PACIFIC PENSION INSTITUTE

Fifth Annual PPI Executive Seminar

Hong Kong & the Pearl River Delta Region Different Systems, One China

Featuring experts from government, finance, business, media, and the academy

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The Outlook for Hong Kong after 13 Years under *One Country, Two Systems*

Today's Hong Kong is a Special Administrative Region (SAR) of the People's Republic of China. Governed under *one country, two systems*, Hong Kong operates based on its own Basic Law and judicial independence while acknowledging Beijing's sovereignty. It has a highly developed capitalist system with the highest concentration of corporate headquarters in the entire Asia-Pacific region. It is a key center in Asia for international finance and trade. Its currency is tradable on global currency markets. Its tax system is straight-forward. Thirteen years after the transfer, what is Hong Kong's outlook, economically, politically, and culturally?

- Is Hong Kong still the swashbuckling bastion of free trade and entrepreneurialism that in the 1960s-1990s gave it entrée as one of the Four Tigers?
- What role is Hong Kong playing in Beijing's economic reform agenda? Is Beijing's vision consistent with that of Hong Kong's leadership?
- Are there implications for Taiwan, especially in light of the Economic Cooperation Framework Agreement (ECFA), the landmark economic pact signed by Beijing and Taipei earlier this year?

Financial Services – *Made in Hong Kong*

(This discussion will be coordinated with a visit to the Hong Kong Exchange)

Competition is fierce for the title of Asia's premier financial center, particularly between Hong Kong and Shanghai. Hong Kong has stepped up its activity and some say it is solidifying its place as a key center, if not the key financial center. It can succeed only if it avoids getting swallowed up by Shanghai interests. A recent study by the Brookings-Tsinghua Center for Public Policy in Beijing suggested that Shanghai will win out after a decade or so. However, the study's critics countered that Shanghai faces major obstacles. Currency trading is endemic in Hong Kong while currency controls remain in place on the Mainland. The Hong Kong Exchange is setting records for IPOs, including a growing number of non-Chinese listings, while the exchanges in Shanghai and Shenzhen are closed to foreign investors – even though Shanghai indexes are quoted internationally as a benchmark.

- Will Hong Kong be the winner? What will the competition do to the financial services landscape and how might that affect foreign institutional investors?
- Is Hong Kong, the site of the first yuan-trade settlement facility outside of Mainland China, on target to become the global financial center for RMB-denominated financial products and services?
- How does the Hong Kong Monetary Authority fit into this picture?

Tour and Discussions at the Hong Kong Exchange

The Hong Kong Exchange (HKEx) was established in 1891. Today, it is a major player globally and on a trajectory to become even more influential. In 2009, HKEx hosted more IPOs than any other exchange in the world, listing 73 companies and raising nearly US$83 billion in total funds across the year. The recent listing on the Hong Kong Exchange of megadeal Agricultural Bank of China may cast a very long shadow over the region's inevitable ups and down, but the policy bank's listing underscores the currently expanding interest in China deals as well as interest generally from investors looking for exposure to Chinese financial services. And the interest isn't solely in Mainland companies anymore. Case in point: earlier this year UC Rusal, a Russian company and the world's biggest aluminum producer, listed in Hong Kong, citing the depth and liquidity of its markets, stability, and the rule of law as major reasons.

- Who and what is driving the HKEx's success story?
- What is the outlook for 2011?

Alternatives, a Regional Variation on Two Themes: China – and Then the rest

2009 and 2010 have been difficult environments for fund-raising in almost all markets, but momentum in private equity in the region is running in China's favor both in terms of new investment and exits. While the name of the game so far has been dollar-denominated funds, a new kid on the block has emerged in the form of RMB-denominated funds. And with it has come increased competition for deals, fund-raising, and the investment talent necessary to make it all work. Where is the alternatives game headed?

- Are RMB funds the buzz but still too new on the scene to capture LP/institutional investors' interest?
- Why the interest anyway? Is the vital need for infrastructure a draw? Which other sectors invite attention? What's the outlook elsewhere in the region, including ASEAN?
- Are Western PE funds losing talent to Chinese PE managers? Is the competition for talent at an inflection point?

Real Estate in the Region: Are Developers Breaking Ground or Taking Cover?

With expectations still high for ongoing per capita growth in China, high net-worth Chinese are buying up real estate and driving up prices on the Mainland and places like Hong Kong, Australia, and Singapore. Meanwhile market watchers worry that a bubble is in the making both in Hong Kong and the Mainland. The Chinese government has subsequently put the brakes on Mainland lending and tightened banking requirements in an effort to prevent further inflation of the bubble. But is it enough? What about Hong Kong?

- If real estate prices are forward-looking, then what do today's prices say about risk prospects for the larger economy? Should we be worried?
- How are Hong Kong's top tier real estate developers responding to the outlook in Hong Kong, where per capita income growth expectations are much lower, versus the Mainland? What about commercial real estate?
- Where should institutional investors be placing their bets?

Tour and Discussions with the Bank of China (Hong Kong) **tentative**

A decade ago, the so-called 'Big Four' state-owned commercial banks were infamous for risky and unsustainable NPL ratios driven by policy-lending directives from provincial and national leaders. Today, the landscape for Chinese banks is changing rapidly under the influence of Beijing and the government's

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intention to expand the space outside of China for using the RMB. Today, China has four of the world's 10 largest banks by market capitalization and the sector looks poised to grow even further.

- What is the outlook for Hong Kong as the platform for internationalization of the RMB? What role will the Bank of China (Hong Kong) specifically play in the process?
- What does the competitive landscape look like across the Asia-Pacific banking sector post-global financial crisis?

Hong Kong, Shenzhen, and the Pearl River Delta

Hong Kong, Shenzhen, and the Greater Pearl River Delta region is an astonishing entrepreneurial and economic success story. Hong Kong originally helped finance Shenzhen's emergence as a global manufacturing powerhouse. After 30 years as a 'Special Economic Zone,' Shenzhen has become an epicenter for hardware, software cloud computing, environmental technology, and more recently a center for financial services. This includes the development of its own stock exchange. In 2009, the combined GDP of Hong Kong and Shenzhen in Guangdong Province was US$343 billion, equal to nearly eight percent of all China's economic output that year.

- How do these two cities fit into the genesis of the Greater Pearl River Delta Region and where is this project headed? How important is Macau with its tourism and entertainment focus?
- Can Hong Kong and Shenzhen position themselves to remain competitive regionally and globally?
- What should investors look for in the region as the global economy continues to struggle?

Site Visit to Shenzhen –

In addition to meetings and discussion in Hong Kong, the PES delegates will participate in a field trip to Shenzhen, where the delegation will visit two local companies on the very cutting edge of Chinese entrepreneurialism. This visit will offer insight and in-depth understanding of how Chinese firms are positioning themselves to compete both domestically and globally in the 21st century.

Tencent.com

Founded in 1998, Tencent has expanded to become one of China's largest and most used internet service portals. Today, it hosts Tencent QQ, the most popular instant messaging program in Mainland China with more than 80 million users, in addition to a vast array of social network services, online advertising, web portals, e-commerce, and massively multiplayer online games. It was publicly listed on the Hong Kong Exchange on June 16, 2004.

The delegation will visit a second firm, which is still to be determined.

The cost for the 2010 PES program is $2,500 per participant, which includes three nights of lodging, all food and beverage, and related ground transportation. Registration is limited to 15 delegates. Plan sponsor, endowment, and sovereign fund members receive priority in registration. If additional spaces are available, other registrations will be considered on a case-by-case basis

Please note: This is a draft agenda and is subject to change.