

Written statement of CHUNG Kit-chu

General Information

1. As stated in the form submitted by you in response to the Subcommittee's invitation for volunteers:

- (a) You had purchased Constellation Notes Series 81 from DBS Bank (Hong Kong) Limited (DBSHK).
- (b) Before you purchased the above product, you had not bought any credit-linked notes and any equity-linked notes and you had used the proceeds of your matured time deposits with DBSHK to pay for the purchase of the above product ; and
- (c) You are not in litigation with DBSHK in relation to the purchase of the above product.

Please confirm that (a), (b) and (c) above are true.

1.1 (a) is true

1.2 (b) Before I purchased the above product, I had not bought any credit-linked notes but had equity-linked notes with HSBC two times. I used part of the matured time deposits with DBSHK to pay for the purchase of the above product.

1.3 (c) is true

2. How long have you been a customer of DBSHK? Prior to the purchase of Constellation Notes Series 81, what were the main types of transactions that you had with the bank?

2.1 Since April 2006, I had been a customer of DBSHK. Prior to the purchase of Constellation Notes Series 81, I made the fixed deposit with the bank all the way down.

3. Are you a complainant or a witness in any criminal legal proceedings against any staff of DBSHK engaged in the sale of LB-related products?

3.1 I was a complaint in the proceeding of Police Department (Commerce Investigation Section) against the Sales Staff of DBSHK who introduced me to buy the product.

4. Since 15 September 2008, had you been or are you being assisted by any member of the Subcommittee in connection with pursuing your claims and/or complaints in respect of your purchase of Constellation Notes Series 81? If yes, please provide the name(s) of the member(s). (A list of the members of the Subcommittee is in Appendix I.)

4.1 Yes, since 15 September 2008, I had been assisted by Mr. KAM Nai-wai, MH and Mrs Regina IP LAU Suk-yee in connection with pursuing my claims and/or complaints in respect of my purchase of Constellation Notes Series 81. .

Main considerations for subscribing for the Lehman Brothers (LB)-related product

5. Before you subscribed for Constellation Notes Series 81, had you heard about LB-related products? If yes, from what source and under what circumstances were you first introduced to LB-related products?

5.1 Before I subscribed for Constellation Notes Series 81, I had never heard about LB-related products. I only heard about LB-related products when the Sales Staff of DBSHK made introduction to me of the product.

6. Were you introduced to Constellation Notes Series 81 by the staff at the bank? If yes, please describe how you were approached and introduced to the product. If you knew Constellation Notes Series 81 through other sources, please explain.

6.1 I was introduced to constellation Notes Series 81 by the Sales Staff of DBSHK. At the date of 10 July 2007, my fixed deposit was matured and I attended TST East Branch for extending the deposit. During the course, the Sales Staff of DBSHK introduced Constellation Notes Series 81 to me. At that time, the interest rate of fixed deposit was 3.95% whereas Constellation Notes Series 81 could offer 5.7% in the first 4 years and 7.2% in last year.

7. What objective did you have in mind when subscribing for Constellation Notes Series 81?

7.1 I objected to have a higher interest rate in five years when subscribing for Constellation Notes Series 81.

8. When your time deposits matured and the staff of the bank contacted you for further instructions, did he/she mention anything other than concerning the renewal of fixed deposit? If yes, what information did he/she provide to you? Alternatively, had you ever enquired on your own accord whether there were other investment options with better return than time deposits?

8.1 When my time deposit was matured on 10 July 2007, I made extension of the time deposit and enquired what the contemporary interest rate was. The Sales Staff of DBSHK introduced me that if I wanted a higher interest rate where the money was not to be used in short time, Constellation Series 81 would be the option as it was safe as time deposit.

8A. Why did you decide to use the proceeds of the matured time deposits to purchase Constellation Notes Series 81? Did you use all or part of such proceeds to purchase the product?

8A.1 I decided to use part of the matured time deposits to purchase Constellation Notes Series 81 because the money I bought for Constellation Series 81 was only HK\$120,000.00 which was single digit percentage of my time deposit amount and that amount should not be used for the coming 5 years.

Suitability assessment

9. When you subscribed for Constellation Notes Series 81, did you have a valid risk profiling assessment? If yes, when was that done? Was any risk profiling conducted with you in respect of your subscription for Constellation Notes Series 81?

9.1 When I subscribed for Constellation Notes Series 81, I had a risk profiling assessment. It was done at the same course of my extension of the time deposit. It was my lunch time of the date. Since the purchase of Constellation Series 81 needed to have an Investment Account, so I also needed to go through that processing.

10. Please describe how your risk profiling assessment was conducted. Please give the post title of the bank staff (not the name of the bank staff) who did the assessment with you. Did you sign the relevant questionnaire or there were other arrangements? Were you given a copy of the completed questionnaire? Did the sales staff inform you of, and explain to you the meaning of, your score/result obtained from the risk assessment?

10.1 The post title of the Sales Staff was Treasures Relationship Manager of DBSHK (TST East Branch). The Treasures Relationship Manager did the assessment with me. The result of the assessment was Balanced Type who was classified as 3. Besides from the assessment, he also asked me to fill in the Subscription Form. After filling the Subscription Form and making the Risk Assessment Form, I asked him to give me a copy of both.

(Note: The copy of the subscription form which I received from the sales staff on 10.7.2007 (namely 'my copy') was attached in Appendix I.

The copy of the Risk Assessment Form which I received from the sales staff on 10.7.2007 was attached in Appendix II.

The copy of the Subscription Form which I was given by HKMA in the interview meeting (namely 'bank's copy') was attached in Appendix III.

The difference between two copies of the Subscription Forms was found that there were no ticks on the Risk Declaration of 'my copy' whereas there were ticks on that of the 'bank's copy'. That was the proof of my complaint to the sales staff that he did not declare to me that the product might not be capital secured.)

11. Did your risk tolerance level match the risk level of Constellation Notes Series 81? If not, why didn't you consider not subscribing for the product? Were you required to complete any additional procedure or sign additional documents before the transaction could be put through because of the risk mismatch? If yes, please describe these additional steps and additional documents signed. How did the bank staff explain the risk mismatch to you?

11.1 Yes.

The selling process in respect of Constellation Notes Series 81

12. Did you complete your subscription for Constellation Notes Series 81 personally at a branch of the bank?

12.1 Yes

- (a) If yes, did the bank staff introduce and explain the product to you immediately before your subscription? How many times did you discuss with the sales staff about the subscription for the product before you decided to subscribe? What were the main contents of such discussion?

(a).1 The bank staff introduced and explained the product to me immediately before my subscription. This was the only time which I discussed with the sales staff about the subscription for the product before I decided to subscribe. The bank staff emphasised that Constellation Series 81 was safe as time deposit and they had sold that for long time.

- (b) If no, where did you complete the subscription? Why did you not visit a branch of the bank to complete the subscription? How did the introduction and explanation of Constellation Notes Series 81 take place?

(b).1 Not applicable

13. (a) Please specify whether any of the following offer documents was/were provided to you by the bank:

- (i) programme prospectus/programme memorandum
- (ii) issue prospectus
- (iii) marketing leaflets/flyers

(a).1 Only the marketing leaflet was provided to me before my subscription

- (b) Were the documents in (a) above provided to you or in response to your request?

(b).1 The marketing leaflet was provided to me at the initiative of the bank staff.

- (c) How were the documents in (a) provided to you? (e.g. by hand,

by fax, by email, etc.)

(c).1 The document in (a).1 was provided to me by hand.

(d) When were the documents in (a) provided to you? Were they provided to you before or after the transaction?

(d).1 The documents in (a).1 i.e. leaflet, was provided to me and issue prospectus was provided to me after the transaction.

(e) Did the sales staff go through the documents in (a) with you and/or advise you to read the contents of the documents?

(e).1 The sales staff only highlighted the interest return of the 5 years term which was shown on the leaflet.

(f) Did you read and understand the documents in (a)? Where you had questions, did you approach the bank staff or seek independent advice?

(f).1 I did not read and understand the documents in (a).

(g) Were you aware of the existence of any of these documents? If yes, why did you not ask for those documents to be provided or explained to you?

(g).1 No.

14. Did the sales staff inform you of the risk rating of the product? What was the risk rating of Constellation Notes Series 81 as informed by the sales staff?

14.1 The sales staff informed me of the risk rating of the product. The risk rating of Constellation Notes Series 81 was 2 as informed by the sales staff and as shown on the Subscription Form.

15. What enquiries did you make with the sales staff about Constellation Notes Series 81 during the sales process? Did the sales staff answer all your enquiries to your satisfaction? If no, what follow-up action,

if any, had been taken by the bank staff or by you to obtain the answers?

15.1 Not much enquiries I made with the sales staff about Constellation Notes Series 81 during the sales process. I only requested to have the copies of the risk assessment and subscription form.

16. After the explanation by the sales staff and when you decided to subscribe for Constellation Notes Series 81, please describe your understanding of Constellation Notes Series 81. (e.g. what was its nature? What was its investment return? What were the chances of suffering loss? How could you seek early redemption of the product before maturity?)

(a) According to your understanding, what types of risks were associated with Constellation Notes Series 81?

(a).1 The price could be fluctuated but as long as I waited until it matured in five years, I would obtain the interest and redeemed the capital..

(b) What was the worst scenario that might possibly occur with your investment?

(b).1 If the price dropped down, I had to wait until it matured.

(c) Was it clear to you that you could lose all the money that you would invest in the product? If yes, why did you still decide to subscribe for the product?

(c).1 It was not clear to me that I could lose all the money that I invested in the product. As emphasised by the sales staff that as long as I waited until the product matured, the money would be redeemed.

17. After the sales staff had explained the features and risks of Constellation Notes Series 81 to you, did you feel that the sales staff understood the product very well, or that he/she was just reading out what was stated in the offer documents?

17.1 After the sales staff had explained the features and risks of Constellation Notes Series 81 to me, I felt that the sales staff should understand the product,

- (a) Did the explanation by the sales staff enhance your confidence in Constellation Notes Series 81 or make you re-consider seriously about the risks involved? Why?

(a).1 As the sales staff had been the bank staff who handled my fixed deposit since year 2006 and I did not consider the product's risk too much, therefore the sales staff's explanation to me was good enough to give me confidence to subscribe the product.

- (b) Did you have difficulties in understanding Constellation Notes Series 81? If yes, which aspects of the product did you find difficult to understand? What actions had you taken to overcome the difficulty?

(b).1 I did not have too much difficulties in understanding Constellation Notes Series 81 as I did not think too much on the product.

17A. At the time of subscription, were you informed by the sales staff that Constellation Notes Series 81 was sold to you by private placement? If yes, what did you understand about the difference between a product sold by private placement and one sold by public offer?

17A.1 At the time of subscription, I was not informed by the sales staff that Constellation Notes Series 81 was sold to you by private placement.

18. To the best of your recollection, how much time in total did the sales staff spend on explaining the product features and risks of Constellation Notes Series 81 to you? (If the explanation was done in more than one meeting, please give the approximate duration of each meeting.)

18.1 The sales staff completed the whole processing of my fixed time

deposit, open investment account, risk assessment and enrolment form within one hour of lunch time. As shown on my risk assessment form, the time was 14:09:55 which had gone beyond my lunch time. So to the best of my recollection, the sales staff spent less than half an hour on explaining the product features and risks of Constellation Notes Series 81 to me.

19. Approximately how many meetings/telephone calls were arranged/made between you and the sales staff before you committed to subscribe for Constellation Notes Series 81?

19.1 Only that one meeting was made between I and the sales staff before I committed to subscribe for Constellation Notes Series 81.

Worsening financial position of Lehman Brothers Holdings, Inc.

20. After you had purchased Constellation Notes Series 81, had you at any point of time considered selling the said product prior to the maturity date? If yes, what were the reasons for your early disposition? Was early redemption effected? If yes, what was the redemption price?

20.1 After I had purchased Constellation Notes Series 81, at the time of about November /December 2007, I noticed that the price dropping by 23.78% from the statement of 7.11.2007. I called the sales staff and he returned call to me in one evening and told me that 貝爾斯登 was downgraded, which was one of the related entities. He once more comforted me that I could wait until it matured as long as I had no urgencies to redeem

21. Were you aware of the downgrading of the credit ratings of LB Holdings Inc. by credit-rating agencies from June 2008?

21.1 No, I was not aware of the downgrading of the credit ratings of LB Holdings Inc. by credit-rating agencies from June 2008.

(a) If yes, from which sources did you learn about the information?

(a).1 Not applicable.

(b) Did you enquire with the bank about the impact of the downgrading of the credit ratings of LB Holdings Inc. on your investment in Constellation Notes Series 81? If yes, what was the response of the sales staff?

(b).1 I did not enquire with the bank about the impact of the downgrading of the credit ratings of LB Holdings Inc. on my investment in Constellation Notes Series 81.

(c) After the downgrading of the credit ratings of LB Holdings Inc., did you at any point of time consider selling the said product prior to the maturity date? If yes, did you take any action to dispose of the product and what was the outcome?

(c).1 After the downgrading of the credit ratings of LB Holdings Inc., I did not consider selling the said product prior to the maturity date before I did not know it.

Complaint and case settlement

22. Did you lodge a complaint with the bank in respect of the purchase of Constellation Notes Series 81?

22.1 Yes, many times.

(a) If yes, when did you lodge the complaint? When did you first know about the progress of complaint investigation?

(a).1 I lodged the complaint when I learnt from the public talks, which were organised by the political parties, that we had right to make complaint to the bank.

(b) What actions did the bank take to deal with your complaint? Had you been contacted and kept informed of the progress of investigation? What difficulties, if any, did you encounter in

connection with the lodging of your complaint with the bank?

(b).1 The bank kept on sending me the rejected letters but there were two investigation meetings being held between me and the bank. The difficulties that I encountered in connection with the lodging of my complaint with the bank were the bank kept on sending me the rejected letters.

(c) What was the outcome of your complaint?

(c).1 My complaint was settled because Hong Kong Monetary Authority (HKMA) took the Discipline Action against the sales staff and I was also benefited from the 14.7.2010 Resolution Scheme.

23. Did you lodge a complaint with the Securities and Futures Commission (SFC) and/or Hong Kong Monetary Authority (HKMA) in respect of the purchase of Constellation Notes Series 81?

23.1 Yes, I lodged complaints with the Securities and Futures Commission (SFC) and/or Hong Kong Monetary Authority (HKMA) in respect of the purchase of Constellation Notes Series 81.

(a) If yes, when did you lodge the complaint? When did you first know about the progress of complaint investigation?

(a).1 I lodged the complaint when I learnt from the public talks which were organised by the political parties. I first knew about the progress of complaint investigation when I received the acknowledgment letters and bank-self-investigation result from the bank and HKMA.

(b) What actions did SFC and/or HKMA take to deal with your complaint? Had you been contacted and kept informed of the progress of investigation? What difficulties, if any, did you encounter in connection with the lodging of your complaint with the two regulators?

(b).1 SFC and/or HKMA replied to my complaints. I had been contacted and kept informed of the progress of investigation. I had investigation meetings with HKMA but there was nothing from SFC

except the standard reply letters.

(c) What was the outcome of your complaint?

(c).1 I got my money back.

24. If you had settled your case with the bank, when was the settlement reached? Was your complaint settled in full or only partially? (e.g. as a percentage of the original investment)

24.1 I was settled the case with the bank after I received the notification letter from HKMA with the press release of their finding of the sales staff and the bank's notification letter of the Resolution Scheme.

(note: The notification letter dated 14.5.2010 from HKMA with the press release was attached under the Appendix IV)

25. Was your case settled:

(a) under the resolution announced on 14 July 2010 by SFC and HKMA in relation to DSBHK's distribution of LB-related Constellation Notes;

(b) through direct negotiation with the bank; or

(c) after mediation or arbitration?

24.1 My case was settled:

(a) under the resolution announced on 14 July 2010 by SFC and HKMA in relation to DSBHK's distribution of LB-related Constellation Notes

Signature: (signed)

Name: CHUNG Kit-chu

Date: 28.2.2011