

## Chairman's statement



The SFC has continued to strike a fine balance between the protection of investors' interests and the promotion of market development.



My first full year as Chairman of the SFC has been one of stark contrasts: an atmosphere of optimism and buoyant markets during the first half was swiftly eclipsed by global uncertainty in the latter part of the financial year.

Pessimism brought on by the subprime crisis in the United States extended to a credit crunch and the lack of fund flows in the global economy put pressure on the financial health of many institutions.

The task of managing rosy expectations in the first half of the year quickly shifted to a need for heightened regulatory diligence and I am pleased to say that we steered a steady course through the turbulence.

During the process, the SFC has continued to strike a fine balance between the protection of investors' interests and the promotion of market development. We maintained a favourable regulatory environment for Hong Kong to develop its unique role as a financial platform for both Mainland enterprises seeking to tap into international capital and overseas firms looking for a springboard into the Mainland.

Looking ahead, it is going to be an extremely challenging year. The effect of the US subprime crisis is spreading to the rest of the world and Asia will not be immune, although the effect is likely to be less severe than other regions.

Market confidence will be affected in Hong Kong just as it will in Europe, the US and Asia as investors become more cautious.

As a regulator, our aim continues to be to discharge our role to protect investors' interests during good times and bad. This calls for us to play a balancing act between creating an enabling environment for market innovation and development and ensuring that the interests of investors are not compromised.

We do recognise a need to remain vigilant not only in our own market but absolutely alert to the global picture and to developments across the border. The flow of Mainland enterprises seeking to raise funds in Hong Kong will be affected by their own financial health and the policy priorities of the Mainland.

While remaining cautious, I am confident that Hong Kong will continue to uphold and develop its unique position as a platform for capital movements in and out of the Mainland.

China's economy is poised to overtake Germany's to become the third largest economy in the world. To support their growth, Mainland companies will increasingly turn to the capital markets to raise funds, not only domestically, but also in overseas markets. At the same time, the swift development of the Mainland economy is accompanied by a rapid growth in the deposit savings and foreign exchange reserves, and China is fast growing from a net importer to a net exporter of capital.

Hong Kong has been very fortunate to take a front row seat in participating in and enjoying the success of China's opening up. But we should have something valuable to offer

in return. Apart from remaining the premier fund-raising centre for Mainland enterprises, Hong Kong can also act as an investment platform that exposes Mainland investors to the world. As the Mainland market enters the next stage of development, Hong Kong should keep in step with the market and proactively re-position itself to stay competitive.

We will maintain our traditional role of raising capital for growing investment opportunities in the Mainland, which will enable H-share companies to continue to list here to benefit from our high corporate governance standards.

Hong Kong will always be the first and best stop for Mainland enterprises before they go to the international market: here they can develop new skills and acquire familiarity with global players, from relatively close to home.

In the months ahead, the SFC will continue with our global regulatory efforts and work with the HKSAR government to broaden the base of international companies coming to Hong Kong. We will help policy-makers explore new opportunities such as the development of a commodities exchange and Islamic finance.

Above all, we will continue to fulfil our primary role to ensure Hong Kong remains a fair, transparent and attractive place for businesses and that our market retains a robust edge in the face of volatility and challenges ahead.

Last but not least, I would like to sincerely thank my fellow Directors and my other SFC colleagues for their contributions and dedication over the past year. I look forward to another fruitful year working with them.



**Eddy C Fong**  
*Chairman*