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

Fund Management Activities Survey 2007

July 2008

Table of contents

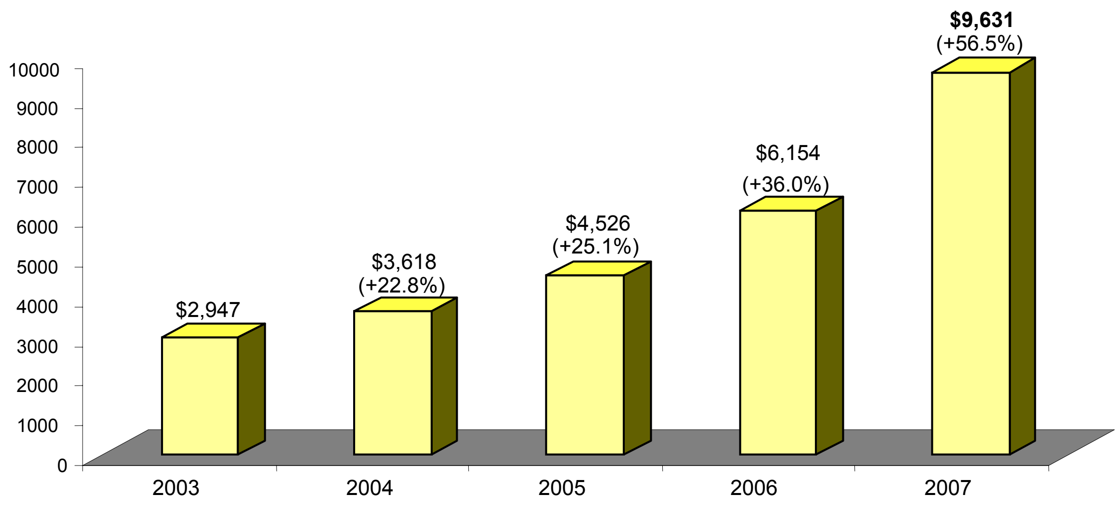
Survey Summary

The Securities and Futures Commission ("SFC") has conducted a Fund Management Activities Survey ("FMAS") for the year ended 31 December 2007. The survey covered fund management activities among licensed corporations[1], registered institutions[2] and, for the first time, asset management activities of major insurance companies[3] providing services of long term business[4] which are registered under the Insurance Companies Ordinance ("ICO") but not licensed by the SFC.

The asset management business of the insurance sector is becoming more important in view of the increasing demand for wealth management and retirement planning products brought about by changing demographics and rising affluence. For a more complete landscape of the asset management industry in Hong Kong, the SFC has, for the first time, surveyed the Life Insurance Councillors' members of the Hong Kong Federation of Insurers ("HKFI")^. To avoid double counting, the amount of assets sub-contracted or delegated by the surveyed insurance companies to other licensed corporations / registered institutions in Hong Kong has been excluded from the amount of assets under management by insurance companies.

The major findings of this year's FMAS are summarised below.

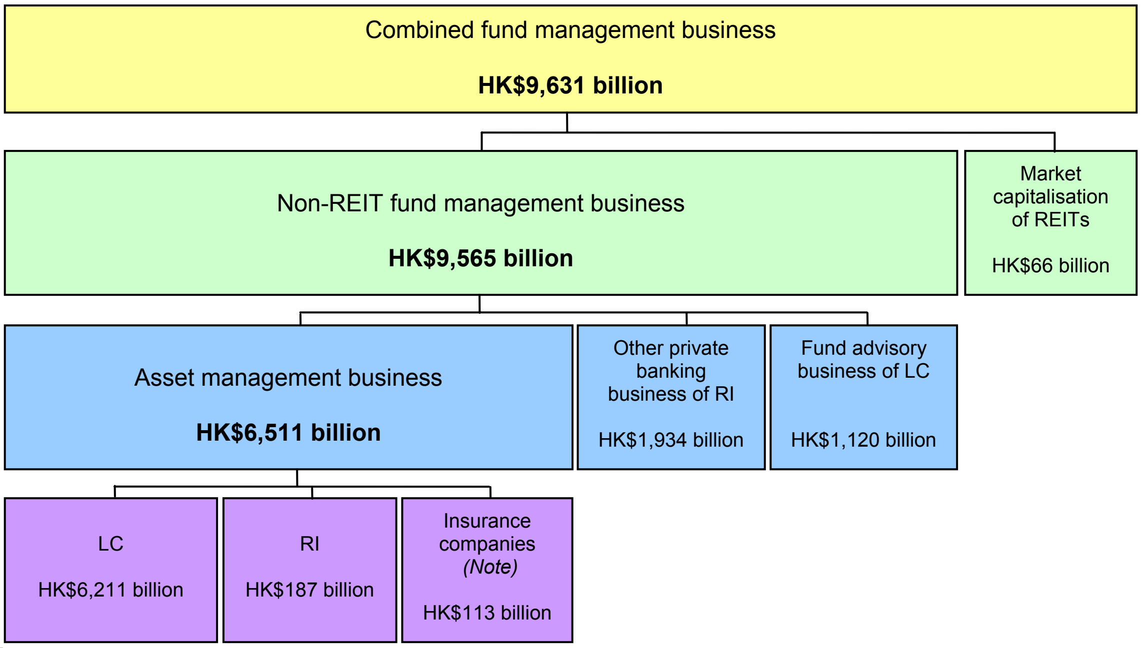
1. The combined fund management business[5] of Hong Kong achieved a record 56.5% year-on-year increase to HK$9,631 billion as at the end of 2007. (2-year growth: 112.8%).



Combined Fund Management Business (HK$ in billions)

^ The Life Insurance Councillors' members of the HKFI are the major players of the long term insurance business accounting for over 70% of the total in-force business in 2006 according to the annual statistics published by the Office of the Commissioner of Insurance. For those Councillors' members who are also licensed by the SFC, their reported assets under management are included in the category of licensed corporations.

Components in Combined Fund Management Business



Legend
RI: Registered Institutions
LC: Licensed Corporations
REITs: Real Estate Investment Trusts

Note:
The amount of assets under management by insurance companies has excluded those assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong for management. Assets under management reported by insurance companies who are also licensed by the SFC are included under the category of licensed corporations.

(a) Hong Kong's fund management business in 2007 reached HK$9,631 billion – a record growth of 56.5% from 2006, and 112.8% from 2005 on the back of strong performance in the financial markets, inflows of investment funds and gain in investment mandates. The strong and continuous growth in the fund management industry has demonstrated the attractiveness of Hong Kong's platform and has reinforced Hong Kong's position as a leading fund management centre in Asia.

(b) Asset management, which accounted for the largest share of the combined fund management business, recorded an impressive growth rate of 57.5% in 2007, after a 27.5% rise in 2006. Of the total HK$6,511 billion assets under management, HK$6,211 billion (95%) was contributed by licensed corporations; HK$187 billion (3%) by registered institutions; and HK$113 billion (2%) by the major insurance companies engaging in long term business. This sum from insurance companies of course does not include the asset management business which was delegated or sub-contracted out to licensed corporations/registered institutions.

(c) Fund advisory and other private banking business also recorded growth of 102.9% and 36.7% respectively, up from a lower base of comparison. This shows the increasing importance of the advisory and private banking sectors with the rapid accumulation of wealth in the Asian pacific region.

(d) To boost the attractiveness and adaptability of Hong Kong's market, the SFC has undertaken a number of initiatives to streamline and speed up existing regulatory processes, to reduce costs to market players and to facilitate the licensing of asset managers in Hong Kong.

(e) The SFC has recently signed a "declaration of mutual recognition" with the Australian Securities and Investments Commission on 7 July 2008 to facilitate the cross-border offering of retail funds in Hong Kong and Australia. This further reinforced Hong Kong's status as an international fund offering centre.

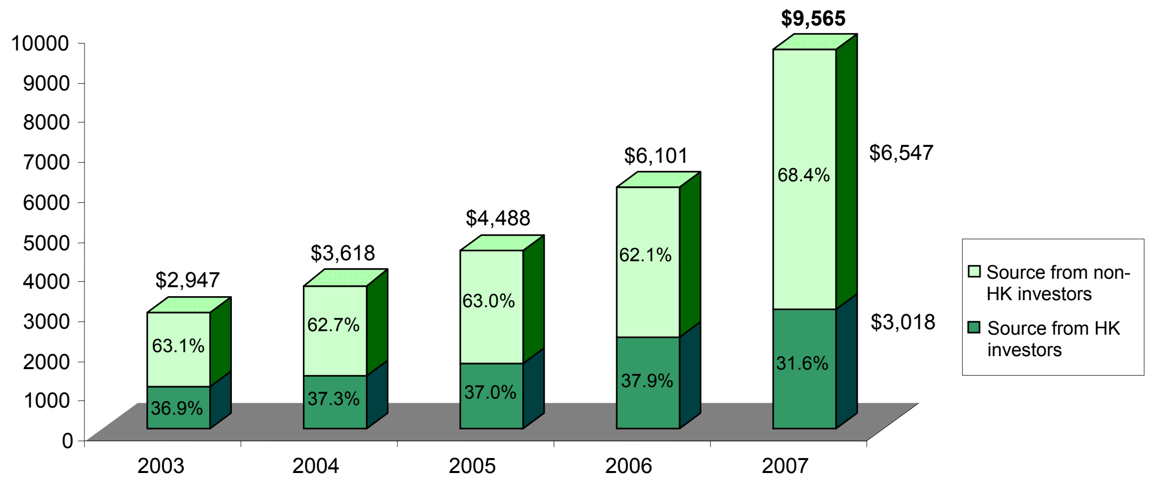
(f) As well, the SFC has been working closely with its Mainland regulatory counterparts to facilitate the implementation of Mainland's Qualified Domestic Institutional Investors ("QDII") scheme. In April 2007, the SFC signed a Memorandum of Understanding ("MOU") with the China Banking Regulatory Commission ("CBRC") which allowed Mainland commercial banks conducting clients' overseas wealth management to invest in Hong Kong listed equities and authorized funds. This made Hong Kong the first and, until December 2007, the only offshore market that Mainland commercial banks could invest in for their clients.

(g) In June 2007, the China Securities Regulatory Commission ("CSRC") announced provisional rules for QDII funds investing in overseas markets. The first QDII fund was launched in September 2007, and so far, Hong Kong has been one of the preferred investment markets for QDII funds. A senior SFC representative sits on the CSRC's QDII expert committee which approves QDII funds.

(h) In March 2008, the SFC signed a Regulatory Co-operation Agreement of Understanding with the China Insurance Regulatory Commission ("CIRC"), which is the first agreement signed by the CIRC on regulatory co-operation and information exchange on the use of Mainland insurance funds outside the Mainland.

(i) The SFC will continue its efforts in developing Hong Kong as the platform of choice for the implementation of QDII scheme and attracting Mainland asset managers to set up business operations in Hong Kong. On 4 May 2008, CSRC published "Implementation Rules for Mainland Fund Management Companies to Set Up Operations in Hong Kong", allowing Mainland fund management companies to apply for approval under Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA IV") to set up offices in Hong Kong.

2. **Hong Kong continued to attract investment capital from non-Hong Kong investors. In 2007, of the total HK$9,565 billion worth of non-REIT fund management business recorded, 68.4% or HK$6,547 billion was sourced from non-Hong Kong investors.**



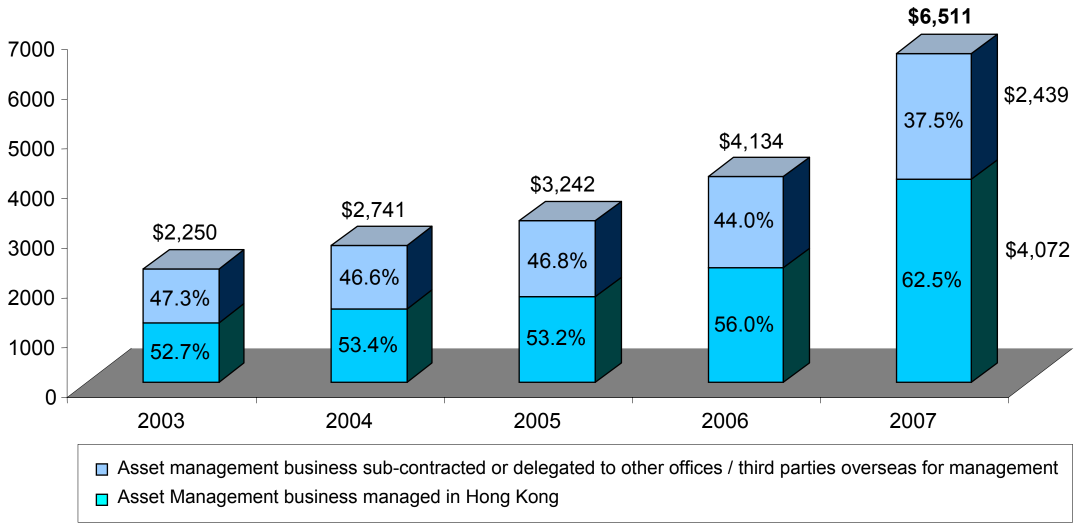
Non-REIT Fund Management Business - by source of funds (HK$ in billions)

(a) Funds sourced from non-HK investors have consistently accounted for over 60% of the fund management business in Hong Kong. With its critical mass of management talents and market expertise, supported by an efficient platform and information system, and a fair and transparent regulatory environment, Hong Kong is expected to continue to attract capital from international players. Our asset management industry's ability to attract funds from outside Hong Kong and to invest them in the regional markets continue to be both a prerequisite to and a testimony of Hong Kong's success as the asset management hub in Asia.

(b) The implementation of the Mainland QDII scheme in 2007 also brought about tremendous business opportunities for the fund management industry. In this year's survey, 17 respondents reported a total of HK$130 billion of assets sourced from Mainland QDII. Mainland QDII has provided an additional source of inflow for the fund management business in Hong Kong.

(c) Up to the end of June 2008, the State Administration of Foreign Exchange granted a total investment quota of US$38 billion to nine Mainland fund management companies and one securities firm and US$16.6 billion quota to 21 Mainland commercial banks. This has not taken into account the potential investment quota for Mainland insurance companies, who are by far the largest QDII investors. Following the issuance of the provisional rules for Mainland insurance funds investing overseas by the CIRC in July 2007, the market estimated that the potential investment funds from Mainland insurance companies to invest overseas amounted to RMB 400 billion.

3. **The proportion of assets managed in Hong Kong (HK$4,072 billion) has reached a new high, accounting for 62.5% of the asset management business (HK$6,511 billion), up from 52.7% in 2003.**

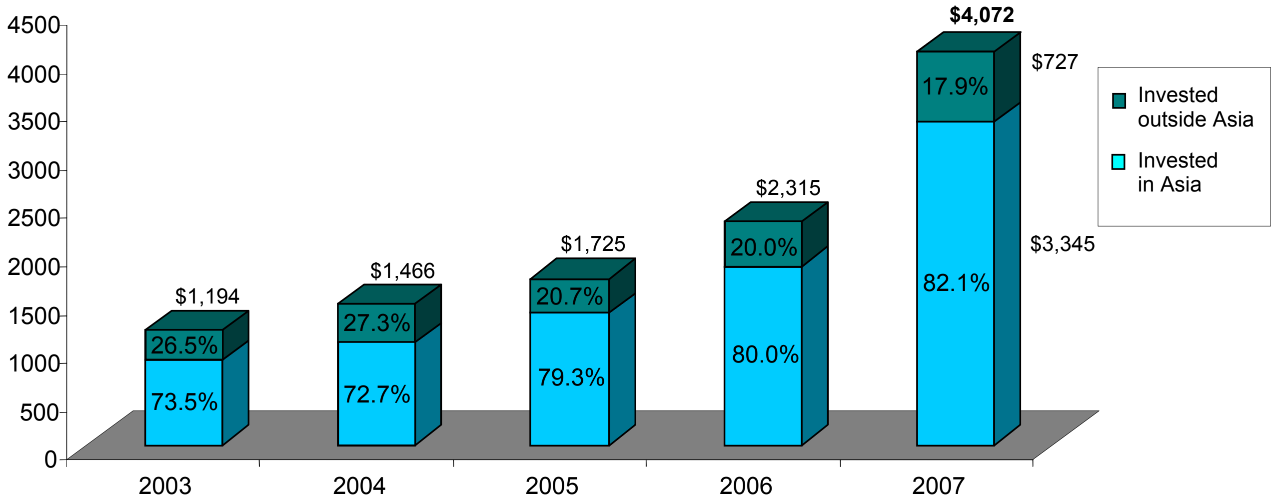


Asset Management Business - by location of management (HK$ in billions)

(a) Riding on the growing importance of the Asian economy and increased allocation of assets in Asia Pacific, in particular, Hong Kong and Mainland as reported by respondents, the proportion of assets managed in Hong Kong reached a new high to 62.5% this year.

(b) This reflects the quality and skills of the investment professionals in Hong Kong and reinforced the strategic position of Hong Kong as a preferred location for conducting asset management business in the region.

4. **Of the HK$4,072 billion worth of assets managed in Hong Kong, 82.1% (HK$3,345 billion) was invested in Asia. The consistently high percentage of assets allocated to Asia reflects Hong Kong's position as a centre for managing investments in the Mainland and other parts of Asia as a whole.**



Assets Managed in Hong Kong – by geographical spread (HK$ billion)

(a) The level of investments in Asia remained high and accounted for 82.1% of the assets managed in Hong Kong. Of this 82.1%, 45.9% was invested in Hong Kong and the Mainland and 31.4% in the rest of Asia Pacific (ex-Japan).

(b) Reflecting the growing importance of the emerging economies in Asia, the percentage of assets invested in Asia recorded a steady increase over the years since 2004 from 73% to 82% this year.

(c) The figures show that Hong Kong has successfully positioned itself as a centre for managing investments in the Mainland and other parts of Asia. Hong Kong is an internationally recognized financial market with a robust regulatory framework. It also has a pool of experienced professionals who have developed valuable insight and understanding of the underlying economics, regulatory environment and business practices in the region, particularly the Mainland. Coupled with its proximity to other major markets and our close relationship with the Mainland, Hong Kong is well placed as a platform for foreign investors "going into" the Mainland and for domestic investors/intermediaries "going out" of the Mainland.

5. While Hong Kong's fund management business in 2007 recorded significant growth, fed by buoyant global markets overall and new sources of funds from the Mainland QDIIs, challenges do lie ahead for 2008.

(a) In the first half of 2008, threatened by headwinds created by the credit crisis and inflation, the global economy recorded sluggish growth and the markets worldwide came under pressure. The Hong Kong asset management industry, being a part of the global markets, faces the same set of challenges.

Outlook and Recent Developments

The SFC has been working closely with the industry to facilitate the development of the fund management industry in Hong Kong and to maintain Hong Kong's position as the leading fund management centre in Asia. To further deepen and broaden the market and to enhance the attractiveness of Hong Kong's platform, the SFC has encouraged and supported market innovation, streamlined existing regulatory process, removed regulatory impediments and built closer ties with our Mainland counterparts in developing Hong Kong as the platform of choice for the implementation of the Mainland QDII scheme.

1. Partnership with the industry to develop the Hong Kong market.

(a) During the year, the SFC authorized 257 new retail funds and at the end of 2007 there were 2,040 SFC-authorised funds with an aggregate net asset value of around HK$8.4 trillion, up 18.3% year-on-year.

(b) Among the new products authorised by the SFC in 2007, and so far this year were:

- ✓ the *first* commodities futures exchanged traded fund (ETF) which was listed in April 2007
- ✓ the *first* REIT managed by an international REIT manager, which is also the second REIT with cross border investment property in the Mainland, was authorised in June 2007
- ✓ the *first* actively managed closed-end fund investing primarily in the A-share market, which was listed in July 2007
- ✓ the *first* retail 130/30 UCITS III fund which was authorised in July 2007
- ✓ the *first* UCITS III fund that has significant exposure to hedge fund indices, which was authorised in November 2007
- ✓ the *first* retail Islamic fund, which was authorised in November 2007
- ✓ the *first* gold ETF, which was authorised in July 2008

(c) Hong Kong is now the largest ETF market in Asia ex-Japan. It had 23 SFC-authorised ETFs with an aggregate market capitalisation of HK$112 billion as of 30 June 2008. Hong Kong also has a broad range of diversified ETFs with exposure to regional as well as single markets, including emerging markets such as Russia and India, and the restricted Mainland China A-shares market. Apart from pioneering in equity ETFs, Hong Kong was also the first Asian market to offer bond ETFs. To provide investors with an efficient way to gain exposure to the commodities market, our ETF product range has also extended to include commodities futures and gold.

(d) The diversification of product range and investment choices has contributed to an increase in retail participation in fund investment. According to the Hong Kong Investment Funds Association statistics, the gross sales of all retail investment funds amounted to HK$355 billion in 2007, up 86.8% from 2006 and is nearly a 6 fold increase since we started our FMAS in 1999.

2. Enhanced flexibility to promote the attractiveness and adaptability of the Hong Kong market.

(a) The SFC has undertaken a number of initiatives to streamline and speed up existing regulatory processes, to reduce costs to market players and to facilitate the licensing of asset managers in Hong Kong. For example:

(i) The SFC has streamlined the review of marketing materials and notices for investment products, where permitted under existing laws, moving from a pre-vetting regime to a post-vetting and monitoring regime, in order to reduce the regulatory burden of the industry and to bring Hong Kong in line with international standards and practices.

(ii) The SFC has also commenced a review of the Code on Unit Trusts and Mutual Fund. The review aims to update our current regulatory framework for retail funds and to provide greater flexibilities to meet market growth and innovation so that the Hong Kong market stays competitive in the region.

(b) In partnership with our industry players, Hong Kong is able to maintain its attractiveness. In 2007, a total of 98 Type 9 (asset management) licences were granted. These new entrants engaged in a variety of activities, including hedge fund management, retail fund management, portfolio management and REIT management.

3. Stronger regulatory ties and co-operations with overseas counterparts to facilitate the cross-border offering of retail funds

(a) On 7 July 2008, the SFC signed a “declaration of mutual recognition” with the Australian Securities and Investments Commission. This is the first such agreement that the SFC reached with an overseas securities regulator, which allows most funds registered in Australia for offer to retail investors in Hong Kong under a streamlined vetting process while making available to Australian investors similar funds authorised in Hong Kong. The declaration reinforced Hong Kong’s status as an international fund offering venue.

4. The SFC continues to work closely with its Mainland counterparts to strengthen Hong Kong’s position as the platform for Mainland investors and intermediaries going overseas.

(a) The SFC has been working closely with its Mainland counterparts to ensure that Hong Kong is the platform of choice for the implementation of the scheme. In April 2007, the SFC signed an MOU with the CBRC which allowed Mainland commercial banks conducting clients’ overseas wealth management to invest in Hong Kong listed equities and authorized funds. This made Hong Kong the first and, until December 2007, the only offshore market that Mainland commercial banks could invest for their clients. In June 2007, the CSRC announced provisional rules for QDII funds investing in overseas markets. The first QDII fund was launched in September 2007, and so far, Hong Kong has been one of the preferred investment markets for QDII funds.

(b) In March 2008, the SFC signed a Regulatory Co-operation Agreement of Understanding with the CIRC, which is the first agreement signed by the CIRC on regulatory co-operation and information exchange on the use of Mainland insurance funds outside the Mainland. With the signing of the agreement, we believe that Hong Kong will be able to capture the opportunity as the premier choice for Mainland insurance companies to set up their asset management business for their investments of Mainland insurance funds.

(c) Our proven success so far in working with the Mainland authorities reflects Mainland's trust in Hong Kong in providing the platform for Mainland players to gain exposure to the international markets. Under CEPA IV, Mainland asset managers are permitted to set up business operations in Hong Kong. On 4 May 2008, CSRC published "Implementation Rules for Mainland Fund Management Companies to Set Up Operations in Hong Kong" allowing Mainland fund management companies to apply for approval under CEPA IV to set up offices in Hong Kong. Our new imperatives now are to work with our Mainland counterparts so that their asset managers could use Hong Kong as a platform to gain familiarity with internationally-renowned standards, up-to-date investment practices and best regulatory and compliance requirements. This will, in return, enhance the breadth of the financial intermediary base in Hong Kong and facilitate the development of Hong Kong into a wealth management centre for Mainland investors.

Survey Report

Introduction

1. The FMAS is an annual survey conducted by the SFC since 1999 to collect information and data on the general state of affairs of the fund management industry in Hong Kong. It helps the SFC plan its policies and operations.

2. The survey this year covers the fund management activities of three types of firms in Hong Kong, namely:

   (a) corporations which are licensed by the SFC and engage in asset management and fund advisory business[1] (collectively "licensed corporations");

   (b) banks which engage in asset management and other private banking business (collectively "registered institutions"), and are subject to the same regulatory regime (i.e. the Securities and Futures Ordinance, the "SFO") as the licensed corporations in respect of their fund management activities[2]; and

   (c) for the first time, insurance companies registered under the ICO but not licensed with the SFC, which provide services constituting classes of long term business as defined in Part 2 of First Schedule of the ICO and have had gross operating income derived from asset management[3].

3. The asset management business of the insurance sector is becoming more important in view of the increasing demand for wealth management and retirement planning products brought about by changing demographics and rising affluence. For a more complete landscape of the asset management industry in Hong Kong, the SFC has tried to cover the insurance sector in its annual FMAS by first inviting Life Insurance Councillors' members of the HKFI to participate in this year's survey. The Councillors' members are the major players of the long term business accounting for over 70% of the total in-force business in 2006. For those Councillors' members who are also licensed by the SFC, their reported assets under management are included in the category of licensed corporations. To avoid double counting, the amount of assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong has been excluded from the amount of assets under management by insurance companies.

4. Questionnaires (the "FMAS 2007 Questionnaire") were sent to the licensed corporations and, with the assistance of the Hong Kong Monetary Authority and the HKFI, to the registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as of 31 December 2007. The questionnaires sent to the insurance companies and registered institutions were largely the same as those sent to the licensed corporations, except for minor adjustments to cater for their different business nature and operations.

Responses

General

5. A total of 371 firms responded to the FMAS 2007 Questionnaire and reported that they had conducted asset management, fund advisory and/or other private banking business. These included 329 licensed corporations, 36 registered institutions and 6 insurance companies.

Licensed corporations

6. An analysis of the activities of the 329 licensed corporations that had asset management business and/or had engaged in advisory business on funds or portfolios is shown below:

Respondents with asset management business only	162
Respondents with assets under fund advisory business only	75
Respondents with both of the above businesses	92
	329

Registered institutions

7. An analysis of the activities of the 36 registered institutions that had asset management business and/or had engaged in other private banking activities is shown below:

Respondents with asset management business only	11
Respondents with other private banking business only	13
Respondents with both of the above businesses	12
	36

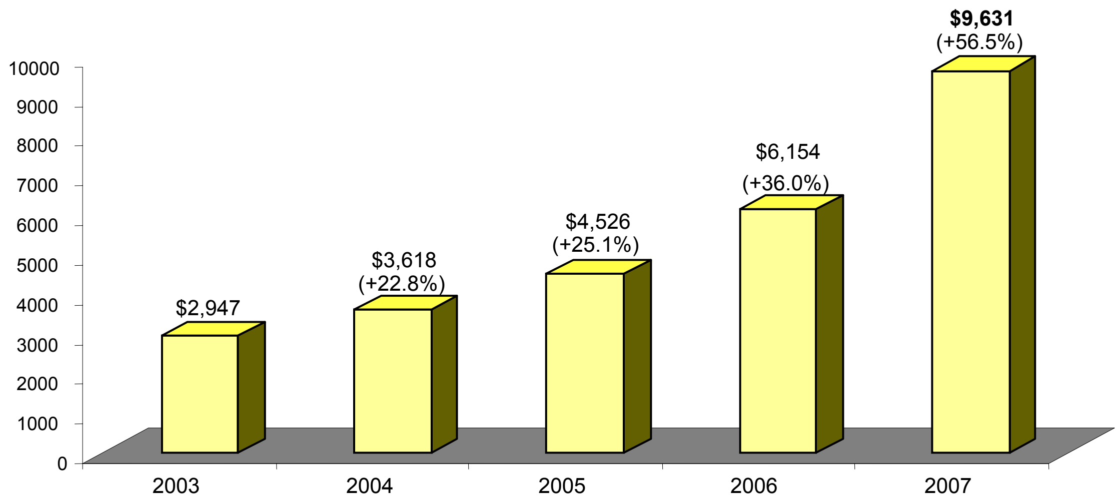
Insurance companies

8. Survey questionnaires were sent to eight members of the HKFI's Life Insurance Councillors' members that have provided services of long term business but are not licensed by the SFC. Six insurance companies responded.

Findings

Combined fund management business (HK$9,631 billion)

9. Hong Kong's combined fund management business amounted to HK$9,631 billion at the end of 2007, representing a year-on-year growth of 56.5% (2-year growth: 112.8%).



Combined Fund Management Business (HK$ in billions)

10. The combined fund management business can be analysed as follows:

(HK$ in billions)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Asset management business	6,211	187	113	**6,511**
Fund advisory business	1,120	-	-	**1,120**
Other private banking business	-	1,934	-	**1,934**
Non-REIT fund management business	7,331	2,121	113	**9,565**
SFC-authorised REITs	66	-	-	**66**
Combined fund management business	7,397	2,121	113	**9,631**

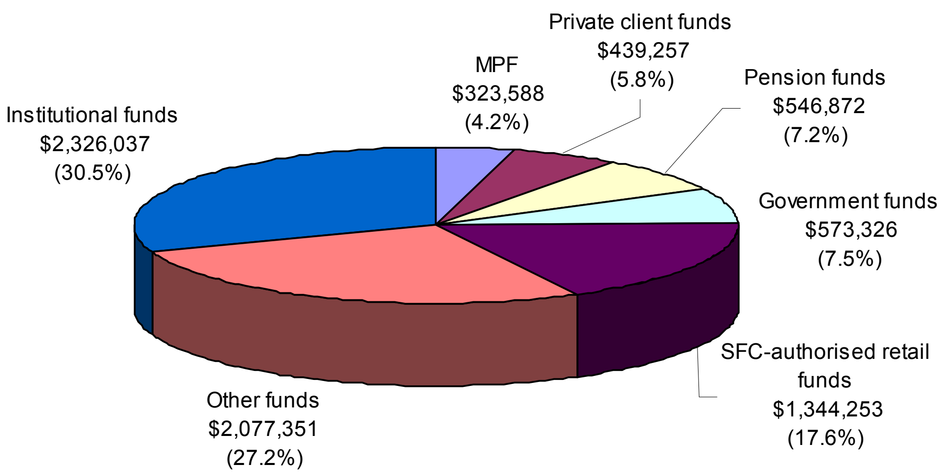
For major aggregate figures of FMAS 2007, see Appendix on page 22.

11. Licensed corporations reported an aggregate increase of 61.8% in their asset management business and funds under advisory business. By category, their asset management business rose 56.1% while assets under fund advisory business were up 102.9%.

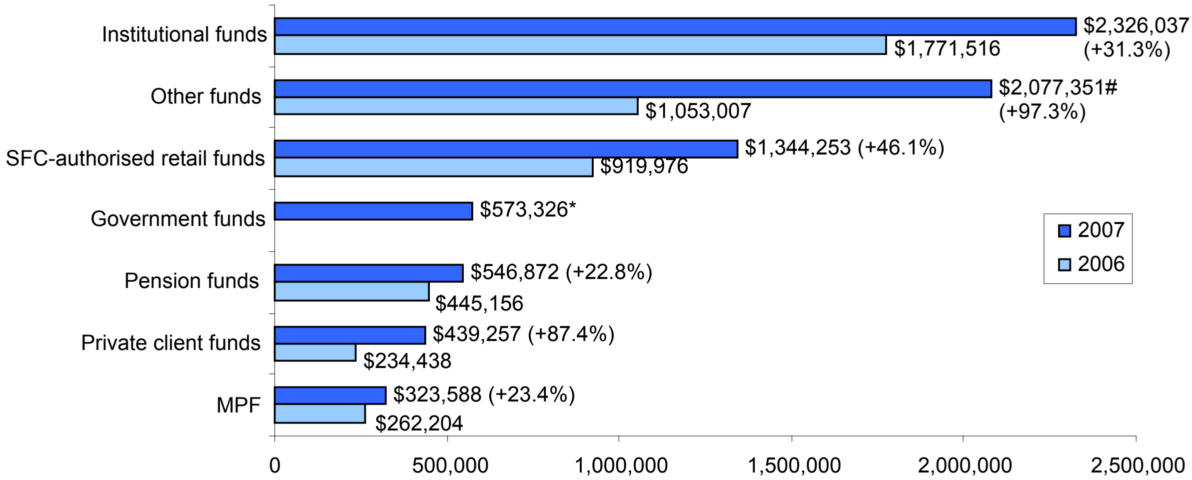
12. Registered institutions reported an aggregate 35.2% gain in their asset management business and other private banking business. By category, their asset management business rose by 21.4% while other private banking business surged 36.7%.

13. Insurance companies reported a total of HK$113 billion of assets under management. The amount excludes assets delegated to other licensed corporations / registered institutions in Hong Kong for management to avoid double counting, as such assets would have been included in the asset under management reported by those firms.

Asset management and fund advisory business of licensed corporations, registered institutions and insurance companies (HK$7,631 billion)



Asset Management and Fund Advisory Business - by type of funds (HK$ in millions)



Asset Management and Fund Advisory Business – by type of funds
2007 vs 2006 (HK$ in millions)

** Government funds were previously reported under other funds in FMAS 2006.*

 # Other funds include overseas retail and mutual funds, hedge funds, insurance portfolios, private equity funds and charity funds.

14. Institutional funds continued to dominate, accounting for 30.5% of the asset management and fund advisory business. The amount of institutional funds rose by 31.3% year-on-year.

15. Other funds (which mainly included overseas retail and mutual funds, hedge funds and insurance portfolios) recorded the largest increase by value during the year, up by 97.3% to HK$2,077 billion. The substantial growth indicated the increasing use of the Hong Kong's expertise by overseas funds targeting at the Asia markets.

16. SFC-authorised unit trusts and mutual funds also demonstrated very strong growth of 46.1% during the year. Increased retail participation in fund investment and the introduction of new funds have contributed to the growth of SFC-authorised funds accounting for 17.6% of asset management and fund advisory business in 2007. According to the Hong Kong Investment Funds Association statistics, the gross sales of all retail investment funds amounted to HK$355 billion in 2007, up 86.8% from 2006. Of which Asia Regional (ex-Japan) and Greater China Regional funds registered the highest growth, up 346% and 217% respectively in 2007.

Asset management business of licensed corporations, registered institutions and insurance companies (HK$6,511 billion), collectively asset management business

17. Asset management business of HK$6,511 billion represented an increase of 57.5% from HK$4,134 billion in 2006. In general, respondents attributed the growth to the positive performance of the financial markets, the inflow of investment monies and the launch of new funds.

Asset management business (HK$6,511 billion) – by source of funds

(HK$ in millions)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Hong Kong investors (% of total)	1,618,289 (26.0%)	68,005 (36.5%)	112,011 (99.3%)	**1,798,305** **(27.6%)**
Non Hong Kong investors (% of total)	4,592,998 (74.0%)	118,478 (63.5%)	810 (0.7%)	**4,712,286** **(72.4%)**
Total (100.0%)	6,211,287 (100.0%)	186,483 (100.0%)	112,821 (100.0%)	**6,510,591** **(100.0%)**

18. The portion of funds from non-Hong Kong investors increased steadily from 64.2% in 2006 to 72.4% of the total asset management business in 2007. This demonstrated the depth and breadth of Hong Kong's market and its continued ability to attract overseas investors.

19. In order to gauge the potential inflow and opportunities arising from Mainland's implementation of its QDII scheme, the SFC has started to collect data on the amount of assets sourced from Mainland QDII in this year's survey. Respondents reported a total of HK$130 billion of assets sourced from Mainland QDII. The significant opportunities offered by the QDII scheme is expected to provide an additional source of inflow for the fund management business in Hong Kong.

20. Up to the end of June 2008, the State Administration of Foreign Exchange granted a total investment quota of US$38 billion to nine Mainland fund management companies and one securities firm and US$16.6 billion quota to 21 Mainland commercial banks. This has not taken into account the potential investment quota for Mainland insurance companies who are by far the largest QDII investors. Following the issuance of the provision rules for Mainland insurance funds investing overseas by the CIRC in July 2007, the market estimated that the potential investment funds from Mainland insurance companies to invest overseas amounted to RMB 400 billion.

21. Locally, the appetite for investment among Hong Kong investors remained buoyant on the back of strong economic growth and positive investment outlook. They contributed HK$1,798 billion worth of funds to the total asset management business, up 21.3% year-on-year.

Asset management business (HK$6,511 billion) – by allocation of investments

(HK$ in millions)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Invested in Hong Kong	1,777,805	13,786	30,525	**1,822,116**
(% of total)	(28.6%)	(7.4%)	(27.1%)	**(28.0%)**
Invested overseas	4,433,482	172,697	82,296	**4,688,475**
(% of total)	(71.4%)	(92.6%)	(72.9%)	**(72.0%)**
Total	6,211,287	186,483	112,821	**6,510,591**
(100.0%)	(100.0%)	(100.0%)	(100.0%)	**(100.0%)**

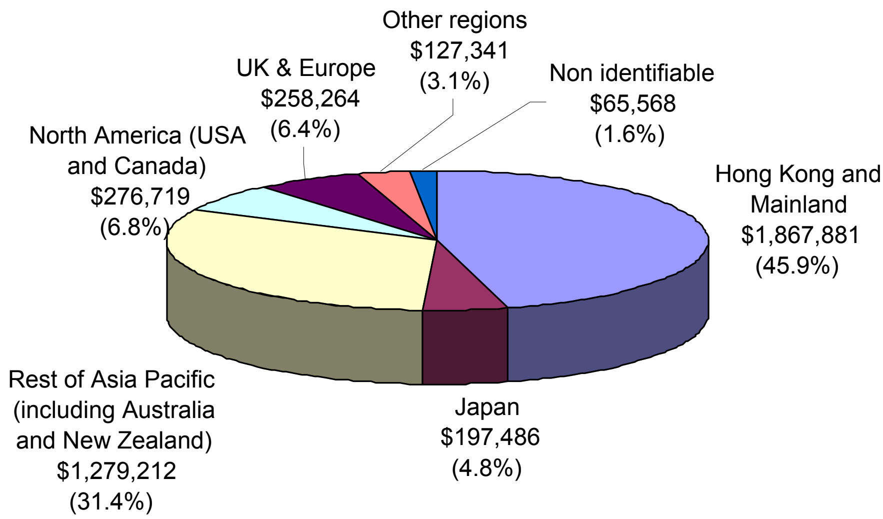
22. Due to the strategic location of Hong Kong and the quality and skills of the investment professionals here, Hong Kong continues to act as a hub for managing investments in the region. In value terms, HK$4,688 billion or 72.0% of the assets managed were invested overseas.

Asset management business (HK$6,511 billion) – by location of management

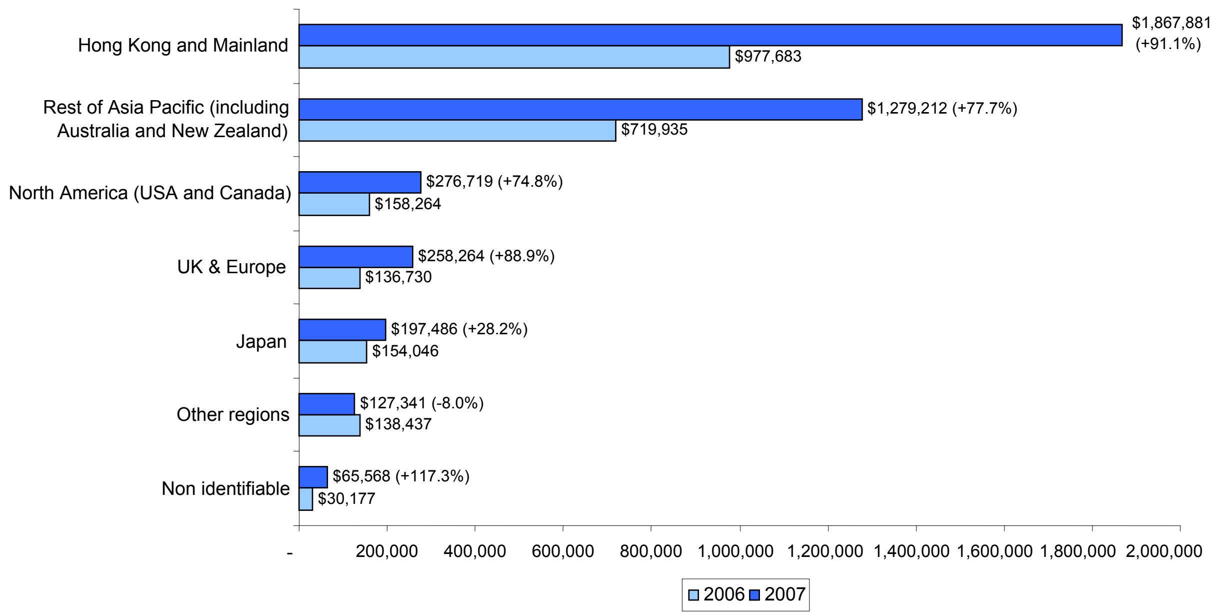
(HK$ in millions)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Managed in Hong Kong	3,875,029	160,672	36,770	**4,072,471**
(% of total)	(62.4%)	(86.2%)	(32.6%)	**(62.6%)**
Managed overseas	2,336,258	25,811	76,051	**2,438,120**
(% of total)	(37.6%)	(13.8%)	(67.4%)	**(37.4%)**
Total	6,211,287	186,483	112,821	**6,510,591**
(100.0%)	(100.0%)	(100.0%)	(100.0%)	**(100.0%)**

23. On the back of the growing importance of the Asian economies and the strategic location of Hong Kong as the asset management centre in Asia, the percentage of assets managed in Hong Kong continued to increase from 56% in 2006 to 62.6% of the asset management business in 2007. In value terms, HK$4,072 billion (2006: HK$2,315 billion) was managed in Hong Kong.

Assets managed in Hong Kong (HK$4,072 billion) – by geographical spread



Asset Managed in Hong Kong - by geographical spread (HK$ in millions)

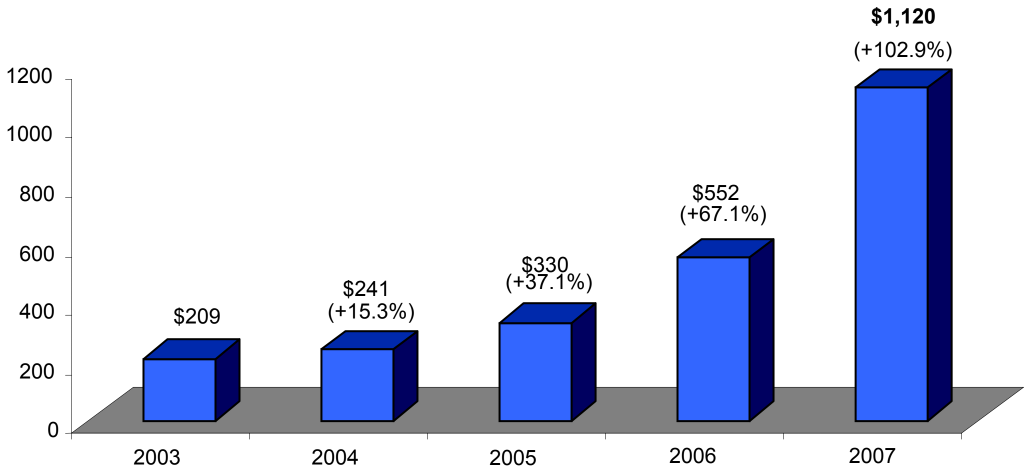


Asset Managed in Hong Kong - by geographical spread 2007 vs 2006 (HK$ in millions)

24. Reflecting the growing interest in the Mainland market and the increased allocation of assets to emerging markets, the weightings of investments in Hong Kong and Mainland and the rest of Asia Pacific (including Australia and New Zealand) rose from 73% in 2006 to 77% in 2007. In value terms, the total amount of assets invested in Hong Kong, Mainland and the rest of Asia Pacific (ex-Japan) increased significantly to HK$3,147 billion, up 85% from 2006.

Fund advisory business of licensed corporations (HK$1,120 billion)

25. Fund advisory business experienced another year of significant growth in 2007, up 102.9% to HK$1,120 billion. This is mainly attributed to the positive performance of the financial markets, inflow of funds and improved participation in the survey by licensed corporations providing fund advisory services.



Fund Advisory Business (HK$ in billions)

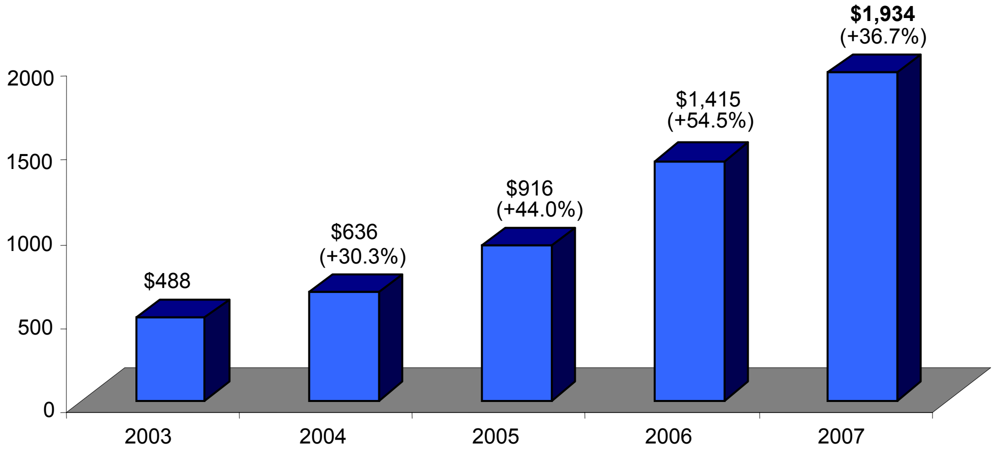
26. Assets under advice were mainly derived from overseas and totalled HK$835 billion, accounting for 74.5% of the fund advisory business.

27. The percentage of assets advised in Hong Kong increased from 62% to 80.6%, though the amount grew by 162.2% in value terms from HK$344 billion in 2006 to HK$902 billion in 2007.

28. Out of the total HK$902 billion worth of assets advised in Hong Kong, 88.0% (2006: 96.8%) or HK$794 billion was directly advised by the licensed corporations in Hong Kong while the remaining was sub-contracted or delegated to other offices / third parties.

Other private banking business (HK$1,934 billion)

29. In addition to asset management, registered institutions also provide private banking services to their clients. These other private banking business increased by 36.7% to HK$1,934 billion in 2007 from HK$1,415 billion in 2006. The amount of funds sourced from Hong Kong investors remained steady at around 50%.



Other Private Banking Business (HK$ in billions)

30. The rapid accumulation of wealth in the Asian Pacific region has attributed to the continuous growth of the private banking business in Hong Kong. According to the 2008 World Wealth Report released by Merrill Lynch and Capgemini, the Mainland is among the top countries with the fastest-growing high-net-worth individuals ("HNWIs"[6]). The Mainland's HNWI population grew by 20.3% in 2007. India, China and Brazil also recorded strong growth in HNWI population and ranked the top three countries with the strongest growth.

31. The emerging importance of other private banking business and fund advisory business complements the growth of the traditional asset management business and enhances Hong Kong's status as a regional centre for wealth management.

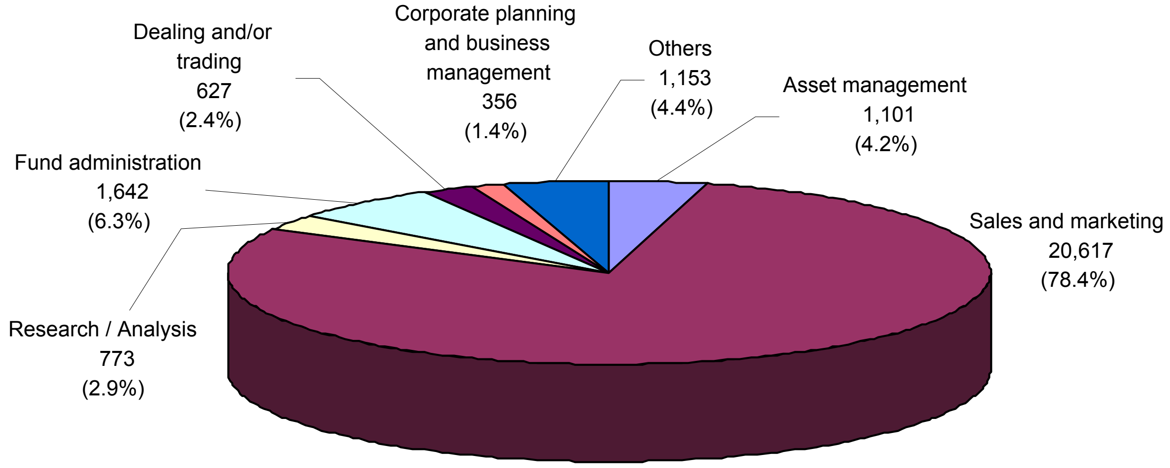
SFC-authorised REITs (HK$66 billion)

32. The market capitalisation of SFC-authorised REITs increased by 24.5% in 2007, with a total of seven listed REITs, offering investors opportunities to invest in a wide range of assets, including prime office space in Central, commercial spaces in decentralised and fringe areas, and commercial space in the Mainland.

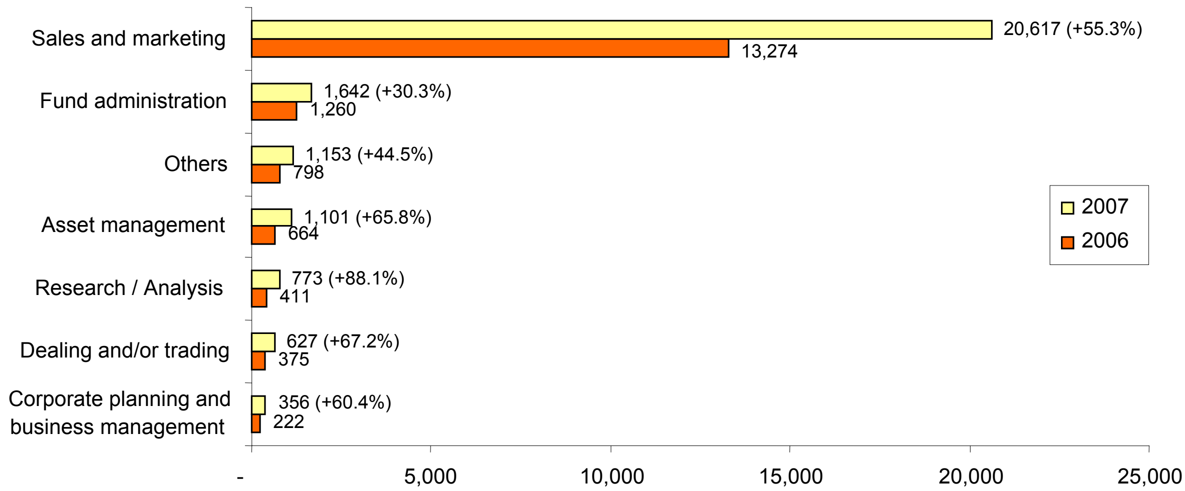
33. To add to the REITs managed by local REIT managers, the first REIT managed by an international professional REIT manager was listed in June 2007. Hong Kong REITs have also picked up momentum in their growth since making the first acquisitions in 2006. With the completion of the first very substantial acquisition and the first acquisition of Mainland property recently, Hong Kong REITs are continuing to expand through acquisitions. We also saw substantive amount of funds being raised by way of secondary offerings to finance these acquisitions.

34. As the size of Hong Kong is limited and Hong Kong already has a substantial universe of listed real estate assets in the form of listed property companies, a significant part of the growth of our REIT market will be through the overseas investments made by REITs in Hong Kong. In this connection, a number of REITs have amended their constitutive documents recently to expand their geographical investment scope. This prepares them for making overseas acquisitions once suitable opportunities arise.

Profile of staff



Staff in Fund Management Business - by job function



Staff in Fund Management Business - by job function (2007 vs 2006)

* The increase in number of staff was mainly due to the inclusion of 14,888 staff of the insurance companies newly included in this year's survey which were partially offset by the exclusion of 7,241 staff reported by registered institutions / licensed corporations purely engaged in distribution of collective investment schemes last year which were not included in FMAS since this year.

35. Buoyant fund management activities have prompted growth in employment among licensed corporations and registered institutions. Among the total staff (26,269), the majority (20,617) was responsible for sales and marketing which accounted consistently for around 78% of the total number of staff employed.

Appendix

Major aggregate figures

The major aggregate figures are summarised in the following table.

(HK$ in millions)	Aggregate asset size as at 31 December 2007			
	Licensed Corporations	**Registered Institutions**	**Insurance Companies**	**Total**
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	6,211,287	186,483	112,821	**6,510,591**
Total assets directly managed by the firm in Hong Kong (B)	3,550,802	156,555	36,770	**3,744,127**
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	2,660,485	29,928	76,051	**2,766,464**
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	324,227	4,117	-	**328,344**
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	2,336,258	25,811	76,051	**2,438,120**
Total assets managed in Hong Kong (F) = (B) + (D)	3,875,029	160,672	36,770	**4,072,471**
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	1,120,093	-	-	**1,120,093**
Assets directly advised by the firm in Hong Kong (I)	794,266	-	-	**794,266**
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	325,827	-	-	**325,827**
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	108,017	-	-	**108,017**
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	217,810	-	-	**217,810**
Assets on which advice is given in Hong Kong (M) = (I) + (K)	902,283	-	-	**902,283**
Other private banking business				
Total assets under other private banking activities	-	1,933,911	-	**1,933,911**
SFC-authorised REITs				
Total market capitalisation of SFC-authorised REITs	66,089	-	**-**	**66,089**

Footnotes

[1] A “licensed corporation” means a corporation which is granted a licence under section 120 or 121 of the SFO to carry on a regulated activity in Hong Kong.

[2] A “registered institution” means an authorised financial institution which is registered under section 119 of the SFO. An “authorised financial institution” means an authorised institution as defined in section 2(1) of the Banking Ordinance (Cap. 155).

[3] An “insurance company” means an insurance company which is registered under the Insurance Companies Ordinance (Chapter 41) and provides services which constitutes classes of long term business as defined in Part 2 of First Schedule of the Insurance Companies Ordinance.

[4] "Long term business" means all classes of insurance business specified in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41).

[5] “Combined fund management business” comprises fund management business and SFC-authorised real estate investment trusts (“REITs”) management business. Due to the alternative investment nature of REITs, they have been excluded from the detailed analysis in this report.

“Fund management business” comprises asset management, fund advisory business and other private banking business.

“Asset management” refers to (i) the provision of services which constitute type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and (ii) the management of financial assets arising from the provision of services which constitutes classes of long term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations / registered institutions in Hong Kong for management), but excludes REIT management, fund advisory business and other private banking business, and “assets managed” shall be construed in the same manner.

“Fund advisory business” refers to the provision of pure investment advisory services on funds/portfolios and does not include the provision of research. It constitutes type 4 and/or type 5 regulated activities as defined in Schedule 5 of the SFO. Such service is generally provided to overseas managers who manage a global or regional portfolio and need expert advice from a manager in Hong Kong or its delegate with respect to the Hong Kong portion or a specific geographic segment of the global or regional portfolio.

“Other private banking business” refers to the provision of financial services to private banking clients other than by means of type 9 regulated activity carried out by registered institutions. They include providing the service of managing clients’ portfolio of securities and/or futures contracts wholly incidental to the carrying on of type 1 and/or type 2 regulated activities.

[6] “HNWIs” refers to individuals with net assets of at least US$1 million, excluding their primary residence and consumables.