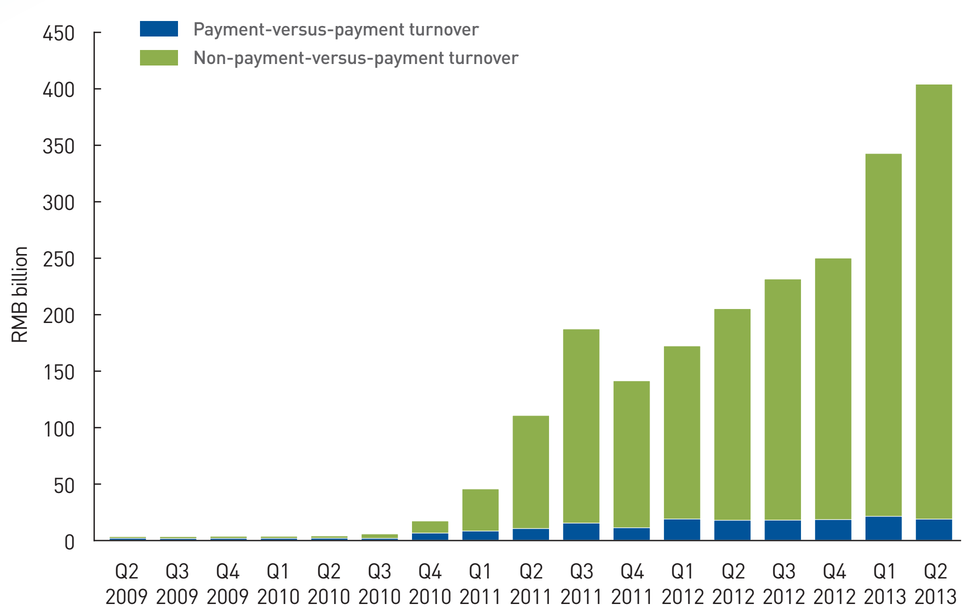
Hong Kong is a major source of foreign direct investment in Mainland China, accounting for 59% of total realised foreign direct investment in 2012. Since 2011, the Mainland authorities have liberalised the use of renminbi for direct investment. It paves the way for Hong Kong to become the largest renminbi funding centre for multinational companies to raise funds through bank loans, debt or equity financing for their investments in Mainland China.

Global platform for renminbi clearing and settlement

Hong Kong has developed a highly efficient and reliable renminbi clearing platform — the renminbi Real Time Gross Settlement (RTGS) system — to facilitate banks from all over the world to make renminbi payments. The renminbi RTGS system operates for 15 hours daily from 8:30 a.m. to 11:30 p.m. (Hong Kong time), giving financial institutions in the European and American time zone a window to settle offshore renminbi payments through the Hong Kong infrastructure. The average daily turnover of Hong Kong's renminbi RTGS system reached RMB402 billion in the second quarter of 2013. According to the statistics from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Hong Kong now handles around 80% of the global SWIFT renminbi payments.

Renminbi RTGS System Average Daily Turnover

Source: Hong Kong Monetary Authority



In addition to the renminbi RTGS system, there are three other RTGS systems operating in Hong Kong — the Hong Kong dollar, US dollar and euro RTGS systems. Together, these four systems formed a multi-currency clearing and settlement platform. Foreign exchange transactions can be settled via payment-versus-payment to improve settlement efficiency and to eliminate settlement risks arising from time lags in settlements or from time-zone differences. The internationalisation of renminbi has given impetus to the development of the offshore treasury centre in Hong Kong, offering opportunities for multinational corporations to hedge foreign exchange exposure.

First renminbi interbank offered rate fixing

There is a CNH market which allows free conversion between renminbi and foreign currencies, both spot and forward. With the channels linking the onshore market developed, a plethora of offshore renminbi asset market has sprung up, with products such as renminbi bonds, fixed income funds, insurance, as well as listed securities and derivatives. In June 2013, the Treasury Markets Association of Hong Kong launched the CNH Hong Kong Interbank Offered Rate fixing, which supports the growth of the renminbi market by providing a benchmark for the pricing of loan facilities and facilitates the development of a variety of renminbi interest rate products.

International investors can freely convert their funds into renminbi at a competitive exchange rate in the offshore market.

First and Largest Offshore Renminbi Investment Hub

2010 August

1st offshore renminbi fixed income fund authorised

2011 April

1st renminbi real estate investment trust listed

October - December

Trading Supporting Facility and Dual Tranche, Dual Counter model ready by Hong Kong Exchanges and Clearing Limited

December

1st phase Renminbi Qualified Foreign Institutional Investors (RQFII) scheme – unlisted retail RQFII funds authorised for public offering

2012 February

1st renminbi gold exchange-traded fund (ETF) listed

September

Renminbi currency futures launched

October

2nd phase RQFII scheme – 1st RQFII A-share ETF listed

1st offshore renminbi shares listed under the Dual Tranche, Dual Counter model

November - December

1st batch of Hong Kong dollar-denominated and renminbi-denominated RQFII A-share ETF warrants launched

2013 March

3rd phase RQFII scheme expanded to cover all SFC-licensed asset managers, who were incorporated and mainly operated in Hong Kong

June

1st Offshore Renminbi Bond Index ETF listed on The Stock Exchange of Hong Kong Limited

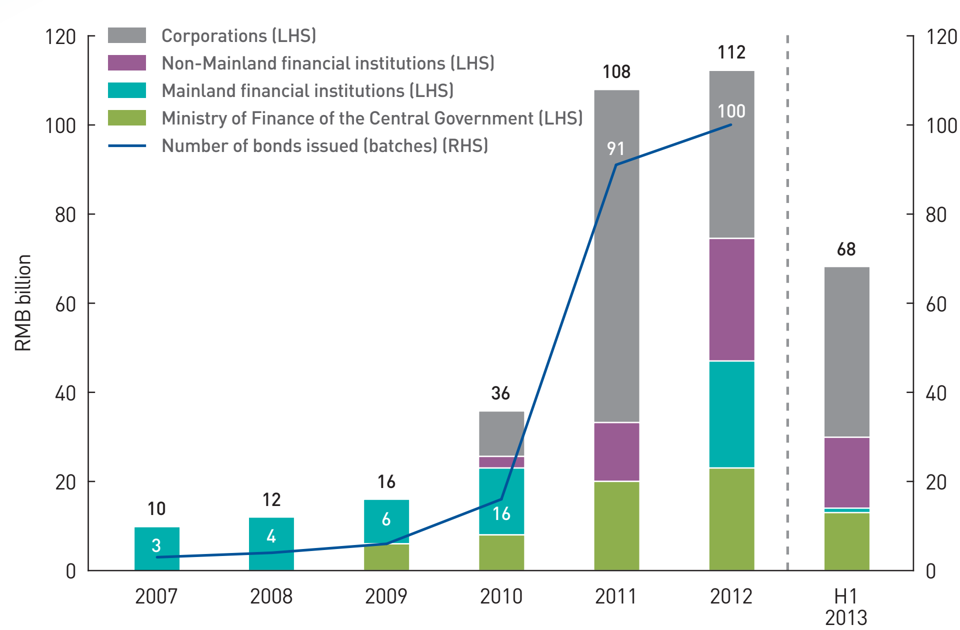
Largest offshore renminbi bond market

Hong Kong is the first place outside Mainland China to develop a renminbi bond market (also known as the dim sum bond market). Bonds have been issued by the Ministry of Finance of the Central Government, enterprises and financial institutions from the Mainland, Hong Kong and different parts of the world. Issuers include McDonald's and Caterpillar in the United States, Unilever and Volkswagen in Europe, and also international financial institutions including the World Bank and Asian Development Bank.

Bond issues in Hong Kong have attracted very positive responses, indicating a strong investor demand for renminbi bonds.

Renminbi Bond Issuance in Hong Kong

Sources: Dealogic, Bloomberg, Reuters, Newswire and other sources



Hong Kong is the first place outside Mainland China to develop a renminbi bond market.

Investors of the offshore renminbi bond market come from a wide range of geography, including Europe, America and Asia on top of those in Hong Kong, and range from banks and insurance companies and fund managers to central banks and private banking clients.

Largest offshore renminbi capital market

Hong Kong is the first and largest offshore market to launch investment products denominated and settled in renminbi. A wide range of renminbi products ranging from loans, bonds, CDs, insurance to fixed income funds, currency futures, exchange-traded funds (ETFs), real estate investment trusts, and stock and derivative products are available in the market.

Under the People's Bank of China's pilot scheme announced in August 2010, eligible Hong Kong banks can make use of their renminbi funds to invest in Mainland China's interbank bond market. This creates opportunities for financial institutions in Hong Kong, through investing in Mainland China's bond market, to launch more renminbi-denominated products catering for the varied needs of investors. In early 2012, insurance companies in Hong Kong were also allowed to access the interbank bond market, facilitating the issuance of insurance policy contracts denominated and settled in renminbi.

Hong Kong is the first and largest offshore market to launch investment products denominated and settled in renminbi.

The Renminbi Qualified Foreign Institutional Investors scheme

The Renminbi Qualified Foreign Institutional Investors (RQFII) scheme was rolled out in December 2011. The launch of the RQFII scheme allows the use of renminbi for direct investment in Mainland China's securities markets. At the end of June 2013, there were 21 Securities and Futures Commission (SFC) authorised RQFII unlisted funds with an aggregate net asset value of RMB13.1 billion and six SFC-authorised RQFII A-share ETFs adopting dual counter trading arrangement (i.e. renminbi and Hong Kong dollar trading counters) with an aggregate net asset value of RMB31.1 billion.

Premier Asset Management Hub

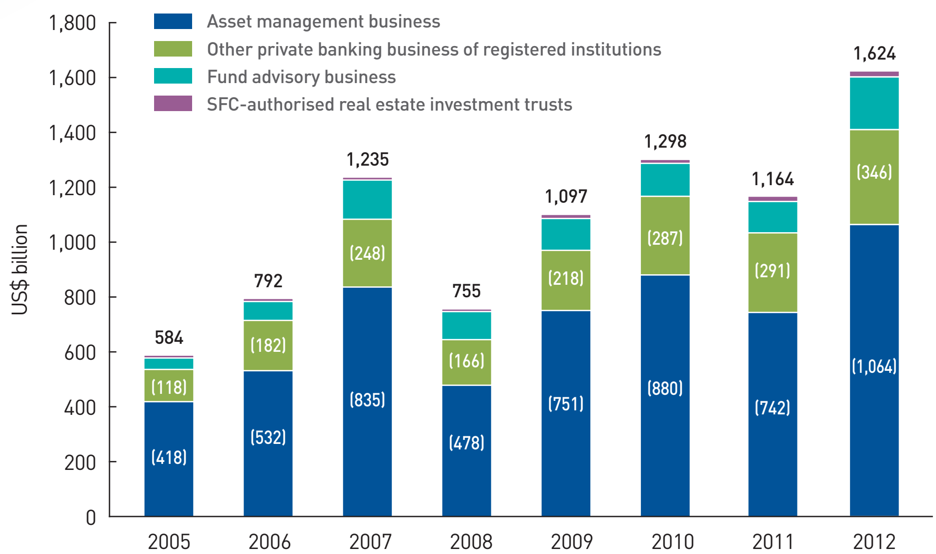
Leading Fund Management Centre

Fund management hub

As the global economic balance shifts more towards the East, Asia is expecting some of the fastest wealth growth in the world. Hong Kong is the ideal hub to manage the region's growing wealth. At the end of 2012, the combined fund management business in Hong Kong amounted to a record US$1,624 billion, up 39% from a year earlier.

Combined Fund Management Business of Hong Kong

Source: Securities and Futures Commission



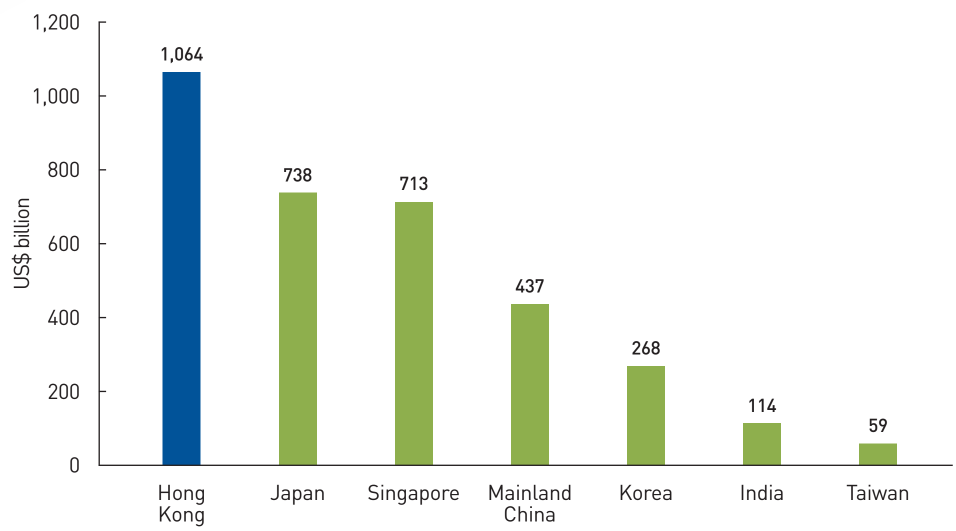
Hong Kong has the right ecosystem to become an even larger international asset management hub. Hong Kong has the largest concentration of Mainland securities and fund management companies outside Mainland China. At the end of June 2013, over 70 Mainland companies had controlling interests in more than 190 licensed corporations or registered institutions in Hong Kong to provide services such as securities and futures dealing, securities and futures advisory and asset management. Hong Kong already has a large concentration of international fund managers.

Hong Kong is the leading fund management centre in Asia and China's biggest wealth management centre outside Mainland China.

In 2012, Hong Kong ranked first in Asia in terms of asset management business.

Asset Management Business in Asia

Sources: Investment Company Institute, Securities and Futures Commission and Monetary Authority of Singapore



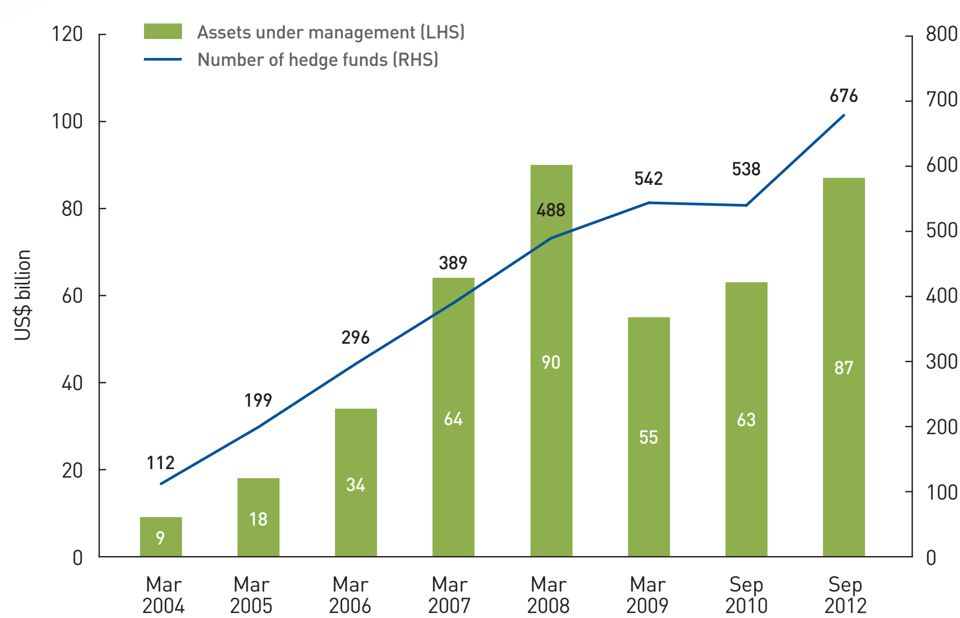
Hedge fund centre

Hong Kong has a robust hedge fund business underpinned by the shifting eastwards of the global financial industry's focus. Offshore funds continue to be exempt from profits tax, a fiscal measure implemented by the Government of the Hong Kong Special Administrative Region to support the development of the city's asset management industry.

At the end of September 2012, there were 676 hedge funds run by SFC-licensed hedge fund managers in Hong Kong, managing total asset of US$87 billion, almost 10 times that at the end of March 2004.

Hong Kong's Hedge Fund Industry

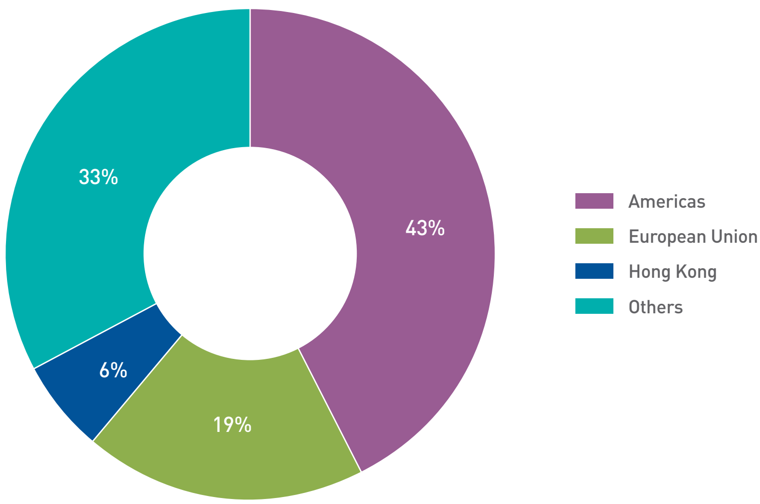
Source: Securities and Futures Commission



Hong Kong continues to be a hub for hedge fund managers in Asia, attracting investors' capital from Americas (43%) and European Union (19%) and investing into Hong Kong and Mainland China (28%) as well as the rest of Asia Pacific (38%).

Source of Investors by Location for Hong Kong Hedge Funds

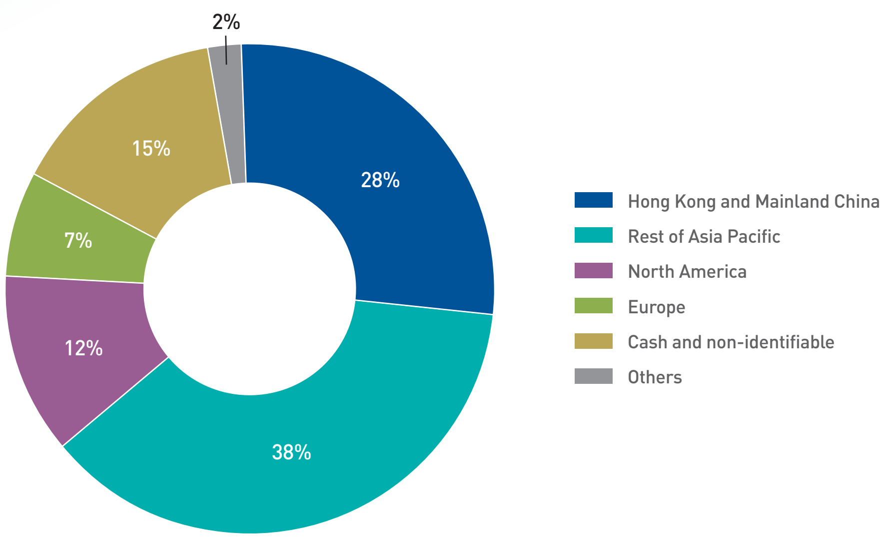
Source: Securities and Futures Commission



Note: Figures may not add up to 100% due to rounding.

Location of Investments for Hong Kong Hedge Funds

Source: Securities and Futures Commission



Note: Figures may not add up to 100% due to rounding.

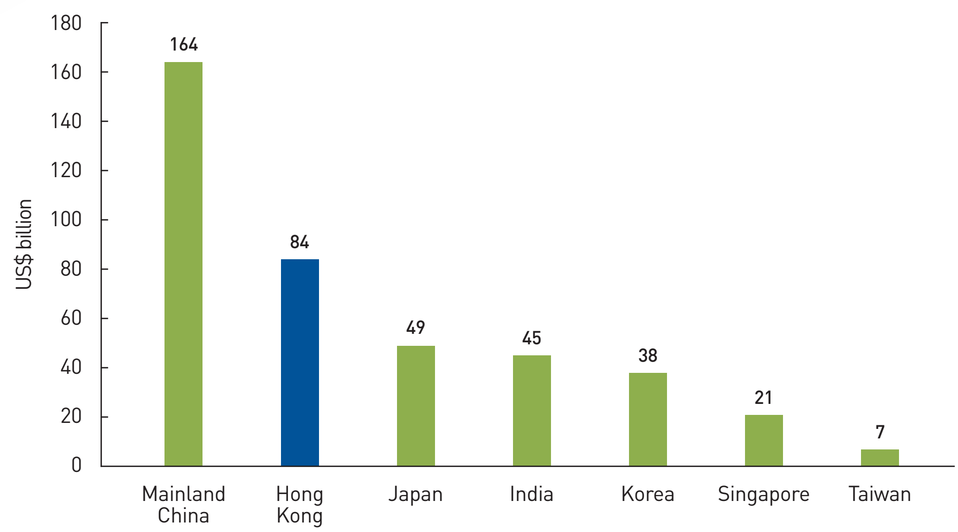
Hong Kong has a robust hedge fund business underpinned by the shifting eastwards of the global financial industry's focus.

Private equity hub

Hong Kong is a private equity leader in Asia, especially with Mainland China being the focus of private equity investment in the region. In 2012, the total capital under management in private equity funds in Hong Kong reached US$84 billion. Also, private equity funds in Hong Kong raised new funds of US$9.4 billion or 21% of the Asian aggregate. Hong Kong ranked second in Asia behind Mainland China in both aspects.

Total Capital Under Management in Private Equity Funds at the end of 2012

Source: Asian Venture Capital Journal Research



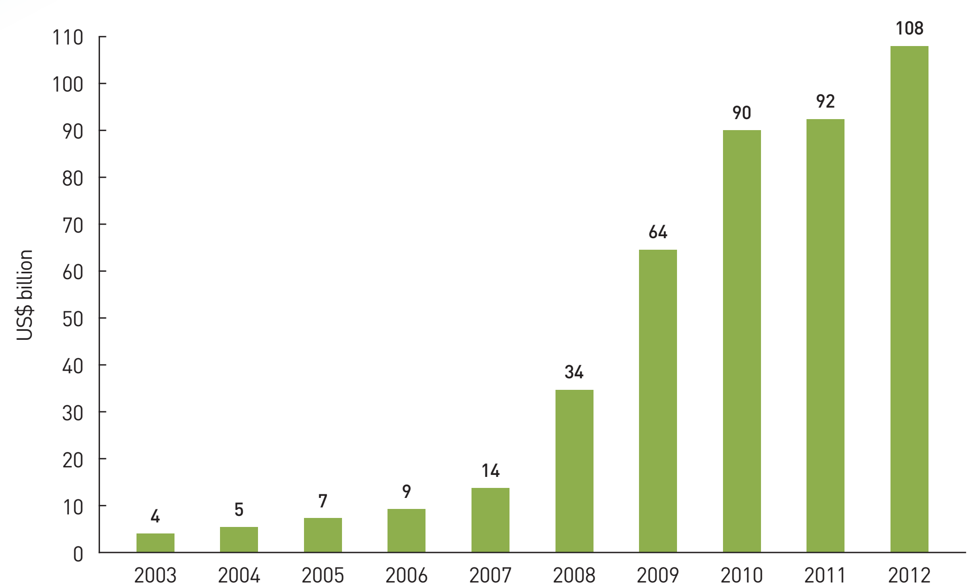
Hong Kong accommodates most of Asia's top venture capital firms, which are experienced in supporting every funding stage ranging from start-up to IPOs. Hong Kong also plays host to regional head offices of most private equity firms, investing heavily in Mainland China (45%), Japan (16%) and Korea (14%).

ETF market leader

At the end of 2012, the market value of ETFs listed in Hong Kong was US$108 billion, three times that at the end of 2008.

Market Capitalisation of ETFs in Hong Kong

Source: Hong Kong Exchanges and Clearing Limited



The Stock Exchange of Hong Kong Limited is the second most active ETF market in Asia.

Springboard to China

The Qualified Foreign Institutional Investors (QFII) scheme was launched in 2002. By obtaining QFII status, eligible investors, who were previously blocked out by capital controls, can invest in Mainland China's capital market directly. As at the end of June 2013, the State Administration of Foreign Exchange (SAFE) had granted a total investment quota of US$43.5 billion to 207 qualified foreign institutional investors.

The first retail equity fund authorised by the SFC that invested directly in the A-share market under the QFII scheme was launched in 2006. At the end of June 2013, there were 18 SFC-authorised unit trusts and mutual funds using their QFII quotas to invest directly in Mainland China's securities markets, with an aggregate net asset value of US$2,138 million.

End of Period	Retail Funds Directly Investing in Mainland Markets via the QFII Scheme	
	Number	Assets Under Management (US$ million)
2006	1	308
2007	1	808
2008	3	285
2009	5	970
2010	9	1,837
2011	9	1,399
2012	16	2,091
June 2013	18	2,138

Source: Securities and Futures Commission

The Hong Kong market is the biggest user of Mainland China's QFII quotas.

Mainland China's gateway to overseas markets

Hong Kong was the first and remains the largest destination for Mainland China's Qualified Domestic Institutional Investors (QDII) scheme, which was implemented in 2006. Under the scheme, approved banks, fund management companies, brokers, insurance companies and trust companies on the Mainland are allowed to invest their own funds or those of their clients in certain overseas financial markets, including Hong Kong, subject to their investment quotas. The scheme lays the groundwork for Mainland funds to invest overseas through Hong Kong. As at the end of June 2013, SAFE had granted a total quota of US$86 billion to 112 domestic institutional investors.

Private Banking Centre

Opportunities

According to the World Wealth Report 2013 from Capgemini and RBC Wealth Management, Hong Kong is the gateway to 3.68 million high net worth individuals (HNWIs) in Asia Pacific, the region with almost one-third of HNWIs in the world. Mainland China again recorded a significant increase in the number of HNWIs, recording a 14.3% growth in 2012 which notably outpaced the 9.4% and 9.2% gains in Asia Pacific and globally respectively. At 643,000, Mainland China has the fourth largest population of HNWIs worldwide. Moreover, according to a study conducted by Deloitte and Oxford Economics in 2010, wealth of HNWIs in Mainland China and Hong Kong combined (including primary residence) was forecast to more than triple to US$13.9 trillion by 2020.

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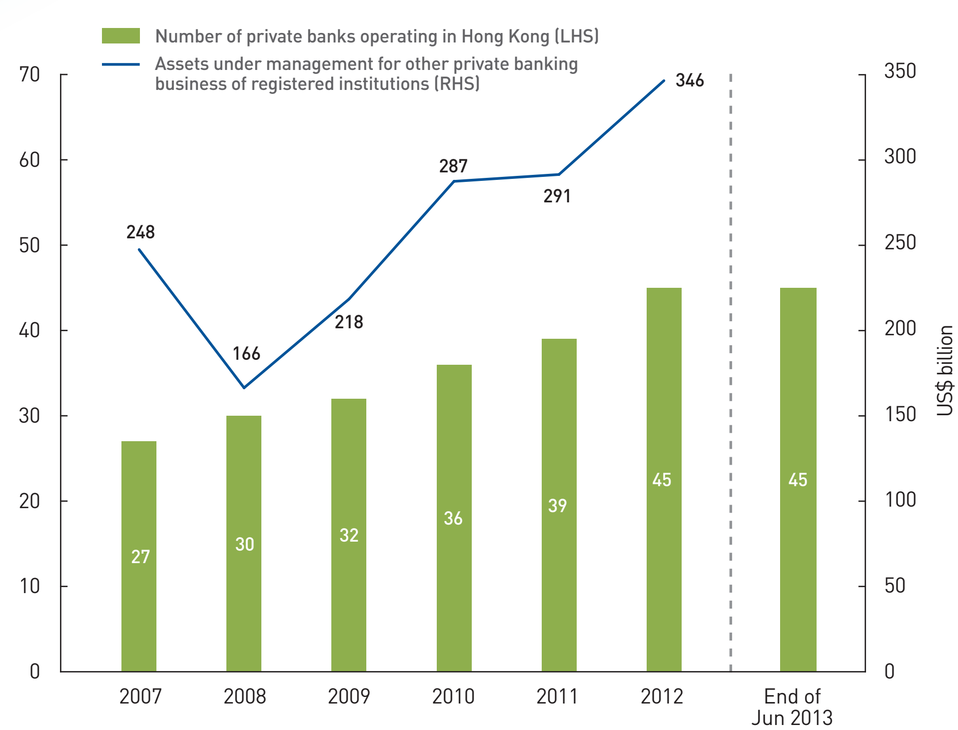
Growth in wealth management

To facilitate the development of the private wealth management industry in Hong Kong, SFC and Hong Kong Monetary Authority (HKMA) have issued circulars to provide guidance to the industry on compliance with regulations governing the sale of investment products.

According to the SFC's Fund Management Activities Survey 2012, private banking business of responding SFC-registered institutions grew to a record high of about US$346 billion, thanks to the positive market performance and increase in investment inflows during the year. According to the HKMA, there were 45 HKMA-authorized institutions offering private banking services in Hong Kong at the end of June 2013.

Number of Private Banks and Assets Under Management for Other Private Banking Business of Registered Institutions in Hong Kong

Sources: Hong Kong Monetary Authority and Securities and Futures Commission



Note: Number of private banks include only authorized institutions that offer private banking services in Hong Kong.

Market Development Initiatives

Mutual recognition of funds with Mainland China

SFC has formed a working group with the Mainland authorities to study the possibility of mutual recognition and cross-border offering of funds between Hong Kong and the Mainland. This initiative will bring about a wider investment platform for both jurisdictions in terms of more product offerings and a bigger investor base.

Tax exemptions on private equity funds

We are planning to extend the profits tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. This will provide a clear and competitive tax environment for private equity funds.

Open-ended Investment Company

We are planning to introduce an Open-ended Investment Company structure for investment funds to domicile in Hong Kong, to complement the existing Hong Kong unit trust regime. This will provide more flexibility to the market and facilitate mutual funds and hedge funds to domicile in Hong Kong.

Developing an Islamic finance platform

The Government of the Hong Kong Special Administrative Region has been pressing ahead with its initiative to develop an Islamic finance platform with a view to diversifying the financial market in Hong Kong. The progress so far has been encouraging. Several landmark sukuk have been listed on The Stock Exchange of Hong Kong Limited (SEHK). Various Islamic financial products and services have also been launched in Hong Kong, including Islamic funds, loan syndication, indices and banking windows.

As part of our efforts to facilitate the development of a sukuk market in Hong Kong, the Government completed a legislative exercise in July 2013 to amend and clarify the tax laws in Hong Kong with the aim of providing a comparable taxation framework for common types of sukuk vis-à-vis their conventional counterparts.

Modernised trust law

Hong Kong has an established and diverse trust industry to support various financial services and asset management activities. To meet the needs of present-day trusts, the Government has completed a legislative exercise to modernise Hong Kong's trust law. The modernised law, among others, provides for the flexibility for the establishment of perpetual trusts, and enhances the certainty of transfer of movable assets to Hong Kong trusts against foreign forced heirship rules.

Multi-pronged strategies are adopted to further consolidate Hong Kong's leading role as the asset management centre in Asia Pacific.

International Capital Formation Centre

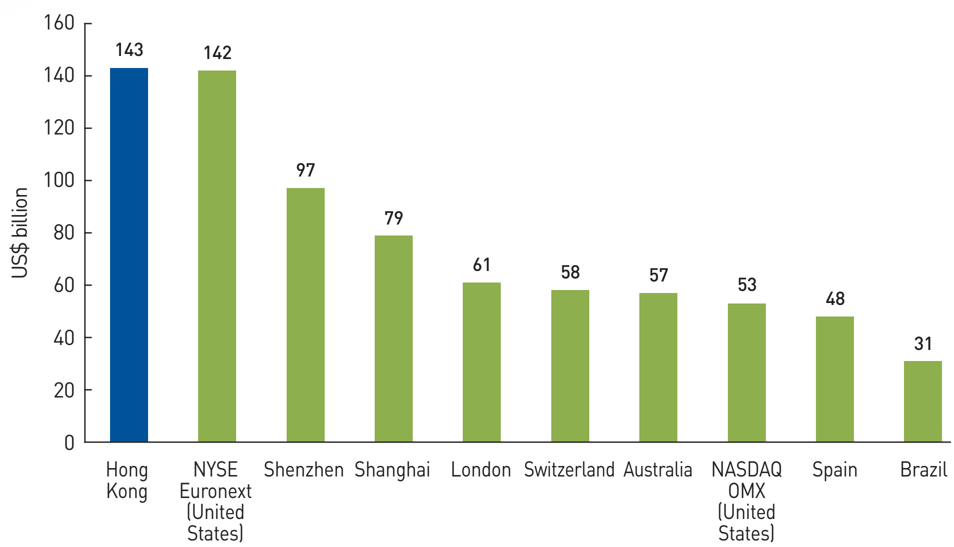
Global Equity Funding Leader

Major IPO centre

Hong Kong is the world's equity funding leader. The SEHK was not only the top stock exchange for IPOs for three consecutive years from 2009 to 2011, it also maintained top five ranking in the global IPO market for the past decade.

Equity Funds Raised through IPOs during 2008-2012

Source: World Federation of Exchanges

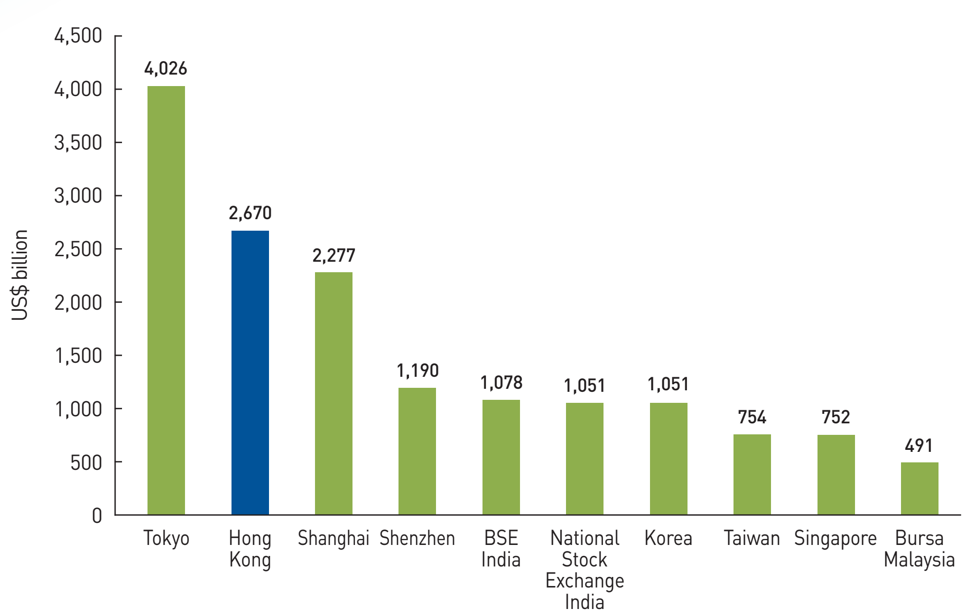


The Stock Exchange of Hong Kong Limited was the top five stock exchange for IPOs for past decade.

At the end of June 2013, the market capitalisation of the Hong Kong stock market amounted to US$2,670 billion, ranking it second in Asia after Tokyo.

Market Capitalisation of Stock Markets in Asia

Source: World Federation of Exchanges

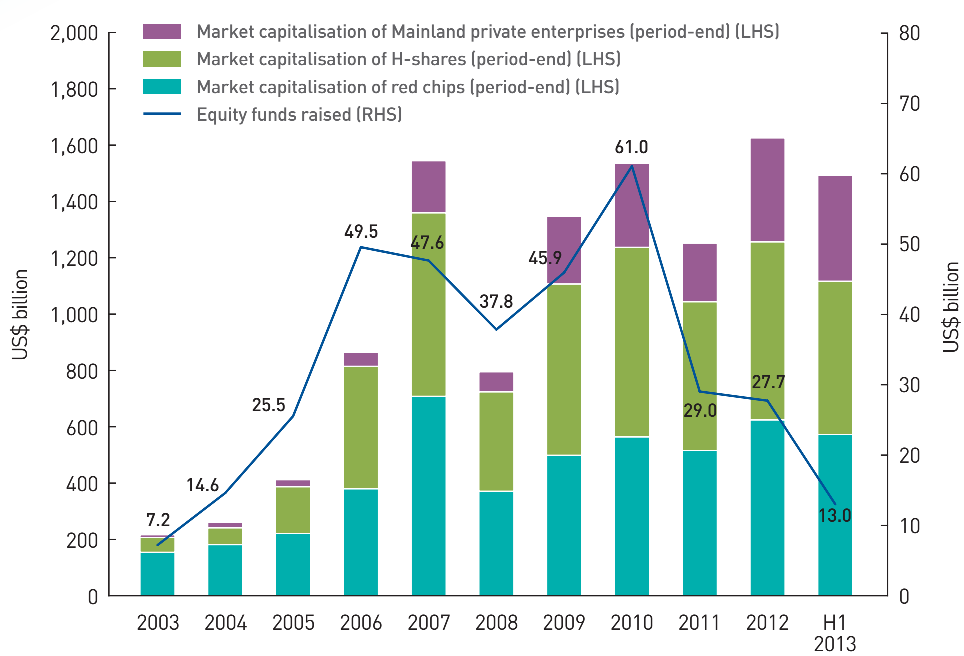


The world buying into Mainland China

Hong Kong is Mainland China's international equity funding centre. Hong Kong has been the best place to share in the Mainland's economic expansion by investing in Mainland equities under international regulatory standards in Hong Kong. From 2003 to 2012, Mainland enterprises raised a total of US$346 billion on the SEHK. At the end of June 2013, their combined market capitalisation amounted to US$1,484 billion.

Market Capitalisation and Equity Funds Raised by Mainland Enterprises in Hong Kong

Source: Hong Kong Exchanges and Clearing Limited



Hong Kong has been the best place to share in Mainland China's economic expansion by investing in Mainland equities under international regulatory standards in Hong Kong.

Platform for international corporations

As the world's second largest importer, Mainland China is one of the most promising markets for most major global corporations. Hong Kong has become a preferred listing place for international corporations that sell into the Mainland market. These companies benefit from the familiarity of Mainland households with their products and receive high valuations in listing.

Hong Kong is quickly becoming the leading fundraising market for world mineral and exploration companies. At the end of June 2013, the market capitalisation of resources companies listed on the SEHK was about US$390 billion, accounting for 14% of SEHK's equity market capitalisation and a 17-fold increase from US$23 billion in 2002.

Hong Kong has become a preferred listing place for international corporations that sell into the Mainland market.

Company	Amount Raised	Market Capitalisation at the End of June 2013 (US$ billion)
Natural Resources		
Glencore International AG	US$10.0 billion	56.3
United Company RUSAL Plc	US$2.2 billion	5.9
Mongolian Mining Corporation	US$744.6 million	0.7
Sunshine Oilsands Ltd	US$579.0 million	0.6
SouthGobi Resources Ltd	US$407.4 million	0.2
Vale S.A.	*	68.6
Kazakhmys Plc	*	2.1
Luxury Brands and Consumer Products		
Prada S.p.A.	US$2.5 billion	23.2
Samsonite International S.A.	US$1.3 billion	3.4
L'Occitane International S.A.	US$783.3 million	4.0
Coach, Inc.	*	15.8
Financial Services		
AIA Group Ltd	US$20.4 billion	51.0
SBI Holdings Inc.	US$205.7 million	2.8
Prudential Plc	*	41.6

Sources: Hong Kong Exchanges and Clearing Limited and Bloomberg

* Listed by way of introduction

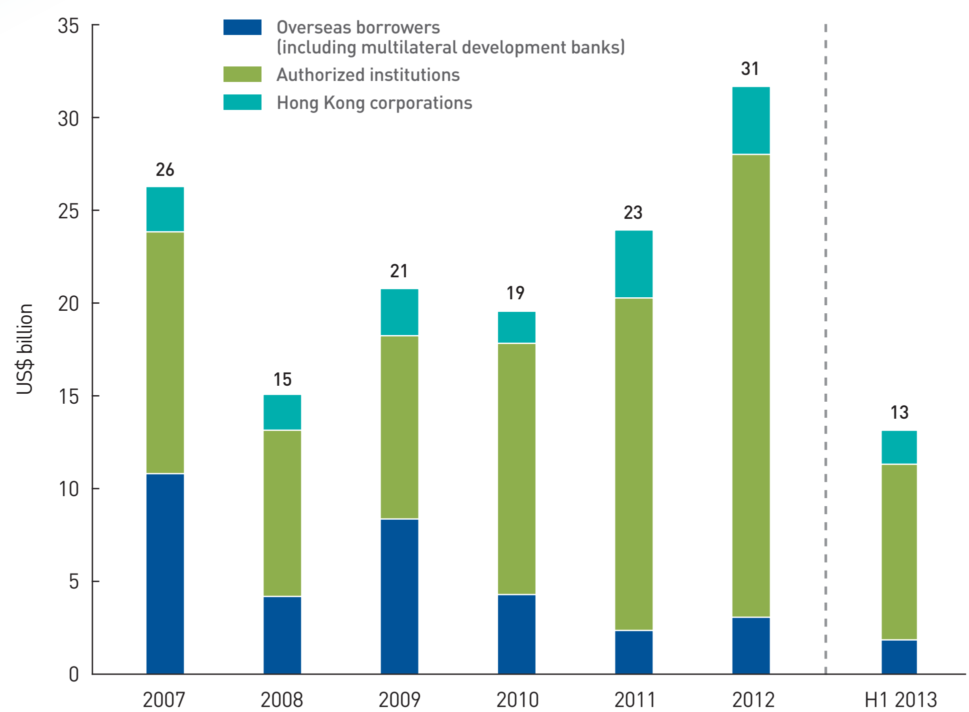
A Vibrant International Bond Market

Vibrant activities and global issuers

The Hong Kong debt market is characterised by vibrant activities and global issuers. The size of outstanding Hong Kong dollar debts grew nearly 10% from a year ago to over HK$1.4 trillion at the end of June 2013. In the first half of 2013, around 86% of the Hong Kong dollar non-public debt issuance was attributable to overseas issuers and HKMA-authorized institutions, including most international banks. This suggests that the Hong Kong debt market has deep participation from overseas market players, which reflects Hong Kong's strength in global debt financing and depth of investors' liquidity pools.

New Issuance of Hong Kong Dollar Non-public Debt Securities

Source: Hong Kong Monetary Authority



The Hong Kong debt market is characterised by vibrant activities and global issuers.

Useful links for further information:

- Financial Services and the Treasury Bureau – **www.fstb.gov.hk**
- Financial Services Development Council – **www.fsdc.org.hk**
- Hong Kong Monetary Authority – **www.hkma.gov.hk**
- Securities and Futures Commission – **www.sfc.hk**
- Office of the Commissioner of Insurance – **www.oci.gov.hk**
- Mandatory Provident Fund Schemes Authority – **www.mpfa.org.hk**
- Hong Kong Exchanges and Clearing Limited – **www.hkex.com.hk**
- Invest Hong Kong – **www.investhk.gov.hk**
- Hong Kong Trade Development Council – **www.hktdc.com**
- The Government of the Hong Kong Special Administrative Region – **www.gov.hk**

THE GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

FINANCIAL SERVICES AND THE TREASURY BUREAU

HK FINANCIAL SERVICES DEVELOPMENT COUNCIL
香港金融發展局

InvestHK

HONG KONG MONETARY AUTHORITY
香港金融管理局

SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會
SFC
證監會