The FHKI 47th AGM and Members Luncheon
Financial Market Review and Outlook
By
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[Translation of an outline of Mr Fong's remarks delivered in Chinese]

1. The 10th anniversary of Hong Kong's reunification with China was a date with historic meaning – it represents the successful implementation of the concept of "one country, two systems", as well as a time when Hong Kong's economy reaches record highs.
2. The success of the financial market is due to the concerted efforts of many parties. Today, I would like to briefly review the development of the securities market and the role played by the SFC over the past 10 years, and discuss the outlook of the Hong Kong market.
3. The past decade can be divided into three periods: 1. the Asian Financial Crisis and dealing with its aftermath; 2. modernisation of the regulatory regime; 3. market growth.
4. The first period (1997 – 1999): The financial crisis in 1997 swept across Asia including Hong Kong. The stock and property markets plummeted and corporates failed. The crisis exposed deficiencies in the regulatory regime. At that time the highest priority of the SFC was to tackle regulatory gaps and sharp swings of the market.
5. The collapse of the CA Pacific Group in early 1998 caused substantial losses to over a thousand investors. The failure exposed the regulatory gap in the supervision of share margin financing activities. The SFC worked with the Administration to develop regulatory policies, placing share margin financing activities under SFC's regulation.
6. The Government intervened in the stock market to fend off international speculators in August 1998. In 1999, the acquired shares were packaged into and listed as the Tracker Fund of Hong Kong, the first fund of its kind to be authorised by the SFC. It was also at the time the largest IPO in Asia ex-Japan.
7. Thereafter, the Government announced a comprehensive 30-point plan to tighten market discipline, increase transparency, and restore order to the financial market. The SFC worked with various stakeholders to implement these measures.

8. The second period (1999 - 2003): To further enhance the competitiveness and stability of the markets, the Government introduced a major three-pronged market reform in 1999: 1. to reform the exchanges; 2. to modernise the securities legislation; and 3. to enhance Hong Kong's financial infrastructure.

9. The merger of the exchanges with the clearing houses and the successful floatation of the merged entity, HKEx, was completed in 2000.

10. The Securities and Futures Ordinance, formed by the consolidation of 10 former pieces of legislation governing the securities and futures markets, was implemented on 1 April 2003. The principal objective was to put Hong Kong's regulation on a par with international standards.

11. The financial infrastructure underwent significant development with the implementation of the newer generation trading and clearing system and enhancement of networks.

12. The third stage (2003 to the present) is characterised by rapid market growth. The regulation and structure of the securities market has been modernised with the various reforms, making it possible for Hong Kong to seize the opportunities arising from the recovery of the global stock market and the rapid growth of the Mainland economy.

13. The Hong Kong stock market experienced rapid growth in this period. The role of Hong Kong as the premier capital raising centre of Mainland companies has become increasingly prominent. Last year, Hong Kong ranked second globally in terms of total funds raised in IPOs, surpassing New York, with Mainland enterprises accounting for almost 90% of funds raised.

15. In addition, there has been a notable increase in market demand for investment products. The SFC issued authorisation codes and guidelines for new products, and approved the sale of the first retail hedge funds in 2002.

16. There have been concerns whether Mainland enterprises would continue to come to Hong Kong for listing and that Shanghai might take the place of Hong Kong, given the abundance of capital in the Mainland and its high PE ratios since the success of the share reform in the Mainland 18 months ago.

17. It is noted that remarks made by Premier Wen Jiabao earlier this year clearly showed that the Central Government is supportive of the co-operation between the financial markets in Hong Kong and

the Mainland. This is further evidenced in the Supplement IV to CEPA signed by the HKSAR Government and the Mainland last week.

18. Hong Kong as an international financial centre has an early start, with advantages such as a sound legal system, clear regulatory principles, a pool of talents and robust financial infrastructure. However, Hong Kong must not be complacent. We must constantly upgrade our market systems while capitalising on our strengths in assets management, securities analysis and banking services in order to maintain our competitive edge.

19. There is no reason why China being such a powerful nation cannot have two financial centres. The two markets, each with its own characteristics, may appeal to companies with different fund-raising needs.

20. Looking ahead, Hong Kong will play the important role of a “platform”. First, Hong Kong can serve as a platform bridging the international marketplace and the Mainland, and facilitates international capital “going into” the Mainland.

21. On the other hand, Hong Kong is also a platform for Mainland investors seeking to invest overseas and serves as a gateway for Mainland funds “coming out”. In other words, it is a conduit for channelling huge amounts of savings to the international markets. E.g. the QDII provides a means by which Mainland investors can invest overseas, which in turn creates new opportunities, resulting in a win-win situation for both markets.

22. With the perseverance of the Hong Kong people and support from the Central and SAR governments, Hong Kong has emerged from the storms in the past decade even stronger with successive highs in the stock indices.

23. With our significantly improved securities legislation, more robust financial infrastructure and increasingly financially literate investors, it is hoped that Hong Kong can scale another new height in the next 10 years, but in not so turbulent circumstances.