As there was no other business for the annual general meeting and extraordinary general meeting, Non-executive Directors left the venue. Mr. He Guangbei, Vice-chairman and Chief Executive of the Company (together with its subsidiaries, the “Group”), took the chair of the Q&A session. CE He together with another Executive Director and Deputy Chief Executive, Mr. Gao Yingxin and the Management, as authorized by the Board and Chairpersons of the Board’s Committees, answered the following questions raised by shareholders:

In reply to a shareholder’s query on the time for achieving full convertibility of RMB, CE He stated that the convertibility of a currency depends on its country’s economic strength and current developing status. China was having a better chance of exerting global influence because of its fast developing economy and being the second-largest economic entity in the world. As a result, the central government had approved the commencement of RMB trade settlement in Hong Kong and some other overseas regions, which was regarded as the first step towards internationalization or full convertibility of RMB.
CE He also pointed out that with the restrictions on fund flow of capital account, it would be difficult to achieve full convertibility of RMB, as those two were closely related. It was believed that the development of RMB trade settlement might lead to the emergence of other RMB related foreign exchange business and the easing of restrictions on fund flow of capital account. Although it was difficult to predict a time schedule for achieving full convertibility of RMB, he believed that along with the development of Chinese economy, the degree of RMB convertibility would keep increasing as a result of being more widely accepted in international market.

A shareholder questioned the sustainability of the growing trend of the profit, which was more than 20% increase in the first quarter, and enquired the growth of the Company’s core business.

CFO Zhuo replied that the Company was pursuing a sustainable and balanced growth which was primarily driven by the development of core business. He pointed out that the Company had maintained a steady growth in core business last year amid the challenging operating and interest rate environment. CFO Zhuo also stressed that the Company had taken advantage of the RMB business opportunities, which was evidenced by the remarkable growth in RMB interest income and exchange income. The future financial strength of the Company should be enhanced continuously through the growth of its core business, which was driven by momentums of business developments including broadening customer base, strengthening service capability and capturing new business opportunities.

Concerning the sustainability of the profit trend, CE He added that the management would strive to maintain the development of the Company so as to deliver decent returns to the shareholders.

A shareholder expressed his appreciation of the Company’s record-high results for the year 2010 and questioned whether the Company would increase its dividend payout ratio or issue stock dividends as HSBC did.

CE He replied that the Company’s dividend payout ratio had been maintained at the range from 60% to 70% since its listing. It was a sound dividend payout policy as it had struck the balance between shareholders’ expectation on dividend payout and the capital need for long-term development. Whether there was need for changing dividend policy or not should depend on the circumstances. The board of directors decided that the dividend payout ratio should remain unchanged so as to retain sufficient capital for the Company to proactively capture business opportunities, and pursue a balanced, high quality and sustainable development.
In reply to a shareholder’s queries on (i) the Company’s loss arising from the demise of Lehman Brothers minibonds and (ii) whether all matters related to the incident had been completely settled or not, CE He responded that the holders of minibonds had expressed their strong support to the final resolution for Lehman Brothers incident in the three minibonds holders’ meetings, as there were more than 99% votes in favour of the resolution. This agreement was also regarded as a reasonable resolution by the 16 distributing banks of the Lehman Brothers minibonds. He hoped that this could be a final resolution for this incident so that the society could put the past behind and move on. As regards the query on the loss incurred, CE He pointed out that the Group had recognized in aggregate a loss of approximately HK$4 billion through making provisions for the minibonds repurchased and it was estimated that the write-back would effectively reduce the loss recognized to approximately HK$1 billion.

CFO Zhuo referred to the Company’s announcement in relation to the final resolution proposal for the minibond incident in the first quarter this year, and stated that the amount could be written back by the Group was approximately HK$3 billion, which had not been booked. The account would be handled properly by the management in line with the progress of the final resolution for minibond incident.

CE He added that both of the two conditions in the relevant agreement had been satisfied, which had effected the claim on collaterals according to the terms of the agreement. The value of collaterals would be distributed to the relevant minibond holders in June unless any exceptional issue happened.

As regards a shareholder’s question on whether the Company was facing pressure of cost rising due to the fierce competition for talents and the implementation of Minimum Wage Ordinance (the “MWO”), CE He replied that the MWO had only limited effect to the Company as most of the staffs’ remunerations were higher than the statutory requirement. Although the cost to income ratio of the Company was currently at a relatively low level, the rising of the cost might still be an inevitable consequence of the inflation and keen market competition for talents. Therefore the management aimed to generate more income to offset the increased cost through expanding business so as to deliver a decent return to shareholders.

In response to a shareholder’s recommendation on providing souvenirs, to mark the Company’s forthcoming tenth anniversary of its listing next year, CE He stated that the Company had experienced an extraordinary decade in which it had many ups and downs. He believed that the management had proven to be capable of operating the
Company well through their practical actions. CE He also took the opportunity to express his heartfelt thanks to the shareholders for their continuous support and trust over the past decade, as well as their strong encouragements for the management during the most difficult time of the Company. He undertook to discuss with the management on the issue of shareholders’ souvenirs next year.

A Shareholder also expressed his appreciation of the Company’s record-high results last year and questioned the sustainability of the growing trend this year.

CE He replied that the record-high results obtained last year were greatly attributable to the diligence of the management and the supports of all shareholders. He pointed out that the Group’s financial performance for the first quarter had also recorded a sound growth compared to the same period last year. Although a prophecy on future profitability could not be provided, he expressed his understanding on the shareholders’ concern on the sustainability of the fast growing trend last year. He stressed that the management would try to do their best to pursue a new record-high result for the Company.

A shareholder commented that (i) some customers might need to travel across regions in Hong Kong to assess the currency exchange service as there were only a few branches providing this service; and (ii) the bank’s marketing for the wealth management services was plainer compared to last few years, due to the separated small areas in branches where customers might get confused. She recommended the Company to consider improving the two above issues.

DCE Yeung thanked the shareholder for her recommendations and concern on the bank’s business. He explained that due to the administrative and cost-related concerns, currently not every branch was providing currency exchange service. However, He stressed that the bank had been positioning itself as a “Community Bank” in Hong Kong which was committed to provide the most convenient services to customers. Therefore, to align with the Company’s ultimate goal of serving customers, DCE Yeung undertook to discuss with the management on the feasibility of providing currency exchange service in more branches while striking the balance between the benefits and costs incurred.

In respond to the shareholder’s recommendation on the bank’s wealth management services, DCE Yeung agreed that the bank had many achievements in the past few years, however, it had separated the investment and non-investment areas in branches to comply with the new regulations imposed by the regulatory bodies after the minibond incident. As the new layout might cause confusion to customers, DCE
Yeung undertook to discuss with the management on further adjustments to the layout of branches subsequent to the finalization of relevant regulations.

CE He added that as the shareholder expected the bank to launch plentiful wealth management products, the management should promote the innovation on financial products to cope with the market situation and to satisfy different customers’ needs while complying with new regulations imposed on the marketing of wealth management services.

A shareholder expressed her appreciation of the satisfactory upsurge in the share price of the Company last year and questioned whether share price would keep surging this year.

CE He replied that the share price was a reflection of the management’s competence but it was out of the management’s control. The management should win the trust of shareholders and the other investors through maintaining quality work with positive attitude. He hoped the management’s efforts would lead to good results, which could be reflected in the share price so as to bring higher return to the shareholders.

A shareholder, who introduced himself as a retired senior staff of a Chinese corporation, expressed his heartfelt thanks and praise to the management of the Group especially to CE He. He commented that the answers given by CE He in this Q&A session were very proper and satisfactory. He believed that the upsurge of share price of the Company was the shareholders’ recognition of the management’s efforts and achievements. He also reminded the management to adopt a prudent development strategy due to their responsibilities to the elderly shareholders in Hong Kong, who might face livelihood problems and only had little risk tolerance. He also told the management that he had spent half of his savings on the shares of the Company and really trusted the management would be wholeheartedly in serving its shareholders.

A shareholder stated that he was told the seats were full and kept waiting outside the venue. He wondered why he could not enter the venue until some other shareholders had left their seats. He also expressed his appreciation of the Company’s consideration for rewarding long term shareholders in its forthcoming tenth anniversary of listing.

Secretary Chan explained that due to fire safety concerns and the limitation of seats, shareholders had to enter the venue in an orderly queue. Although they were asked to stop entering the venue once the seats were full, the staff had arranged for the vacant seats to be taken immediately by new arrivals after some shareholders had left. He
also undertook to improve the shareholders’ seating arrangement in the coming year.

In respond to the same shareholder’s question on whether the management would reward the ones who held the Company’s share for ten years since its listing, CE He thanked the shareholder for his continuous support to the Company. In view of the business performance of the Company for the past decade, he believed that the Company had given a reasonable return to its shareholders in terms of the increase in share price and dividend distributions.

A shareholder, who was also a customer of the bank, stated that a staff told her that after she failed to deposit her money through a cheque deposit machine, the customer queuing up behind her had mistakenly deposited money to her account after she left the machine without pressing the cancel button. She felt confused about the operation of the bank’s cheque deposit machine and questioned whether the deposit in her bank account could be easily transferred in or out without her consent. Although a branch manager had helped her to report this case to the bank’s complaint center, she hadn’t received any explanation so far, therefore, she sought the management’s help in obtaining a reply on this issue.

In respond to her question, CE He affirmed that deposit in customers’ bank accounts could never be transferred freely without proper authorization. He thanked for her kindness in bringing out this issue for improving the bank’s customer service. And it was the bank’s responsibility to correct mistakes if there were any. DCE Yeung would undertake to look into her case and provide her with a comprehensive explanation.

In reply to the same shareholder’s request on resuming some of investment channels to elderly investors, including the Equity Linked Notes and Currency Linked Notes, which was stopped after the minibond incident, CE He said that the bank would play an active role in providing more products to the elderly investors and ensure the compliance of the relevant regulations.

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