

Asia's world city

Progressive

Free

Stable

Opportunity

High Quality

December 2008

International Finance and Business Centre

Overview

A combination of factors – prime location, high-speed communications, the free flow of information, no restrictions on capital flows and the world's freest economy – have helped establish Hong Kong as a strategic international financial and business centre. International corporations continue to choose Hong Kong as their preferred place in Asia for establishing a business or setting up offices. The latest figures speak for themselves – in June 2008 there were 3 882 overseas companies with regional operations in Hong Kong, more than anywhere else in Asia.

Why Hong Kong is Best for Business:

- A low and simple tax system
- Free flow of information
- Absence of exchange controls
- Corruption-free government
- Communication, transport and other infrastructure
- Free port status
- Geographic location
- Availability of business services and professional support services
- Rule of law and independent judiciary
- Political stability and security
- A well-educated and diligent workforce
- Promotion of corporate governance



Sound Banking System

Hong Kong is a globally important banking and financial centre. At end-September 2008 there were 203 authorised banking institutions and 74 representative offices in the city. Of the world's top 100 banks, 68 had operations here. At end-July 2008, total loans provided by authorised institutions to finance international trade, and other loans for use outside Hong Kong, totalled US\$29.7 billion and US\$79.2 million respectively.

According to the Bank for International Settlements, Hong Kong is the world's sixth largest centre for foreign exchange transactions and the third largest in Asia, with a net daily turnover of forex transactions reaching US\$175 billion in April 2007.

To boost public confidence in the city's banking system amidst the global financial crisis, the Government has decided from mid-October 2008 to the end of 2010, the Exchange Fund will be used to guarantee repayment of all customer deposits held in Authorised Institutions in Hong Kong. Moreover, a Contingent Bank Capital Facility has been established to make additional capital available to locally incorporated licensed banks when necessary.

Securities and Debt Markets

At end-September 2008, Hong Kong's stock market ranked the third largest in Asia and the seventh largest in the world in terms of market capitalisation. There were 1 259 companies listed on the stock exchange, including 181 companies on the growth enterprise market (GEM). The total market capitalisation of Hong Kong's stock

market reached US\$1,614.6 billion. In 2007, Hong Kong ranked fourth worldwide in terms of initial public offerings (IPOs), with US\$37.3 billion raised.

The presence of Mainland issuers has increased both the breadth and the depth of Hong Kong's securities and futures markets. By end-October 2008, 453 Mainland enterprises were listed on the stock exchange, with a total market capitalisation of nearly US\$672.3 billion, or 55 per cent of the market total.

Hong Kong is one of the most liberal debt markets in the world. International investors are free to invest in debt instruments issued in Hong Kong. The size of the market, as measured by the outstanding amount of Hong Kong dollar debt securities, was US\$98 billion as at December 2007 (up from US\$96 billion in 2006).

In the light of the repercussions of the Lehman Brothers incident in Hong Kong, the Government is considering how best to further improve the regulatory framework for the securities and futures market to enhance investor protection and education.

The World's Freest Economy

Hong Kong was again rated as the world's freest economy by the US-based Heritage Foundation's Index of Economic Freedom in 2008. In fact, the foundation has consistently ranked Hong Kong number one on its Index of Economic Freedom since it was first published in 1995. The Fraser Institute of Canada, in conjunction with the Cato Institute of the US and other research institutes around the world, also judge Hong Kong to be the globe's least fettered economy.

The Mandatory Provident Fund System

The Mandatory Provident Fund (MPF) system was implemented in December 2000, under which all employees aged 18 to 65 (unless specifically exempted) have to contribute 5 per cent of their income, up to a maximum of HK\$1,000 (US\$128) per month. By the end of September 2008, 99.8 per cent of employers and 99.1 per cent of employees had enrolled in MPF schemes. At end-August 2008, accrued assets of MPF schemes amounted to HK\$245 billion (US\$31.4 billion), including transfers from voluntary occupational retirement schemes. The growing pool of investment funds has had a positive impact on Hong Kong's investment market.

To promote market competition and encourage employees to take a more active interest in their MPF investments, the Government has proposed changes to the operational arrangements of the MPF system. These changes will allow employees to transfer their contributions from MPF scheme's selected by their employers to those of their own choice. The Government is currently drafting legislation, to be introduced into the legislature as early as possible.

The Insurance Industry

Hong Kong's insurance industry has a strong international flavour, and is one of the most open in the world. As at end of September 2008, 84 out of the 174 authorised insurers are from outside Hong Kong. Fifteen of the world's top 20 insurers are authorised to conduct business in the city. According to industry statistics, gross premium income reached US\$25.3 billion in 2007, the equivalent of 12.2 per cent of Hong Kong's GDP.

In 2007, total revenue premiums of long-term in-force business amounted to

US\$22.2 billion, representing an increase of 30 per cent over 2006. In the general insurance business, gross premiums recorded a modest growth of 5.7 per cent to US\$3.1 billion compared to 2006.

To protect policyholders in the event of insurer insolvency, the Office of the Commissioner of Insurance is exploring with the Hong Kong Federation of Insurers feasible options for establishing Policyholders' Protection Funds.

Also, to further improve the insurance supervisory framework, the Government is looking into the establishment of an independent Insurance Authority in Hong Kong. This will give the regulatory body more flexibility in operations and staff recruitment, and prepare Hong Kong for the "risk-based capital regulatory regime" to be adopted by the international community.

Funds

Hong Kong is one of Asia's leading fund management centres, and in 2007 the local industry had a remarkable year, with combined fund management business rising to US\$1,235 billion, up 57 per cent on 2006. About 68.4 per cent of fund management business (excluding Real Estate Investment Trust (REIT) assets) was sourced from non-Hong Kong investors, testifying to the city's attractiveness to investment capital from outside the territory. At end-September 2008 there were 87 approved fund management groups managing 2 231 unit trusts and mutual funds, which have been authorised by the Securities and Futures Commission.

Renminbi (RMB) Trading

In 2007 Mainland banks sold their first RMB-denominated bonds in Hong Kong and the trade has since expanded, the first step towards Hong Kong becoming a RMB "offshore" centre. The RMB business was

further liberalised when the Central Government announced in December 2008 that qualified enterprises would be able to settle in Hong Kong their cross-border trade in RMB, making Hong Kong one of the pilot cities for transforming RMB into an international currency.

Investment

Foreign direct investment continues to flow into Hong Kong. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2008, Hong Kong was ranked second in Asia and seventh in the world in 2007, with foreign direct investment (FDI) inflows increasing by 33 per cent to US\$59.9 billion. Hong Kong is also a major external investor, with outflows surging by 18 per cent to US\$53.2 billion in 2007. Hong Kong was ranked first and third respectively in both UNCTAD's Inward and Outward FDI Performance Indices, highlighting Hong Kong's strong performance in FDI.

Latest Economic Performance Indicators in 2007

GDP : US\$207.2 billion

Real GDP Growth : 6.4%

Total merchandise trade : US\$711.6 billion

Merchandise trade growth : 10.1%

Consumer Price Index : +2%

Forecast GDP growth for 2008 is 3% to 3.5%. Negative growth in 2009 seems inevitable. Hong Kong is not immune to the global financial crisis, however, with its sound fundamentals, strong regulatory framework, resilient workforce and the ongoing support of the Central Government, Hong Kong is well placed to weather the downturn.

For more information, please visit www.InvestHK.gov.hk