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

Fund Management Activities Survey 2008

July 2009

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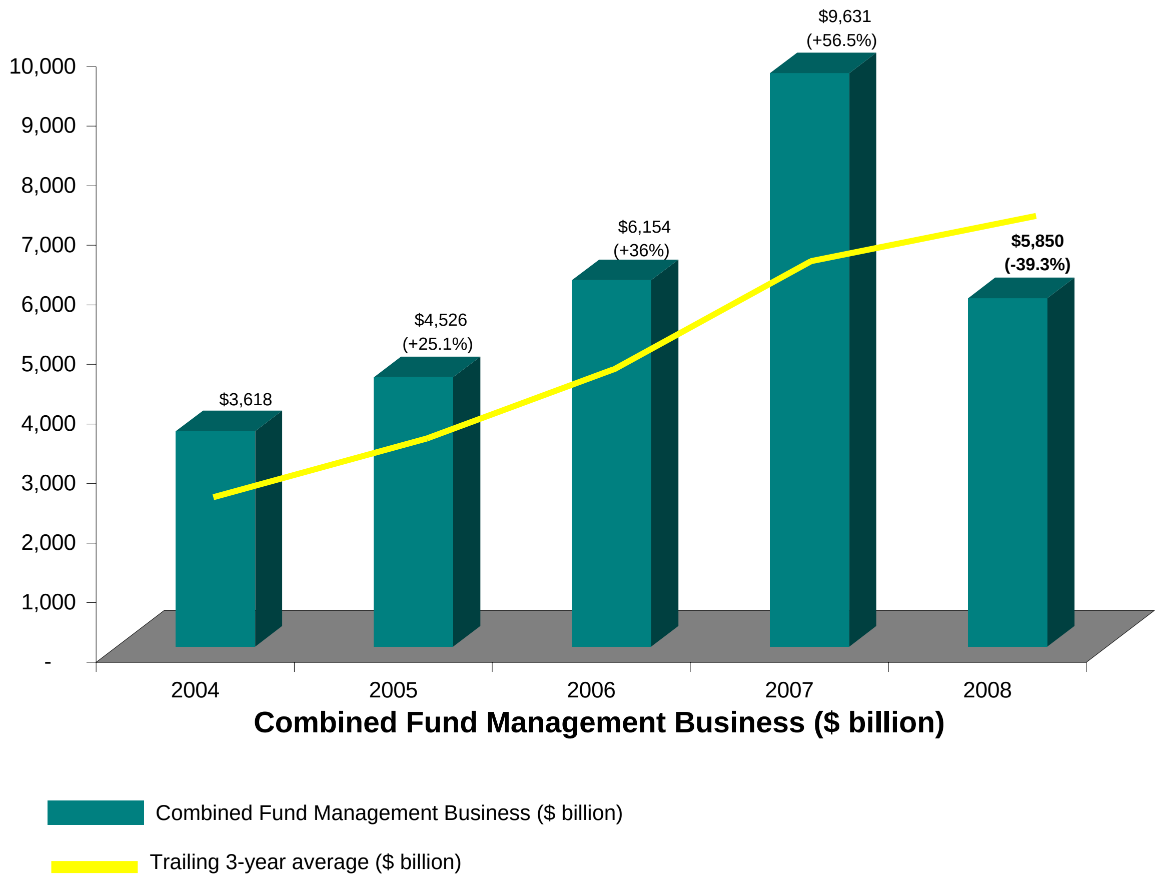
Survey Summary

The Securities and Futures Commission (SFC) has conducted a Fund Management Activities Survey (FMAS) for the year ended 31 December 2008. The survey covered fund management activities among licensed corporations[1] and registered institutions[2] and asset management activities of insurance companies[3], registered under the Insurance Companies Ordinance (ICO) but not licensed by the SFC, which provide services of long-term business[4] .

Further to the first-time inclusion of the major members of the Life Insurance Council of the Hong Kong Federation of Insurers in the FMAS of 2007, the SFC invited all member insurance companies that provided services of long-term business locally to participate in the FMAS of 2008.

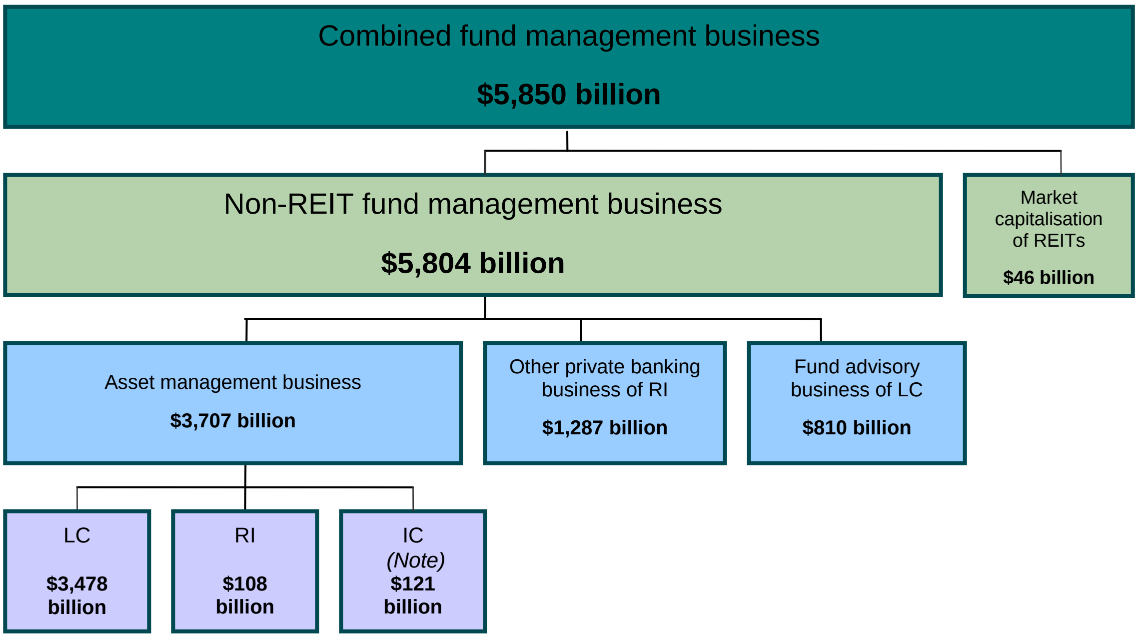
The major findings of this year's FMAS are summarised below:

1. The combined fund management business[5] of Hong Kong recorded a year-on-year decline of 39.3% to $5,850 billion* as at the end of 2008.



** Unless stated otherwise, the values given are in Hong Kong dollars.*

Components in Combined Fund Management Business



Legend:
RI: registered institutions
LC: licensed corporations
IC: insurance companies
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 that are also licensed by the SFC are included under the category of licensed corporations.

- In 2008, financial markets around the world were battered by the credit crunch. According to the 2008 Market Highlights published by the World Federation of Exchanges, the major equity market indices of its member exchanges dropped by an average of 41.9% in 2008, with the Asia-Pacific region experiencing the largest decline of 47.9%.

- Faced with the sharp decline in financial markets and the loss in confidence among investors, the asset management industry also experienced one of the most difficult years of the past decades. The combined fund management business in Hong Kong dropped 39.3% to $5,850 billion at the end of 2008 from the year-ago level. However, on a trailing three-year average basis, the combined fund management business remained in an uptrend, amounting to $7,212 billion.

- By types of business activity:

  ✓ Asset management business recorded the largest decline in assets under management, down 43.1% to $3,707 billion in 2008.

  ✓ Other private banking business fell 33.5% to $1,287 billion in 2008.

  ✓ The fund advisory business dropped 27.7% to $810 billion in 2008.

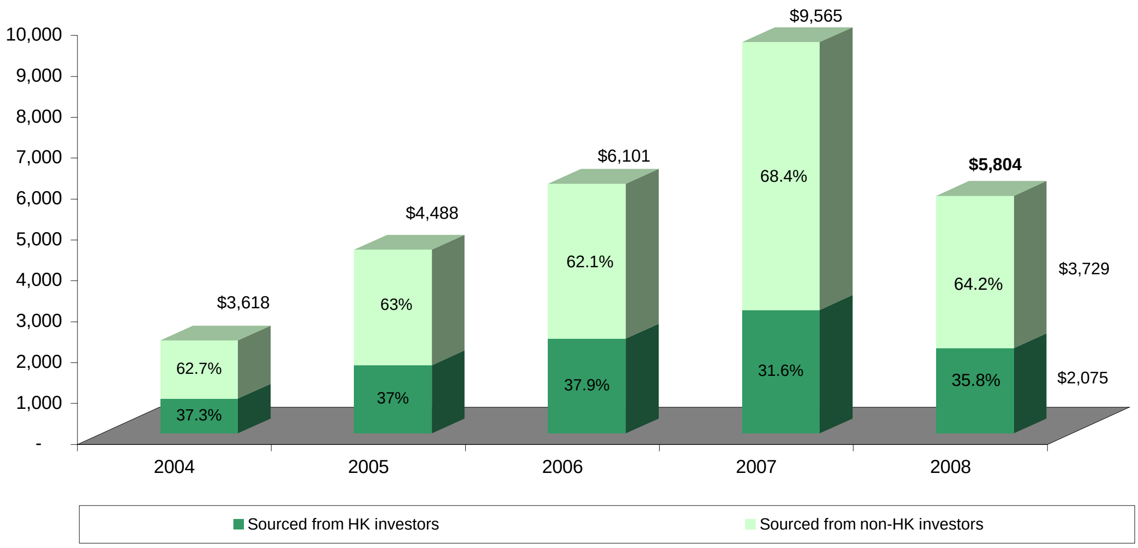
- By categorisation of market players:

  ✓ Licensed corporations posted the strongest year-on-year decline of 41.5% in aggregate asset management business and fund advisory business to $4,288 billion in 2008.

  ✓ Registered institutions reported a 34.2% year-on-year drop in their aggregate asset management business and other private banking business to $1,395 billion in 2008 from 2007.

  ✓ Insurance companies reported assets under management of $121 billion in 2008. Those insurance companies that were also included in the FMAS 2007 reported an aggregate 4.4% drop in their asset management business.

2. The international nature of the combined fund management business of Hong Kong remained intact despite the financial turmoil. Of the total $5,804 billion in non-REIT fund management business, the proportion of funds sourced from non-Hong Kong investors was steady at 64.2%.

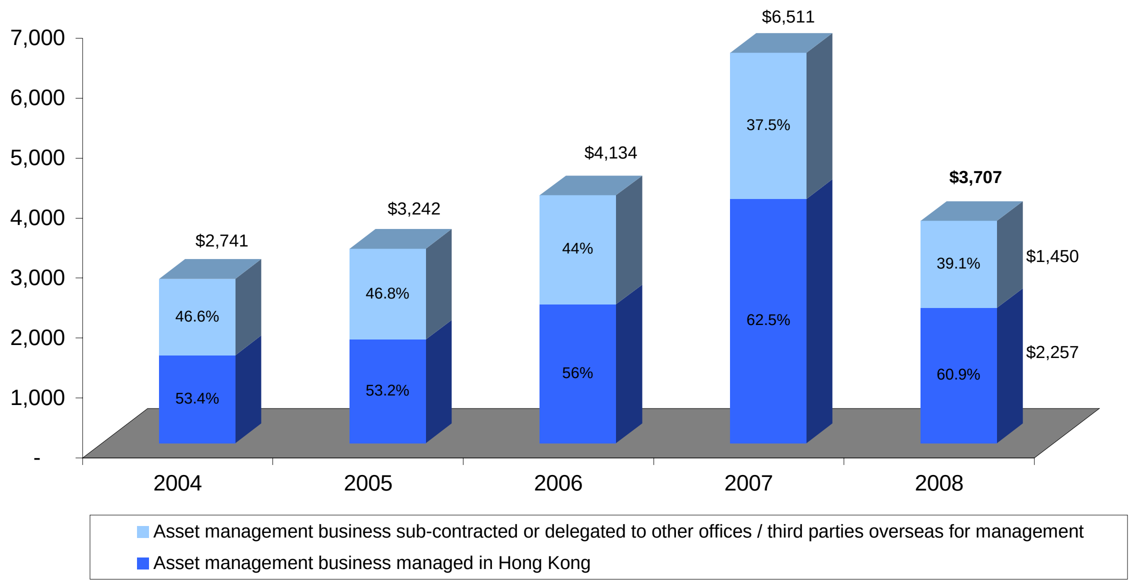


Non-REIT Fund Management Business : by Source of Funds ($ billion)

- The continued significance of non-Hong Kong investors indicates not only the ability of Hong Kong to attract capital for management during buoyant periods, but more importantly, the capability of the intermediaries to maintain their client base during difficult times. This can be attributed to the trust and relationship these intermediaries have cultivated with their clients over the years, through the provision of different types of quality service and proven expertise.

- The choice of Hong Kong as the regional headquarters of international asset management companies also contributed to the ability of Hong Kong players to firmly anchor their clients. A total 175 licensed corporations and registered institutions have identified Hong Kong as their regional headquarters in 2008, up from 170 in 2007.

3. Of the total non-REIT assets under management of $3,707 billion, 60.9% or $2,257 billion was managed in Hong Kong.



Asset Management Business : by location of management ($ billion)

- The amount of non-REIT assets managed in Hong Kong fell by 44.6% in value terms. However, it still accounted for 60.9% of the non-REIT assets under management overall. In fact, since 2003, the amount of assets managed in Hong Kong has consistently stayed above 50% of the total non-REIT assets under management.

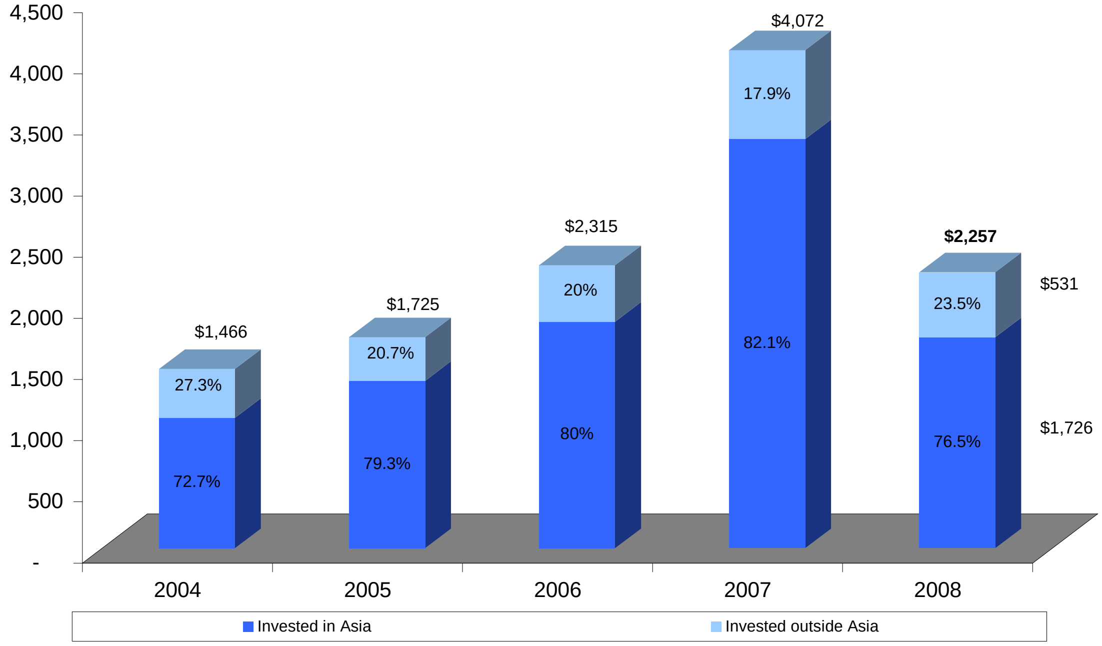
- While the amount of Mainland assets managed in Hong Kong only amounted to $64 billion in 2008, it is expected that such assets will serve as a potent source of funds for management in Hong Kong in the coming years, as the financial markets recover from the financial turmoil and an increasing portion of the Mainland capital is allocated to overseas investments in accordance with the rules laid down by Mainland authorities:

  ✓ According to estimates, up to the end of May 2009, the State Administration of Foreign Exchange granted a total investment quota of US$40 billion to ten Mainland fund management companies and one securities firm and US$16.6 billion quota to 21 Mainland commercial banks pursuant to the Qualified Domestic Institutional Investor ("QDII") Programme, thus allowing them to invest in overseas markets.

  ✓ As at the end of May 2009, the total assets of Mainland insurance companies amounted to around RMB3.6 trillion and constituted the largest group of QDII investor. Under the provisional rules issued by the China Insurance Regulatory Commission, these Mainland insurance companies may invest as much as 15% of their assets overseas.

✓ China's National Social Security Fund amounted to around RMB562.4 billion at the end of 2008. Under the current rule, up to 20% of the assets may be invested in overseas assets, thus presenting huge potential for the fund management business in Hong Kong as these assets seek overseas investment opportunities.

4. A significant portion of the assets managed in Hong Kong is invested in Asia, although the amount has retreated from the record high of 82.1% in 2007 to 76.5% in 2008.



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

- Of the $2,257 billion of non-REIT assets managed in Hong Kong, 76.5% or $1,726 billion was invested in Asia, comprising $1,055 billion in Hong Kong and the Mainland, $130 billion in Japan and $541 billion in the rest of Asia Pacific.

- Apparently, managers have become less concentrated on Asian investments as a means of managing their investment risks during these turbulent times. However, Asian investments will continue to constitute the focus of investments of assets managed in Hong Kong for at least two reasons: (a) capital that flows into Hong Kong for management looks for exposure to Asian opportunities; and (b) the expertise of Hong Kong investment professionals is to seek investment prospects in Asia.

Recent Developments and Industry Outlook

1. Maintaining high market standard and close monitoring

- The financial turmoil in 2008 has presented both regulators and market practitioners with unprecedented challenges and highlighted the importance of managing counterparty risks. The SFC maintained ongoing dialogue and worked closely with industry practitioners, providing them with guidance to address the issues that emerged:

  - ✓ Issuance of a circular in October 2008 to issuers of retail investment products to remind them of their duty to ensure their offering documents continue to be up-to-date and to contain adequate information necessary for investors to make an informed investment decision given the circumstances. In addition, issuers were reminded to ensure that risk warnings are upfront, prominent and adequate.

  - ✓ Issuance of a letter to issuers of SFC-authorised collective investment schemes to provide them with practical guidance on how to prepare clear, prominent disclosure in a balanced manner.

  - ✓ Issuance of a letter in November 2008 to the management companies of SFC-authorised funds to remind them to step up their on-going monitoring of counterparty risks and the related risk mitigation measures.

  - ✓ Briefing sessions with industry participants from both the fund management industry and the insurance industry to address their queries on enhanced disclosures.

  - ✓ Working closely with the Hong Kong Investment Funds Association regarding the industry recommended practice for enhanced disclosure in marketing materials.

- In the first six months or so after the collapse of Lehman Brothers, there had been a slowdown in the processing of fund authorisation. This had to do with the need to require enhanced disclosures given the adverse market conditions and investor concerns. It was a learning process for both market practitioners and the SFC to work out the best way forward. However, we believe we have now overcome the issues and in the last couple of months we were able to authorise more funds.

- Notwithstanding the progress made, the industry will continue to be under stress, given weak consumer investment appetite and cautiousness among distributors in their fund distribution activities. The SFC will continue to maintain active dialogue with industry practitioners to assist them to deal with regulatory issues as they arise.

- During the past year, the SFC exchanged information with other local regulators and overseas regulators on the potential impact of the financial crisis and other market events on SFC-authorised funds and to gather such information about overseas managers of SFC-authorised funds that should be brought to the attention of the SFC. The SFC has also kept up dialogue with overseas regulators to keep abreast of their regulatory responses in the wake of the financial tsunami, implementing coordinating measures where appropriate.

- Notwithstanding the magnitude and intensity of issues that emerged during the financial crisis and the sharp falls in the global financial markets, the asset management industry has managed to weather the storm and to deal with large volume of redemptions in an orderly manner. Among the 2,218 SFC-authorised funds at the end of 2008, 33 of them had to suspend trading during the period from mid September to the end December 2008 due to temporary closures of the markets that they invested in, and none of these suspensions lasted for more than five days (including 27 funds which suspended trading for one day only). Only eight SFC-authorised funds had to suspend trading for a longer period of time, due to limited liquidity in underlying investments or pending fund liquidation.

- In view of the practical difficulties faced by the industry in updating existing marketing materials during the turbulent times following the Lehman fallout, the SFC issued a circular to inform the industry of a phased approach to implementing Revised Advertising Guidelines (Guidelines) which were issued in July 2008 and took effect on 1 January 2009. The SFC has also worked closely with the industry and conducted briefings for industry practitioners to provide them with practical guidance on compliance with the Guidelines.

- The post-vetting regime for notices and advertisements of SFC-authorised funds commenced on 1 August 2008, after consulting the public and garnering their support. The SFC has been monitoring advertisements and taken regulatory actions against any non-compliance with the Guidelines.

2. Industry-wide enhancement of risk management

- The credit crunch has not hit the fund management industry as hard as it has affected the investment banking industry. However, it has revealed the prevalent use of financial derivative instruments among fund managers and underscored the importance of managing the potential risks posed by these instruments (including certain types of derivative instruments such as asset-backed securities previously considered as low-risk investments).

- The phenomenon of increasing use of financial derivative instruments is likely to continue, due to the unique investment characteristics provided by these instruments and the growing trend among fund managers to separate alpha generation from beta provision. For this reason and in light of the lessons learned from the recent financial crises, fund managers will continue to rank risk management high on their agenda.

- The growing dominance of institutional funds and sovereign wealth funds as a provider of funds for investment, and the increasing sophistication among institutional investors in their knowledge of risk management, will also prompt fund managers to continue to dedicate resources to risk management and to stress-test regularly the appropriateness of their risk management systems. Sovereign wealth funds have been estimated at US$3 trillion as at the end of March 2009, including an estimated US$200 billion held by the Mainland and managed by China Investment Corporation. Some economists have predicted that the assets of these sovereign wealth funds could rise to around US$7 trillion by 2019.

- As the fund management industry in Hong Kong grows further, we will see not only a proliferation of financial derivative investments and professionals in this area, but also the establishment of a strong pool of risk management experts.

3. Expanding Hong Kong's exchange-traded-fund platform

- The range of investment choices was further augmented in 2008 with the listing of seven other exchange-traded-funds (ETFs), including the first gold ETF in July, which offers investors an alternative means to invest in the gold bullion market. 11 other ETFs were listed by mid July 2009, bringing the total of ETFs listed in Hong Kong to 35.

- ETFs now listed in Hong Kong provide investors with a wide range of geographical exposure, namely, Hong Kong, Mainland China, Japan, Korea, Russia, India and emerging markets. They also cover various asset classes, namely equities, Asian bonds, gold and commodity futures index. Trading in ETFs has been active, registering average daily turnover of US$224 million in the first six months of 2009, exceeding Japan's average daily turnover of US$188 million. Total market capitalisation at the end of June 2009 stood at US$17,821 million, excluding the gold ETF, or US$51,761 million, including the gold ETF.

- The focus among institutional investors on separating alpha and beta returns with an aim to achieve low cost beta returns will drive the development of ETFs. The SFC is committed to enhancing the ETF platform in Hong Kong such that it becomes the ETF hub in Asia. This platform will then also serve as an efficient means for Mainland capital to capture investment opportunities presented by different market sectors and asset classes. To move closer towards this goal, a number of practical measures have been taken:

  ✓ Since July 2008, the SFC has extended to all market makers of the Stock Exchange of Hong Kong the levy exemptions previously available only to market markers of Pilot Programme securities or certain ETFs. This allows market makers to provide better prices, thus benefiting investors.

  ✓ In October 2008, the SFC granted corporate-form ETFs exemption from the disclosure-of-interests requirements under the Securities and Futures Ordinance and the requirement to be or use an approved share registrar under the Securities and Futures (Stock Market Listing) Rules. These measures facilitate the listing of ETFs in different forms in Hong Kong and provide a level-playing field for ETFs irrespective of their legal forms. They also align Hong Kong's practice with international standards.

  ✓ In light of heightened counterparty risks as a result of the financial crisis, the SFC has worked closely with ETF issuers that use financial derivative instruments to replicate the indices they track. As a result, these issuers have enhanced the structure of their ETFs to mitigate the potential counterparty risks presented by the use of financial derivatives and set the standards for similar types of ETFs to address the new concerns that have recently emerged in financial markets. At the same time, ETF investors have been kept informed of the steps taken by the ETF issuers, ensuring a high level of transparency.

- ✓ On 22 May 2009, the SFC signed and exchanged a Side Letter to a bilateral Memorandum of Understanding (MOU) with the Taiwan Financial Supervisory Commission (TFSC) to facilitate cross listing of ETFs in the two markets.

- ✓ Going forward, the SFC will continue to identify overseas ETF jurisdictions that practise comparable regulatory philosophy and standards as Hong Kong with a view towards concluding ETF cross-listing arrangements, which will further complement the breadth and depth of the Hong Kong ETF market.

4. Enhancing the role of Hong Kong in the Mainland's financial development

- Hong Kong is a part of China and the Hong Kong market is a matured, international market in China. Hong Kong must continue to provide support and skills transfer to the Mainland as it gets transformed into a leading world player. At the same time, Hong Kong will complement the development of other major Mainland cities such as Shanghai and Shenzhen.

- In the recent financial turmoil, Hong Kong has once again demonstrated its ability to manage market crisis. The integrity and reliability of Hong Kong's financial system, coupled with the range of investment products and expertise available, put Hong Kong in a good position to develop into the wealth management centre for the Mainland and the rest of Asia. To this end, Hong Kong will continue to:

  - ✓ strengthen its capacity to innovate investment products;

  - ✓ establish a critical mass of investors and financial professionals; and

  - ✓ develop a fund regulatory framework that sets the standards for Asia.

- Inroads have been made in gaining overseas recognition of Hong Kong regulatory standards:

  - ✓ The SFC concluded the first mutual recognition arrangement with the signing of a declaration of mutual recognition with the Australian Securities and Investment Commission on 7 July 2008 to facilitate the sale of retail funds to investors in each other's market.

  - ✓ To allow cross listing of ETFs, the SFC signed a Side Letter to a bilateral MOU signed with Taiwan's financial regulator TFSC on 22 May 2009.

- The SFC is now reviewing the Code on Unit Trusts and Mutual Funds for consultation in the third quarter of 2009. The revisions will update and modernise the current provisions to provide a flexible and up-to-date framework in line with international practice, within which a wide range of products can be developed and offered in Hong Kong, while affording appropriate protection to investors at the same time.

- Hong Kong has continued to attract the establishment of licensed corporations to conduct asset management and advisory businesses. In 2008, 127 new licences were granted to corporations formed to conduct the activities of asset management and/or advising on securities and/or futures contracts. Another 31 existing licensed corporations added such activities to their licences. There was a net increase of 108 licensed corporations that carried on the activities of asset management and/or advising on securities and/or futures contracts in 2008 (after deducting the number of firms that ceased these businesses during the period).

- As at end of June 2009, there were over 110 licensed corporations or registered institutions in Hong Kong controlled by Mainland companies, including Mainland securities companies, Mainland fund management companies and Mainland insurance-related companies. This constituted around 7% of our licensed corporations and registered institutions in terms of number of firms.

- Further advancement in co-operation with the Mainland was made with the conclusion of the Supplement VI of the Closer Economic Partnership Arrangement (CEPA VI framework) on 9 May 2009, which is due to become effective on 1 October 2009. This marks another breakthrough as the CEPA VI framework allows Hong Kong securities brokers to form joint ventures in Guangdong with Mainland firms to carry out securities investment advisory business. It also provides avenue for the establishment of closer ties between Hong Kong and Mainland entities.

- In addition, the China Securities Regulatory Commission has agreed to include as a CEPA VI initiative the prospect of the listing of Hong Kong equity ETF on the Mainland exchanges.

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 covers the fund management activities of three types of firms in Hong Kong, namely:

   (a) corporations licensed by the SFC that engage in asset management and fund advisory business (collectively "licensed corporations");

   (b) banks engaging 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 or SFO) as the licensed corporations in respect of their fund management activities; and

   (c) 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. The FMAS Questionnaires (the "Questionnaires") were sent to the licensed corporations and, with the assistance of the Hong Kong Monetary Authority and the Hong Kong Federation of Insurers, to registered institutions and relevant insurance companies respectively, to enquire about their fund management activities as at 31 December 2008. The Questionnaires sent to the registered institutions and insurance companies 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

4. A total of 351 firms responded to the Questionnaires and reported that they had conducted asset management, fund advisory and/or other private banking businesses during the survey period. These included 302 licensed corporations, 36 registered institutions and 13 insurance companies.

Licensed corporations

5. An analysis of the activities of the 302 licensed corporations that had engaged in asset management and/or advisory business on funds or portfolios is shown below:

Respondents with asset management business only	158
Respondents with assets under fund advisory business only	58
Respondents with both of the above businesses	86
	302

Registered institutions

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

Respondents with asset management business only	9
Respondents with other private banking business only	15
Respondents with both of the above businesses	12
	36

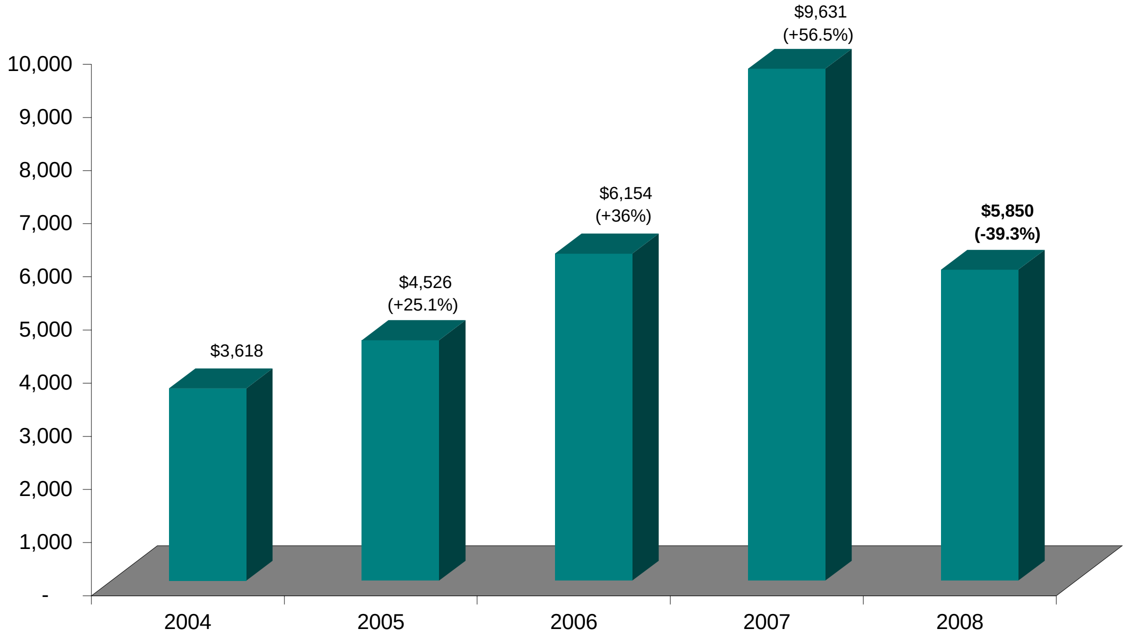
Insurance companies

7. 13 insurance companies that provided services of long-term business covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC responded to this survey.

Findings

Combined Fund Management Business ($5,850 billion)

8. Hong Kong's combined fund management business amounted to $5,850 billion, representing a decline of 39.3% during 2008, after reaching a record high of $9,631 billion in 2007.



Combined Fund Management Business ($ billion)

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

($ billion)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Asset management business	3,478	108	121	**3,707**
Fund advisory business	810	-	-	**810**
Other private banking business	-	1,287	-	**1,287**
Non-REIT fund management business	4,288	1,395	121	**5,804**
SFC-authorised REITs	46	-	-	**46**
Combined fund management business	4,334	1,395	121	**5,850**

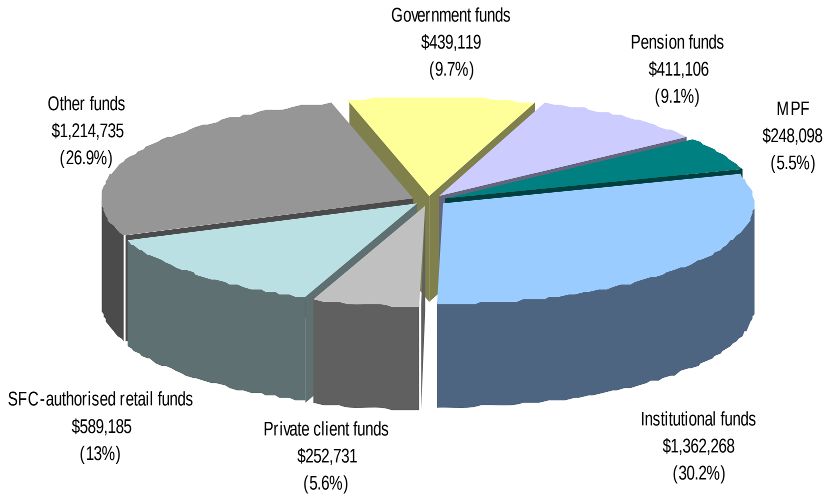
For major aggregate figures of FMAS 2008, see Appendix on page 23.

10. Compared with the exceptional performance in 2007, licensed corporations reported an aggregate decrease of 41.5% in their non-REIT fund management business to $4,288 billion. Their asset management business dropped by 44% to $3,478 billion while the fund advisory business dropped by 27.7% to $810 billion during the year.

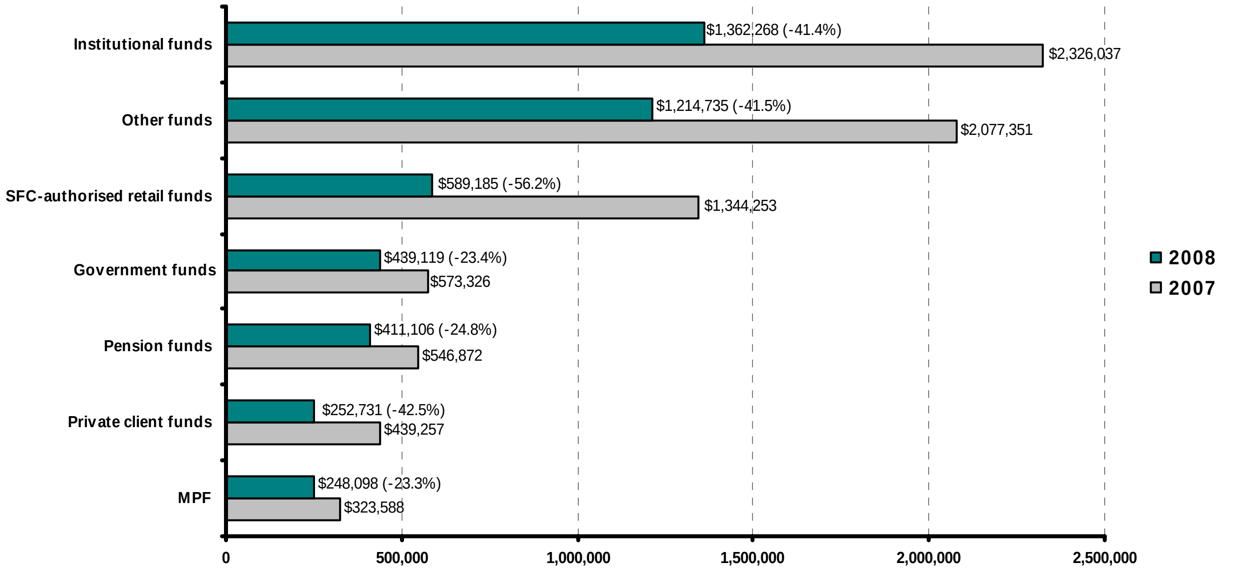
11. Registered institutions reported an aggregate decrease of 34.2% in their non-REIT fund management business to $1,395 billion at the end of 2008. Their asset management business dropped by 41.8% while other private banking business shrunk by 33.5%.

12. Insurance companies reported a total of $121 billion of assets under management as at the end of 2008, representing a year-on-year increase of 7.1%. Such increase was due to the addition of seven respondents to the survey this year. Excluding the fund management business reported by these additional participants, the fund management business of the remaining insurance companies which also participated in FMAS 2007 actually fell by 4.4%. The much lower rate of decline in fund management business among insurance companies can be attributed to the regular stream of insurance premium received by them.

Asset Management and Fund Advisory Business of Licensed Corporations, Registered Institutions and Insurance Companies ($4,517 billion)



Asset Management and Fund Advisory Business: by Type of Funds ($ million)



Asset Management and Fund Advisory Business: by Type of Funds 2008 vs 2007 ($ million)

13. Among the different fund types, SFC-authorised retail funds experienced the largest decline of 56.2% year-to-year. The severity of the financial turbulence, coupled with growing concerns over economic prospects and financial stability, prompted investors to liquidate their investments to reduce their exposure to financial assets. The sharp fall in asset prices was another contributing factor.

14. According to the statistics published by the Hong Kong Investment Funds Association, retail fund distribution recorded net redemptions between July 2008 and April 2009 (except for February 2009). Net redemptions in September and October 2008 were exceptionally high at $14 billion and $15 billion respectively, as investor confidence plunged following the collapse of the Lehman Brothers Holdings Inc. Taken as a whole, 2008 recorded net redemptions of $36 billion, compared with net sales of $54 billion in 2007. During the year, 226 SFC-authorised funds were de-authorised, as managers merged or terminated their funds or discontinued their public offering.

15. Government funds, pension funds and funds in the Mandatory Provident Fund (MPF) Scheme recorded decline of less than 25%. The long-term investment horizon of these funds, continued contributions in accordance with the established pension plan and MPF policies, and the accumulation of government surpluses in some countries over the past years (up till the onset of the global financial crisis) have probably offset the diminution in value of the underlying investments of the funds to a certain extent.

16. The aggregate value of other funds comprising charity funds, hedge funds, private equity funds, insurance portfolios, and funds that are distributed in overseas markets decreased by 41.5% to $1,215 billion in 2008. It should be noted that this category of funds in fact showed a 97.3% increase in assets under management in 2007, the largest gain among all categories of funds.

Asset Management Business of Licensed Corporations, Registered Institutions and Insurance Companies ($3,707 billion)

17. The total asset management business of licensed corporations, registered institutions and insurance companies amounted to $3,707 billion as at the end of 2008, down 43.1% from $6,511 billion as at the end of 2007. Both licensed corporations and registered institutions experienced similar rates of decline of over 40%.

Asset Management Business ($3,707 billion): by Source of Funds

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Hong Kong investors (% of total)	1,170,148 (33.6%)	42,563 (39.2%)	119,294 (98.7%)	**1,332,005** **(35.9%)**
Non-Hong Kong investors (% of total)	2,307,808 (66.4%)	65,966 (60.8%)	1,579 (1.3%)	**2,375,353** **(64.1%)**
Total (100%)	3,477,956 (100%)	108,529 (100%)	120,873 (100%)	**3,707,358** **100%**

18. Funds sourced from non-Hong Kong investors totalled $2,375 billion, down 49.6% from 2007. Licensed corporations reported a 49.8% drop in this source of funding while registered corporations recorded a 44.3% decline. On the other hand, the decrease in funds sourced from Hong Kong investors were almost half of that of funds sourced from non-Hong Kong investors, at 25.9% to $1,332 billion.

19. The relatively higher rate of decline in funds sourced from non-Hong Kong investors can be attributed to the fact that non-Hong Kong investors might have disposed of their overseas investments and re-directed their wealth back to their home countries, either to meet financial needs at home or to minimise exposure to countries that they were less familiar with in light of the expected poor economic outlook globally.

20. Assets sourced from QDII also demonstrated a dramatic fall of 50.8% to $64 billion in 2008.

Asset Management Business ($3,707 billion): by Allocation of Investments

($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Invested in Hong Kong	937,736	11,585	30,580	**979,901**
(% of total)	(27%)	(10.7%)	(25.3%)	**(26.4%)**
Invested overseas	2,540,220	96,944	90,293	**2,727,457**
(% of total)	(73%)	(89.3%)	(74.7%)	**(73.6%)**
Total	3,477,956	108,529	120,873	**3,707,358**
(100%)	(100%)	(100%)	(100%)	**(100%)**

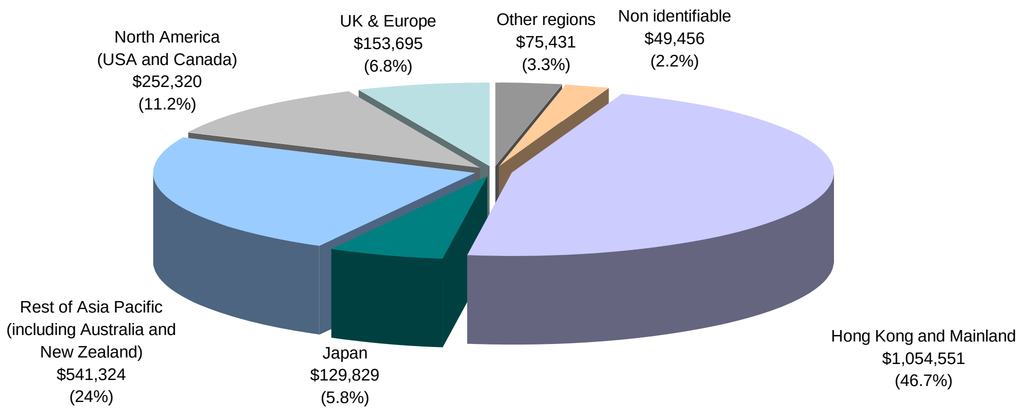
21. The allocation of investments remained fairly steady, with assets invested in Hong Kong accounting for 26.4% of the total assets under management, compared with 28% in 2007. Assets invested overseas accounted for the remaining 73.6% in 2008.

Asset Management Business ($3,707 billion): by Location of Management

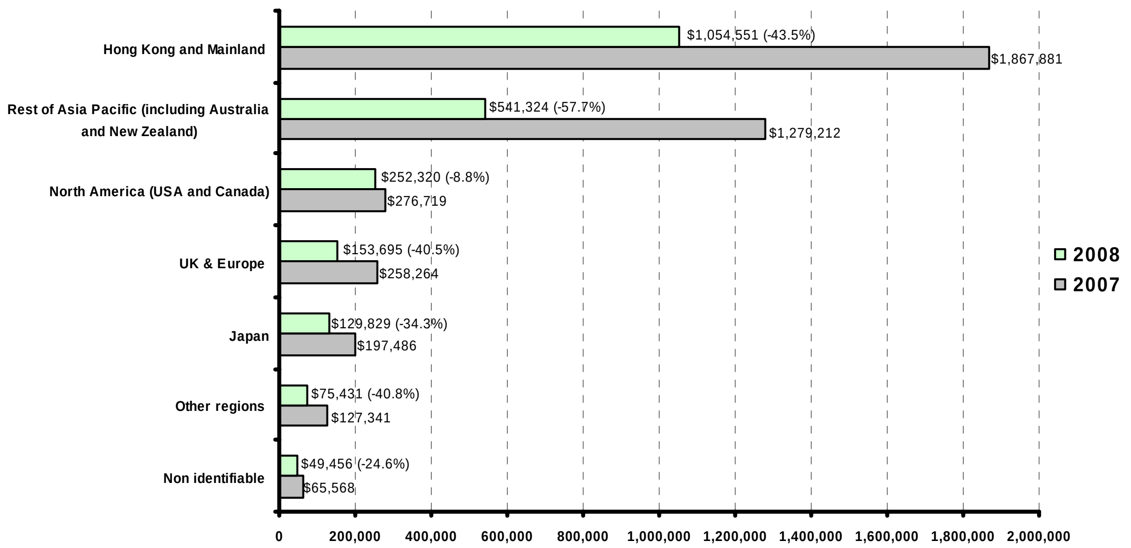
($ million)	Licensed corporations	Registered institutions	Insurance companies	**Total**
Managed in Hong Kong	2,116,652	90,240	49,714	**2,256,606**
(% of total)	(60.9%)	(83.1%)	(41.1%)	**(60.9%)**
Managed overseas	1,361,304	18,289	71,159	**1,450,752**
(% of total)	(39.1%)	(16.9%)	(58.9%)	**(39.1%)**
Total	3,477,956	108,529	120,873	**3,707,358**
(100%)	(100%)	(100%)	(100%)	**(100%)**

22. The allocation of assets for management overseas stood at 39.1% in 2008, compared with 37.4% in 2007. In particular, registered corporations exhibited a higher rate of increase in allocation to overseas management, from 13.8% in 2007 to 16.9%. On the other hand, licensed corporations reported a comparatively lower rate of increase from 37.6% in 2007 to 39.1% in 2008.

Assets Managed in Hong Kong ($2,257 billion): by Geographical Spread



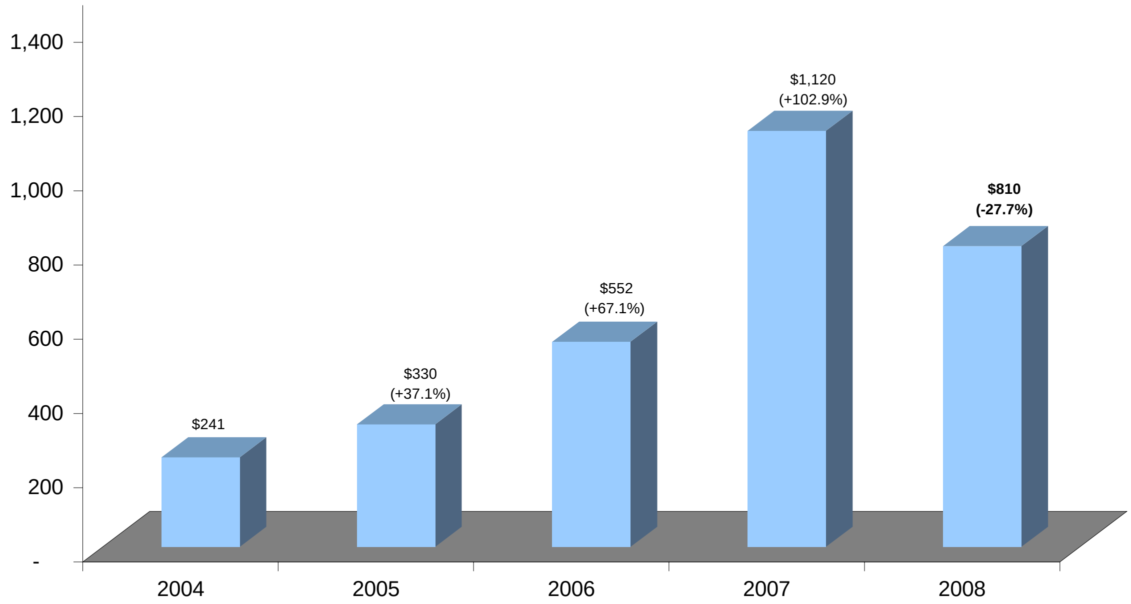
Asset Managed in Hong Kong : by Geographical Spread ($ million)



Asset Managed in Hong Kong : by Geographical Spread 2008 vs 2007 ($ million)

23. The geographical distribution of assets managed in Hong Kong was largely unchanged, except for an increase in allocation to North America and Canada (from 6.8% in 2007 to 11.2% in 2008), an increase in allocation to Japan (from 4.8% in 2007 to 5.8% in 2008) and a decrease in allocation to the rest of Asia Pacific, including Australia and New Zealand (from 31.4% in 2007 to 24% in 2008). Hong Kong and the Mainland continued to remain the predominant destination of investment, absorbing 46.7% of the assets managed in Hong Kong.

Fund Advisory Business of Licensed Corporations ($810 billion)



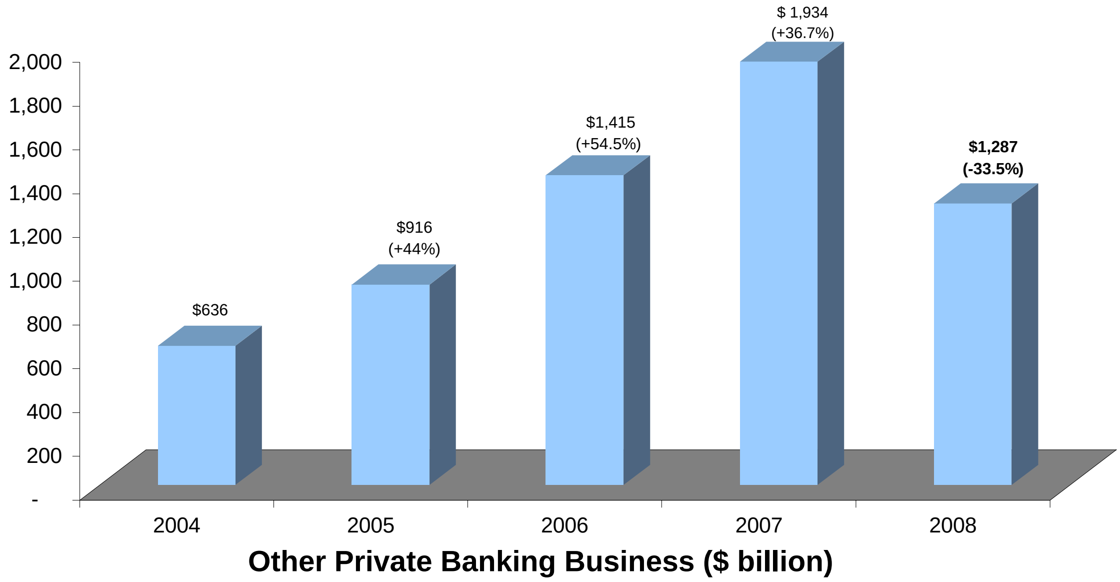
Fund Advisory Business ($ billion)

24. Fund advisory business recorded a decline of 27.7% year-on-year to $810 billion. While a smaller number of licensed corporations (including those that had assets under fund advisory business only) responded to the survey in 2008, it should be noted that among these respondents were 11 new licensed corporations (i.e. those granted licences in 2008) which together provided advice on $204 billion worth of assets in 2008, or 25.2% of the total fund advisory business.

25. Further, seven of these new firms have earmarked Hong Kong as their regional headquarters, thus significantly contributing to the amount of assets on which advice was provided. Due to the presence of a larger number of regional headquarters in Hong Kong, the percentage of assets under advice that were derived from overseas rose to 84.8% (or $687 billion) accordingly, compared with 74.5% in 2007.

26. Out of the total $810 billion worth of assets advised in Hong Kong, 88.8% (2007: 88%) or $719 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 ($1,287 billion)



27. Other private banking business among registered institutions decreased by 33.5% to $1,287 billion in 2008 from $1,934 billion in 2007. Respondents attributed the decrease mainly to market decline, losses in foreign exchange trades and the general outflow of funds. Some respondents reported that clients have exited from equity investments to placement of deposits with banking institutions. The introduction of enhanced deposit protection programmes by major governments around the world, albeit for a limited number of years, has certainly contributed to the flight to bank deposits.

SFC-authorised REITs ($46 billion)

28. The global financial crisis has affected on the Hong Kong REIT market and the market capitalisation of SFC-authorised REITs decreased by 30% in 2008. A total of seven REITs were listed in Hong Kong offering investors opportunities to invest in a wide range of assets, including prime office space in Central, commercial premises in decentralised and fringe areas, and commercial space on the Mainland.

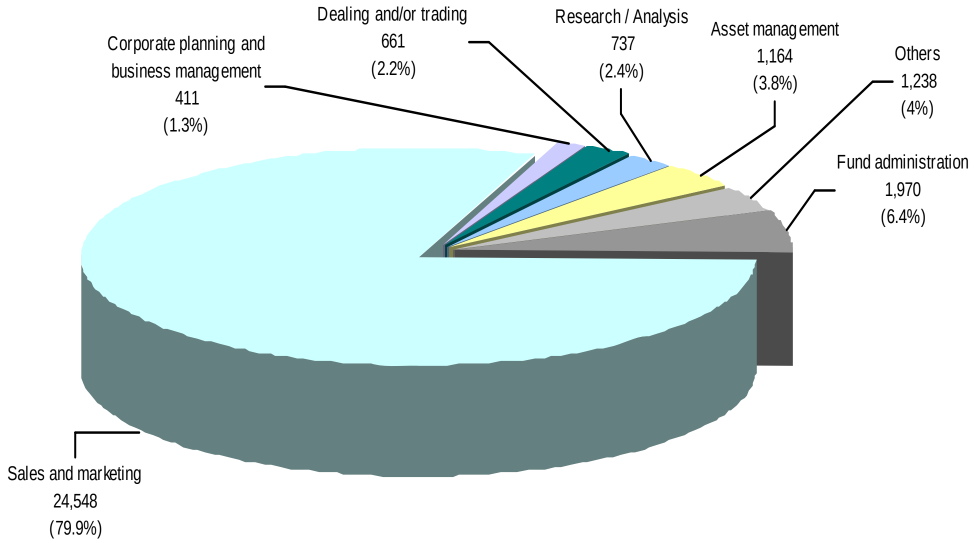
29. Continued credit squeeze has made fund raising activities difficult and the REIT initial public offering market in Hong Kong, as well as across Asia, generally quieted down in 2008. Despite this market environment, the first very substantial acquisition and the first acquisition of Mainland property by Hong Kong REITs were completed during 2008.

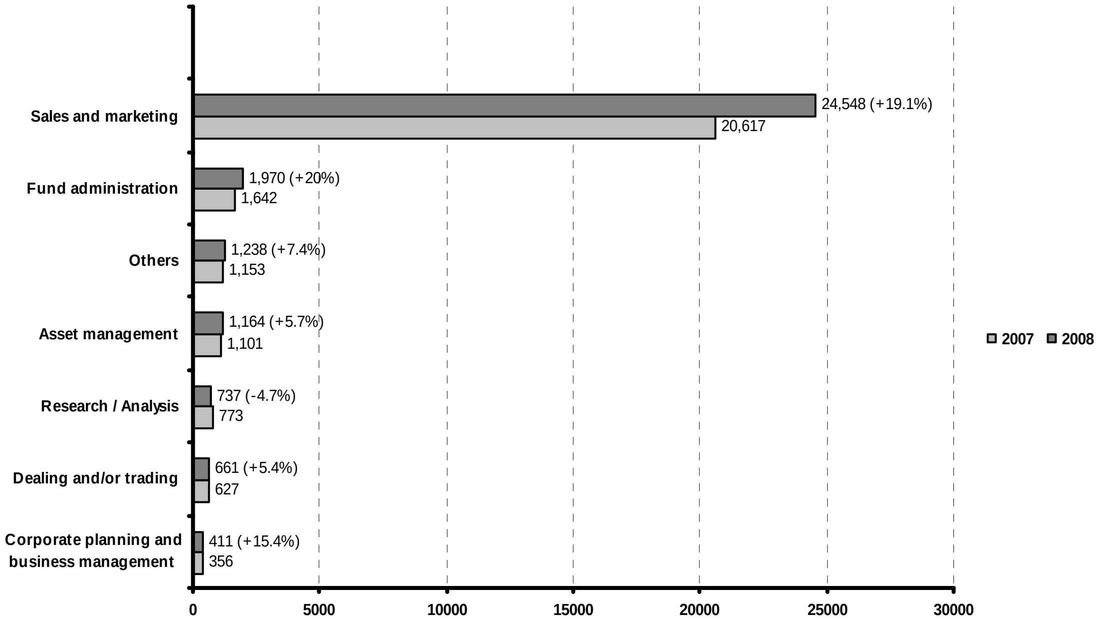
30. Some Hong Kong REITs have also completed their refinancing exercises recently to strengthen their balance sheet position, one of which involved the rollout of a Euro medium term note programme of a substantive amount. In this connection, a number of REITs amended the provisions in their constitutive documents with respect of capital raising. This could prepare them for recapitalisation exercises should suitable opportunities arise.

31. To facilitate the further development of the REIT market in Hong Kong, the SFC clarified the relevant requirements on SFC-authorised REITs purchasing their own units on the Stock Exchange of Hong Kong in January 2008. Under the relevant SFC guidelines, an SFC-authorised REIT may purchase its own units on the Stock Exchange of Hong Kong upon fulfilling certain conditions as in the case of on-market share repurchases by listed companies.

32. In October 2008, the Hang Seng Indexes Company Limited launched the Hang Seng REIT Index, which provides the market with a benchmark to track the performance of Hong Kong REITs. The launch of this index signifies the importance of the Hong Kong REIT market and serves as a basis for funds or derivatives to gain exposure to this asset class.

Profile of Staff in Fund Management Business (Total number: 30,729)





Staff in Fund Management Business : by Job Function

33. The staffing in the fund management business appeared to be strong at 30,729 employees, up from 26,269 in 2007. However, netting out the 19,954 staff from 13 (compared with six in 2007) insurance companies, the number of staff engaged in fund management activities at licensed corporations and registered institutions in fact fell by 5.3% to 10,775 in 2008. The largest decline was seen among sales and marketing staff of these entities, down 11.7% during the year.

Major Aggregate Figures

The major aggregate figures are summarised in the following table.

($ million)	Aggregate asset size as at 31 December 2008			
	Licensed Corporations	**Registered Institutions**	**Insurance Companies**	**Total**
Asset management of funds / portfolios				
Total assets managed by the firm (A) = (B) + (C)	3,477,956	108,529	120,873	**3,707,358**
Total assets directly managed by the firm in Hong Kong (B)	1,904,338	87,982	49,714	**2,042,034**
Total assets sub-contracted or delegated to other offices / third parties for management (C) = (D) + (E)	1,573,618	20,547	71,159	**1,665,324**
Total assets sub-contracted or delegated to other offices / third parties in Hong Kong for management (D)	212,314	2,258	-	**214,572**
Total assets sub-contracted or delegated to overseas offices / third parties for management (E)	1,361,304	18,289	71,159	**1,450,752**
Total assets managed in Hong Kong (F) = (B) + (D)	2,116,652	90,240	49,714	**2,256,606**
Giving advice on funds / portfolios				
Total assets under advisory business of the firm (H) = (I) + (J)	809,883	-	-	**809,883**
Assets directly advised by the firm in Hong Kong (I)	718,517	-	-	**718,517**
Assets sub-contracted or delegated to other offices / third parties for providing advisory services (J) = (K) + (L)	91,366	-	-	**91,366**
Assets sub-contracted or delegated to other offices / third parties in Hong Kong for providing advisory services (K)	6,345	-	-	**6,345**
Assets sub-contracted or delegated to overseas offices / third parties for providing advisory services (L)	85,021	-	-	**85,021**
Assets on which advice is given in Hong Kong (M) = (I) + (K)	724,862	-	-	**724,862**
Other private banking business				
Total assets under other private banking activities	-	1,286,721	-	**1,286,721**
SFC-authorised REITs				
Total market capitalisation of SFC-authorised REITs	46,293	-	**-**	**46,293**

Footnotes

[1] A “licensed corporation” means a corporation granted a licence under section 116 or 117 of the SFO to carry on a regulated activity in Hong Kong.

[2] A “registered institution” means an authorised financial institution 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 (Chapter 155).

[3] An “insurance company” means an insurance company registered under the Insurance Companies Ordinance (Chapter 41) and provides services that constitutes classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance. For those insurance companies who are also licensed by the SFC, their reported assets under management are included in the category of licensed corporations.

[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.

- “Fund management business” comprises asset management, fund advisory business and other private banking business.
- “Asset management” refers to (i) the provision of services that 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 that 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.