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AT TEN-YEAR ANNIVERSARY OF HANDOVER, BUOYANT HONG KONG HAS SETTLED INTO CHINA BECAUSE 'MONEY TALKS', ALLIANCE TRUST SAYS

Ten years after Hong Kong was handed over to China, the former colony is acknowledging the benefits of the tie-up for its economy and markets, says international investment group Alliance Trust. The special relationship should continue to enhance Hong Kong's fortunes, in sharp contrast to the widespread fear that led some to predict its demise as a financial centre after it linked up with China on 1 July 1997.

Tathagata Guha Roy, a Senior Portfolio Manager with AT Asset Management (Asia-Pacific), Alliance Trust's boutique asset management arm, said, *"Hong Kong has changed a lot during its first decade as part of China but these changes have largely been positive and have supported Hong Kong's economic growth. The economy has bounced back strongly from the last low point in 2003 and consumer spending is very encouraging. What's more, Hong Kong has not lost its privileged role as a proxy for investing in China. If anything, its role has grown in this regard."*

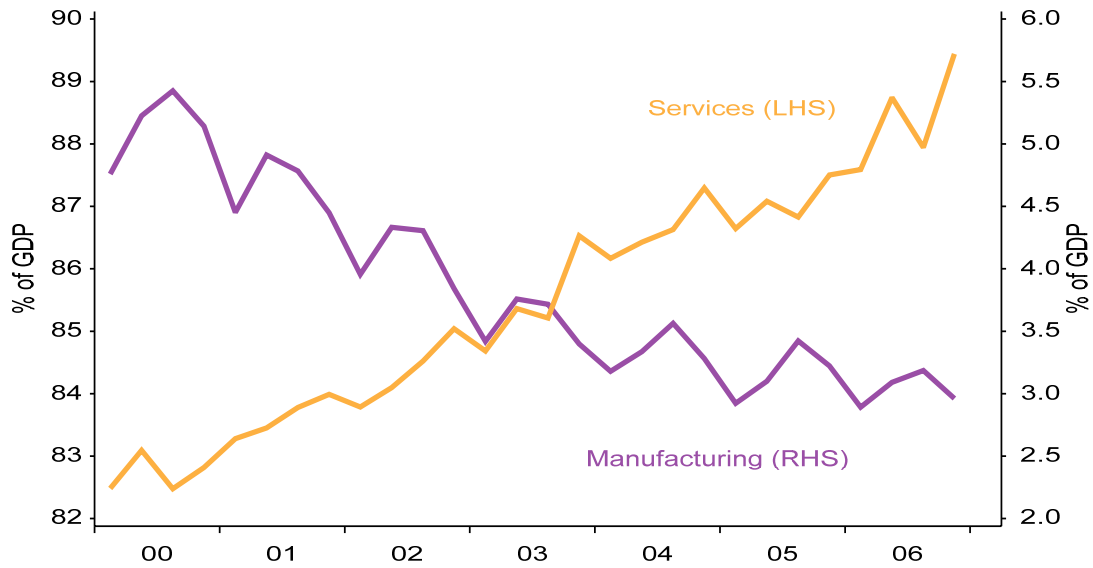
Guha Roy said, *"There's been a sea change in the attitude of business people in Hong Kong to the mainland Chinese. Remember that before the handover in 1997 wealthy people were moving out of Hong Kong buying Singaporean and Canadian properties and there was a lot of fear and suspicion of China. Things got worse before they got better but the turning point came in 2003."*

"Hong Kong is realising the tremendous benefits of economic ties with China because money talks. Retail sales have been strong because of two trends. The first is a bounceback from the low point in 2003 during the SARS outbreak that particularly boosted sales in 2004, and the other is the Chinese factor. Mainland tourist arrivals from China have gone up sharply since 2003 meaning that retailers are benefitting enormously from spending by visitors and that has spurred a change in attitudes."

A poll by the University of Hong Kong published in June found that over the last decade there has been a change in perceptions of national identity that imply a greater acceptance of China. Of the youngsters who were polled, 22% called themselves Chinese Hongkongers, up from 16% in a similar survey in 1996. Likewise, the number only calling themselves Hongkongers dropped from 34% to 29%.

One effect over the last ten years has been a hollowing out of the manufacturing sector as some factories have moved to the mainland, while the tourism and services sector's contribution to Hong Kong's economy have shot up. Services accounted for 89.4% of Hong Kong's economy at the end of last year, up from 82.5% at the start of 2000, while manufacturing's share slipped to 3%, from 4.8% over the six years.

Contribution to GDP (Services and manufacturing)

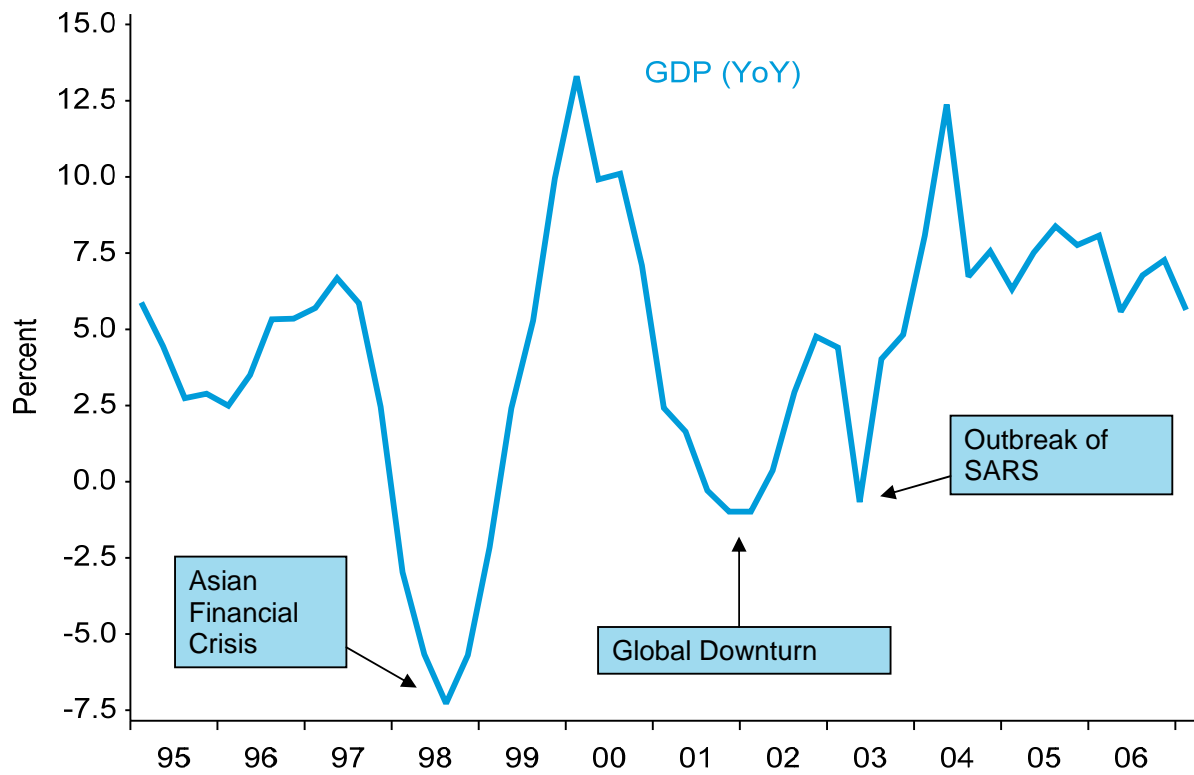


Source: Reuters EcoWin

Guha Roy said that worries about a loss of Hong Kong's status had not materialised either. Guha Roy said, "Hong Kong is still the international gateway to investing in China. There was a lot of fear that the Chinese government would push Shanghai very hard and supplant Hong Kong as the preferred stock market but that has not happened. Hong Kong is now even more of a proxy for China with a very high proportion of companies receiving revenue from the mainland."

He said, "Prospects for Hong Kong remain encouraging. Hong Kong is a large exporter so it could suffer if the US or regional economies slow but its domestic economy is enjoying a knock-on effect from the expansion of China, particularly with tourism and the recent easing of restrictions on mainland Chinese investors buying stocks directly on the Hong Kong market."

Hong Kong economic growth (year on year)



Source: Reuters EcoWin

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Notes to editors

1. Alliance Trust is an international investment and financial services group headed by Alliance Trust PLC, the largest generalist investment trust listed on the London Stock Exchange. A FTSE-250 company, it had around £3bn of assets at the end of May 2007.

2. AT Asset Management (Asia-Pacific) Limited is a boutique asset management company that is a wholly-owned subsidiary of Alliance Trust PLC and is registered and licensed in Hong Kong. It manages the portfolio of two open-ended OEICs, Premier Alliance Trust Asia-Pacific Equity Fund and Premier Alliance Trust Japan Equity Fund.

3. Photographs of Tathagata Guha Roy are available.