

(Translation)

The Hong Kong Taiwan nexus – Hong Kong's contributions to Taiwan's New Economy

Opening Speech at the First Asia Conference on Financial Engineering (ACFE)

23 June 2008

Good morning, ladies and gentlemen. First of all, I would like to thank the organizers for this invitation. This is a historic occasion not only because it is the first time the ACFE has been held in Hong Kong, but this event also provides an opportunity for financial experts from across the Straits and afar to get together. More importantly, the ACFE serves as a platform for the exchange of ideas on the development of Asian financial markets, allowing the Mainland, Taiwan and Hong Kong to make joint contributions to the development of the Greater China economy.

The financial relations between Hong Kong and Taiwan

Taiwan's new leader Mr Ma Ying-jeou said, after being elected, that Hong Kong has a special place in his heart and he places great importance on the relationship between Hong Kong and Taiwan. In fact, the ties between Hong Kong and Taiwan have remained close. In the financial sector, the relationship between Hong Kong and Taiwan was established as far back as 25 years ago.

In 1983, when Taiwan first opened up its financial market, Taiwan arranged for over 10 international fund investment companies to join hands with local financial institutions to establish the International Investment Trust (IIT). As Taiwan's first investment trust company, IIT's debut marked the first time foreign investors were allowed to invest in the local Taiwan market which represents a significant milestone in the development of Taiwan's financial market.

How did the international fund houses, coming from different parts of the world, participate in the operations of IIT? They sent staff from their respective Hong Kong offices to Taiwan. Given the proximity in the geographic location, culture and language of the two territories, Hong Kong was well positioned to play this important role. As we can see from the IIT's founding process, Hong Kong provided the nexus for the internationalisation of the Taiwan market. Even as early as 25 years ago, Hong Kong had the necessary resources, talent and knowledge to provide assistance to its neighbours in developing their financial markets.

Of course, the connections between Hong Kong and Taiwan go far beyond the formation of the IIT. Taiwanese companies have been very active in Hong Kong's capital market. There are a total of 54 Taiwanese companies listed in Hong Kong, of which 24 were listed during the past 3 years, raising a total of HK\$30.8 billion. As at the end of March, the market capitalisation of these Taiwanese companies reached HK\$334.9 billion.

According to our statistics, 57 Taiwanese financial institutions are licensed or registered with the SFC, 21 of which are participants of the HKEx. Together, they account for 2.3% of the total turnover of the Hong Kong Stock Exchange.

In terms of asset management, a good number of offshore funds offered in Taiwan are authorised in Hong Kong and managed by Hong Kong fund managers. Presently, three

(Translation)

SFC-authorized funds in Hong Kong are issued or managed by the Hong Kong subsidiaries of Taiwanese groups. Furthermore, there are 12 authorized funds in Hong Kong which mainly invest in Taiwan's securities market, of which four were just launched in the past three months. This reflects Hong Kong investors' increasing interest in the Taiwan market.

Taiwan's new era

In his inaugural speech, Mr Ma mentioned that an important mission in the new era is to upgrade Taiwan's international competitiveness. For the financial market, this means bringing the governance and operational standards of the Taiwan market and its participants on a par with international standards.

Hong Kong's financial market follows international standards and has a critical mass of world class talent with sound market knowledge and experience, supported by a clear and transparent regulatory framework where rules are fairly and consistently applied. Of the world's 100 largest banks, 68 have operations in Hong Kong. Among the world's 50 largest asset management institutions, 39 have a presence in Hong Kong, utilising Hong Kong's platform to conduct their investment activities.

The Mainland has made remarkable achievements since opening up its market 30 years ago. During these 30 years, Hong Kong has worked with the Mainland, utilizing our strengths to help the Mainland tap its potential, particularly in the development of the Mainland's financial market and in improving its standards. Through their fund raising and listing activities in Hong Kong (which is the 7th largest stock market in the world), Mainland enterprises benefit from gaining recognition in the international financial market and building up their working knowledge of corporate governance and compliance culture. They then bring these experiences back to the Mainland that would benefit the local Mainland market.

Furthermore, under the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland, Mainland financial institutions can set up their operations in Hong Kong, giving them first-hand experience in a global financial market setting, the opportunity to operate under strict market discipline and to learn from the best international financial practices, and to co-operate and compete with world class talents.

Taiwan's financial market has developed substantially over the last two decades. We believe that Taiwan's financial market could take advantage of what Hong Kong has to offer to build up its international branding and competitiveness.

Vision

Regarding future economic and financial developments in the Mainland, Taiwan and Hong Kong markets, we have a vision of harmony, prosperity, co-operation and international competitiveness. As the Mainland and Taiwan proactively reach out to build the foundation for co-operation in their march towards the global market, and the benefits that brings, Hong Kong can act as an effective conduit between the two sides. As Mr Ma Ying-jeou mentioned earlier, being an international financial centre, Hong Kong will remain an important nexus for both sides of the Straits. We, in turn, pledge our full support in helping the Mainland and Taiwan build a strong co-operative platform, and to help develop a vibrant, cohesive Greater China market made up of the Mainland, Taiwan and Hong Kong.

We can provide assistance in three major areas. First, we welcome Taiwanese enterprises to come and list in Hong Kong. Taiwanese enterprises can take advantage of Hong Kong's international platform to gain greater recognition and respect in the international investment

(Translation)

community, and, by doing that, to attract more foreign participation in the Taiwan market via Hong Kong.

Asia Cement, which was recently listed in Hong Kong, is a case in point. Asia Cement is a Taiwanese enterprise with operations in both Taiwan and the Mainland. This spin off of a Mainland operation and its debut on the Hong Kong IPO platform attracted keen interest from both international investors and local retail investors. This demonstrates that despite the current market environment, Hong Kong is still a platform that can successfully bring Taiwan-owned Mainland enterprises to the international capital markets. As Taiwan enterprises begin to appreciate the advantages of a Hong Kong listing, more and more of them will bring their Mainland operations to the Hong Kong IPO and secondary markets. The Hong Kong platform will thus play an increasingly important role of connecting the Mainland and Taiwan markets as they move to the next phase of co-operation and development.

Secondly, we believe Hong Kong and Taiwan can enhance co-operation in the area of investment funds. We understand that a number of fund houses from Taiwan have been in contact recently with leading Hong Kong fund companies who are familiar with the Mainland market. These fund houses are seeking opportunities to jointly develop and introduce investment products related to mainland stocks in Taiwan. We are also conducting a preliminary study on the feasibility of establishing a mutually recognised mechanism for index tracking funds that are traded on the respective exchanges (i.e. ETFs) in Taiwan and Hong Kong. Under such arrangement, the ETFs linked to Taiwan stocks will be able to obtain SFC authorisation to list in Hong Kong, and conversely, ETFs linked to Hong Kong stocks could obtain authorisation from Taiwan authorities to list in Taiwan. There are, of course, certain fundamental legal and supervisory issues to be resolved. For example, we understand that Taiwan still have some restrictions regarding investments in Mainland-owned enterprises listed in Hong Kong. But we believe that with the co-operation and support of both Taiwan and Hong Kong, we will be able to create an investment environment that will be mutually beneficial to the investors and fund industry in both Taiwan and Hong Kong.

Thirdly, intermediaries from Taiwan can take advantage of Hong Kong's open financial platform and establish operations in Hong Kong to learn and compete with the best in the global market. Taiwan intermediaries can adapt the skills acquired in the Hong Kong market to Taiwan's circumstances and needs, and ultimately bring these skills back home for cross fertilization.

We encourage those Taiwan intermediaries who have already established themselves in Hong Kong to further expand their Hong Kong operations. We also strongly encourage those Taiwan financial intermediaries that are not yet here to seize new opportunities by setting up their business here. The Hong Kong market is an international market that is very open, transparent and dynamic. It is also an important market in the Asian time zone. Hong Kong can be the conduit for Taiwan intermediaries looking to connect to the Mainland and to reach out to the international markets.

Apart from market practitioners, the regulatory institutions in Hong Kong and Taiwan should also build a solid platform for dialogue, co-operation and knowledge sharing. In fact, the SFC in Hong Kong and its counterpart in Taiwan had run an exchange and training programme some years ago. As Taiwan ushers in a new era, we hope that this programme would be re-activated as it would deepen understanding and co-operation between Taiwan and Hong Kong as we both set out to create a better and more attractive investment environment for investors in both markets.

Lastly, I would like to reiterate my excitement for the economic prospects of the new Cross-Strait relationship. We firmly believe that by combining the unique strengths of Mainland

(Translation)

China and Taiwan, and through Hong Kong's efforts in integration and liaison skills, the three markets would become a new economic force in the Asia region. I look forward to seeing more co-operation between the Mainland, Taiwan and Hong Kong, and a prosperous future on both sides of the Straits. Thank you.