HSBC The world's local bank

Analyst Roadshow to Asia-Pacific

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China has been

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Growth drivers in Greater China

growing at a rate of 8 per cent to 10 per cent for many years. As far as the current situation is concerned with Taiwan, the political situation between Taiwan and China has improved dramatically after the election in Taiwan. So therefore we expect a lot of investment from Taiwan into China. Also we expect a lot of tourism from China into Taiwan.

And we think about, Hong Kong has about 20m tourists from China on an annual basis. If China has, let's say, 40m tourists going to Taiwan on an annual basis, and each of them spending about $2,500, you're talking about $100b into the Taiwan market. And that's a huge positive impact to the economy.

As far as Hong Kong is concerned, I think Hong Kong will remain international financial centre, and it's the bridge for China to the international market. It's critical for China. But because of all the growth, there's inflationary pressure, both in Taiwan and in Hong Kong. And this is something that we need to deal with.

Financial performance

For Hong Kong and Mainland China as well as Taiwan, we had phenomenal results in 2007. For China our profits are up by 81 per cent to reach $1.28b. For Hong Kong, our profits are up by 42 per cent to reach $7.34b. Taiwan, our profits are up by 635 per cent, and the reason for our surge in the Taiwan profits is because last year we had an issue in terms of credit card repayment due to the regulation change.

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Greater China strategy

think the important thing for China is to look at China's strategy in terms of four layers. First of all, we need to look at the onshore business on organic growth as well as our partnership with our strategic associates. Secondly, we need to look at China how it relates to Hong Kong and with Taiwan. The third layer is how China relates with rest of Asia-Pacific. And the fourth layer is how China relates with the rest of the world.

A lot of the managers in China today they come up from a background of the Cultural Revolution. So their mindset is not up to international standard. But they want to go overseas into the national arena. This is where HSBC can help them. We have an international footprint. We have the capability. And we can be a complement to what they want to do.

I think as China continues to grow, what will happen is China is buying a lot of merchandise from the rest of Asia-Pacific. China is running a deficit against the Asia-Pacific countries. Therefore Asia-Pacific countries are going to get more wealthy and therefore it will generate interregional trade, investment flows, and our presence in Asia-Pacific is well positioned to take advantage of those opportunities.

Managing regulations

As far as China is concerned, there is restriction on how many branches that we can open. So we will open as many as possible, as many as regulation allows. Last year we opened 27. This year we hope to have at least the same amount. But this year we also opened Rural Bank. We're the first foreign bank to open a Rural Bank in China. And we will open one more in Chongqing in the second quarter, and then two more probably before the end of the year. As far as Taiwan is concerned, we were fortunate to acquire the Chinese Bank in Taiwan which brings the number of branches from eight to 44 in 2008. I think this is going to be a tremendous advantage to us. This is a timely acquisition as the political situation between China and Taiwan improves.

As far as Hong Kong is concerned, I think that we have leading market shares in all products as well as customers. We have a very, very strong network in

Hong Kong.

Now what we're going to do in the future is to continue to try to open as many branches as possible in China and then link up China, Taiwan and Hong Kong and also link up with Greater China initiative with the rest of Asia-Pacific and the world. Competitive advantage

HSBC Bank has a very, very strong brand presence in Asia, especially also in China as well as in Hong Kong. In China we have the strongest brand among the foreign players. In Hong Kong we have leading market shares and we are very strong in Hong Kong also. In Taiwan we are also very strong. So therefore, on the whole, we are very strong in Greater China. And this is our strength.

And especially in China, because of our brand, we have lots of deposits from our customers. And our customers, after our local incorporation last year, have increased by 50 per cent. So as far as we are concerned, the brand is our strength, and then followed by our Asian footprint, as well international footprint. We have a distinct, a competitive edge against our rivals.

I think as far as the local players are concerned, the distribution network is far, far bigger than ours. However, we have a totally different target market. We are approaching the premier target market. And we have superior capability in terms of our product set and our service and our international footprint, which they don't have.

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