

Legislative Council
Panel on Financial Affairs

**Issues relating to the Government's increased acquisition of shares in
the Hong Kong Exchanges and Clearing Limited in September 2007**

The increase in the Government's shareholding in the Hong Kong Exchanges and Clearing Limited (HKEx) is a strategic use of the Exchange Fund to enable the Government to contribute, over the longer term, to HKEx's development, particularly in the development of strategic partnerships and links with other institutions in the region, including pursuing initiatives under the Action Agenda proposed by the Focus Group on Financial Services under the Economic Summit on "China's Eleventh Five-Year Plan and the Development of Hong Kong" (the 11-5 Action Plan).

2. HKEx is an integral component of our essential financial infrastructure. Its future development plays a crucial role in promoting our financial system and is vital to the maintenance of our position as an international financial centre. The consolidation of this position is closely linked with the maintenance of confidence in our monetary system. Unlike other international financial centres such as New York, the size of our economy is small. Whether or not we can maintain our position as an international financial centre hinges on whether the various economies in the region and around the world are willing to continue using our financial services for financing purposes. Among the various economies, the Mainland economy is no doubt of the greatest importance. That is why we have formulated the 11-5 Action Plan to promote Hong Kong's development as an international financial centre and, in particular, encourage the establishment of links with the financial systems in the Mainland. As such, the 11-5 Action Plan is aimed at forging a cooperative, complementary and interactive relationship between the financial systems. The increased holding of HKEx shares by the Government provides it with another tool to achieve this aim in a proactive and flexible manner.

3. The decision to increase the Government's shareholding in HKEx was made by the Financial Secretary. The shares will be held as a long-term strategic investment rather than a short-term investment for making profits. The increase in the Government's shareholding in HKEx is not an intervention in the market, nor is it part of any wider scheme to acquire shareholdings by the Government. We do not comment on the possible future operations of the Exchange Fund in relation to a specific stock, and

the Government does not have any intention to acquire all the shares of HKEx.

4. The statutory requirement to disclose holdings of shares in listed companies is set out in Part XV of the Securities and Futures Ordinance (“the SFO”). In essence, disclosure is required when a shareholding reaches 5% of the total voting shares of the listed company and thereafter when the shareholding moves up or down through a whole percentage level in excess of 5% or falls below 5%. We will continue to follow the standard market practice.

5. Government is not bound by the provisions in the SFO. Although Part III of the SFO contains provisions that apply to a person who is a minority controller of HKEx (i.e. any person who holds more than 5% of the voting shares), the Government is not bound by those provisions. However, as a shareholder, the Government has the same rights and obligations set out under the Memorandum and Articles of Association of HKEx as any other shareholder of HKEx.

Financial Secretary's Office
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