

HSBC



# HSBC Holdings plc

*Annual Report and Accounts 1992*

**HSBC Holdings plc**

*Incorporated in England with limited liability  
Registered in England number 617987*

**Registered Office and Group Head Office**

10 Lower Thames Street  
London EC3R 6AE  
United Kingdom

**Registrars**

*Principal Registrar*  
National Westminster Bank PLC  
Registrar's Department  
PO Box 82, Caxton House  
Redcliffe Way  
Bristol BS99 7NH  
United Kingdom

*Hong Kong Overseas Branch Registrar*

Central Registration Hong Kong Limited  
9th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Stockbrokers**

Cazenove & Co  
12 Tokenhouse Yard  
London EC2R 7AN  
United Kingdom

**James Capel & Co. Limited**

James Exchange  
10 Queen Street Place  
London EC4R 1BL  
United Kingdom

## Financial Highlights

1991		1992	1992	1992
£m	For the year	£m	HK\$m	US\$m
789*	Group profit before exceptional items and taxation	1,440	16,889	2,182
91*	Exceptional items	270	3,167	409
880*	Group profit before tax	1,710	20,056	2,591
586*	Profit attributable to the shareholders	1,221	14,321	1,850
207	Dividends	472	5,536	715
<b>At year-end</b>				
4,819*	Shareholders' funds	8,011	93,952	12,138
6,789*	Capital resources	13,975	163,898	21,173
76,089*	Current, deposit and other accounts	151,801	1,780,322	229,978
85,786	Assets	170,450	1,999,037	258,232
<b>Per share</b>				
Pence		Pence	HK\$	US\$
36.06*	Earnings	62.07	7.28	0.94
12.71	Dividends	19.00	2.23 <sup>†</sup>	0.29
295.62*	Net asset value	319.55	37.48	4.84
<b>Ordinary shares in issue at year-end</b>				
1,630,148,782	HK\$10	1,691,030,535		
—	75p	815,917,578		

\* Comparative figures for 1991 have been amended to conform with the current year's presentation following the disclosure of the Group's inner reserves in 1992.

† The dividends per share are translated at the year-end rate. Shareholders who receive Hong Kong dollar dividends received an interim dividend of HK58.2 cents and at the exchange rate on 12 March 1993 would receive a final dividend of HK157.8 cents, totalling HK\$2.16 per share.

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## The HSBC Group

Headquartered in London, the HSBC Group is an international banking and financial services organisation with major commercial and investment banking businesses operating under long-established names in the Asia-Pacific region, the Middle East, Europe and the Americas. The Group — whose name is derived from one of its principal member companies, The Hongkong and Shanghai Banking Corporation Limited — grew substantially in 1992 with the acquisition of Midland Bank plc, one of the major banks in the United Kingdom. The Group's holding company, HSBC Holdings plc, has a dual primary listing on the London and Hong Kong stock exchanges, and its shares are held by more than 170,000 shareholders in over 80 countries. In the United States, HSBC Holdings plc has a sponsored American Depositary Receipt programme.

One of the largest and most strongly capitalised banking organisations in the world, the HSBC Group has over 3,000 offices in 66 countries, linked by advanced technology. Through this extensive network, which includes some 600 offices in Asia, it provides a comprehensive range of financial services: retail and corporate banking, trade services, private banking, investment banking, treasury and capital markets services, consumer and business finance, pension and investment fund management, trustee services, securities and custody services, and insurance.

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**Board of Directors**

**Sir William Purves, CBE, DSO Group Chairman**  
Age 61. Joined HongkongBank in 1954; an executive Director since 1982 and Chairman and Group Chief Executive Officer from 1986 to 1992. Chairman of The British Bank of the Middle East and a Director of HongkongBank, Marine Midland Banks, Inc. and Midland Bank plc.

\***Baroness Dunn, DBE Deputy Chairman**  
Age 53. A Director of John Swire & Sons (H.K.) Limited, Cathay Pacific Airways Limited, Swire Pacific Limited, AB Volvo and Hong Kong Seibu Enterprise Co., Limited. A non-executive Director of HongkongBank since 1981 and Deputy Chairman since 1992. Appointed non-executive Deputy Chairman in 1992.

\***Sir Peter Walters Deputy Chairman**  
Age 62. Chairman of Midland Bank plc. Deputy Chairman of Thorn EMI; non-executive Chairman of Blue Circle Industries plc and a Director of SmithKline Beecham plc. Appointed a non-executive Director in 1992 and non-executive Deputy Chairman in January 1993.

**B H Asher**  
Age 57. Executive Director Investment Banking. Executive Chairman of James Capel & Co. Limited and Chairman of Wardley Holdings Limited. A Director of HongkongBank from 1989 to 1992.

**J R H Bond**  
Age 51. Group Chief Executive Officer. Joined HongkongBank in 1961; an executive Director since 1988. President and Chief Executive Officer of Marine Midland Banks, Inc. from 1991 to 1992. Chairman of Hongkong Bank of Canada and a Director of HongkongBank, Midland Bank plc and Hang Seng Bank Limited.

\***D E Connolly, OBE**  
Age 61. Chartered Accountant. A Director of Kowloon-Canton Railway Corporation. A non-executive Director of HongkongBank since 1985.

**R Delbridge**  
Age 50. Group Finance Director. Appointed an executive Director in January 1993. A Director of Midland Bank plc since 1989.

**J M Gray**  
Age 58. Chairman of HongkongBank. Joined HongkongBank in 1952; appointed Executive Director Finance in 1986, Deputy Chairman in 1990, Chief Executive Officer in 1992 and Chairman in January 1993. A Director of The British Bank of the Middle East, Hang Seng Bank Limited, Swire Pacific Limited and Wardley Holdings Limited. Chairman of the Hong Kong Port Development Board and a member of the Provisional Airport Authority.

\***J E Hotung**  
Age 62. A Director of China & Eastern Investment Company Limited and Hongkong Electric Holdings Limited. Appointed a non-executive Director of the Company and HongkongBank in 1991.

**N R Knox**  
Age 64. Chairman of Marine Midland Banks, Inc. and a Director of Hongkong Bank of Canada. A non-executive Director of HongkongBank from 1988 to 1992.

\***H C Lee**  
Age 64. Chairman and Managing Director of Hysan Development Company Limited. A Director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, Sime Darby Hong Kong Limited, The Hong Kong and China Gas Company Limited and Ryoden Property Development Co. Limited. A non-executive Director of HongkongBank since 1989.

\***D P H Liao, CBE**  
Age 63. Architect. Former Chairman of the Hong Kong Housing Authority, Secretary for District Administration, and Secretary for Home Affairs. A Director of CNT Group Limited, Kumagai Gumi (H.K.) Limited, The Morgan Crucible Company plc and Shun Hing Electronic Trading Co., Limited. A member of the Council of The Stock Exchange of Hong Kong Limited. A non-executive Director of HongkongBank since 1990.

\***C D Mackay**  
Age 52. Chief Executive of Inchcape plc. A non-executive Director of Midland Bank plc since 1992 and a non-executive Director of HongkongBank from 1986 to 1992.

\***G Maitland Smith**  
Age 60. Chairman of Sears plc. Non-executive Deputy Chairman of Midland Bank plc and a non-executive Director of Hammerson Property Investment and Development Corporation plc. Appointed a non-executive Director in January 1993.

\***Sir Colin Marshall**  
Age 59. Chairman of British Airways Plc. A non-executive Director of Midland Bank plc since 1989; a Director of USAir Group Inc., Grand Metropolitan Plc and IBM United Kingdom Holdings Limited. Appointed a non-executive Director in January 1993.

\***M Murofushi**  
Age 61. President and Chief Executive Officer of ITOCHU Corporation. Chairman of the International Affairs Committee of the Tokyo Chamber of Commerce and Industry; Vice Chairman of the Japan Foreign Trade Council and the American Committee of the Kezai Doyukai. Appointed a non-executive Director in 1992.

\***Sir Wilfrid Newton, CBE**  
Age 64. Chairman of London Regional Transport. A non-executive Director of Sketchley plc and Metropower Limited. Former Chairman of Mass Transit Railway Corporation and a non-executive Director of HongkongBank from 1986 to 1992. A Director of Midland Bank plc since 1992.

**B G Pearse**  
Age 59. Chief Executive of Midland Bank plc since 1991. Chairman of Forward Trust Group Limited and Young Enterprise. Appointed a Director in 1992.

\***H Sohmen, OBE**  
Age 53. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited, World Finance International Limited; Deputy Chairman of The Wharf (Holdings) Limited, World International (Holdings) Limited; and a Director of Harbour Centre Development Limited. A non-executive Director of HongkongBank since 1984.

**J E Strickland**  
Age 53. Executive Director Services. Joined HongkongBank in 1971 (previous service 1966-69); appointed an executive Director in 1989. Chairman of Wayfoong Property Limited and a Director of Marine Midland Banks, Inc. and Midland Bank plc.

\* Independent non-executive Directors

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**Advisers to the Board**

**F R Frame**  
Former Deputy Chairman of HongkongBank. Chairman of Wallem Group Ltd and a non-executive Director of Baxter International Inc.

**Sir Quo-Wei Lee, CBE**  
Chairman of Hang Seng Bank Limited and Deputy Chairman of Hysan Development Company Limited. A Director of Furama Hotel Enterprises Limited, Miramar Hotel and Investment Company Limited, New World Development Company Limited and Shaw Brothers (Hong Kong) Limited. A non-executive Director of HongkongBank from 1978 to 1984.

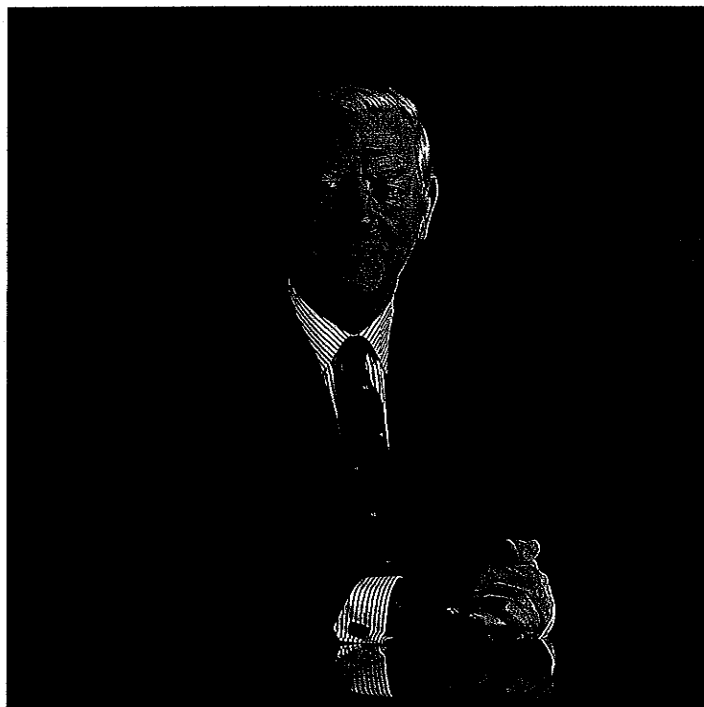
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**Secretary**

**R G Barber**

Against a background of economic stagnation in Europe and the United States but strong growth in Asia, the HSBC Group's performance continued to improve in 1992. Profit attributable to shareholders was £1,221 million (HK\$14,321 million), an increase of 108 per cent over 1991. To some extent the results reflect the fall in the value of sterling. In Hong Kong dollar terms, the increase was 68 per cent. These results are considered satisfactory.

The acquisition of Midland, achieved in July, means that 45.8 per cent of the Group's assets are now in Europe, principally in the United Kingdom. On the other hand, operating profits before bad debts for the Asia-Pacific region — which accounts for 36.9 per cent of the Group's assets — rose by just over 50.8 per cent in sterling terms last year and were nearly 59 per cent of the Group's operating profits before bad debts. A special factor in the results was the exceptional profit of £270 million realised from the sale of our stake in Cathay Pacific Airways. Midland's contribution to Group attributable profit, for the six months in which it was a subsidiary, was £184 million. There were improved results from most major members of the Group, and a number returned to profit after recording losses in recent years. At the same time, there was an increase in the bad debt charge — in common with the experience of many other banks — which concerns us and it is an area we are working hard to improve. The performance of individual members of the Group is described elsewhere in this Report.



Your Directors have recommended payment of a final dividend of 14.2 pence per share to shareholders on the register on 8 April 1993. It will be paid with a tax credit and without withholding UK income tax. With the interim dividend of 4.8 pence (HK\$0.582) per share, the total distribution for 1992 will amount to 19 pence, in line with our statement in October 1992 that the final dividend per share would be not less than 9.4 pence or the sterling equivalent of HK\$1.418 at the Hong Kong dollar/sterling exchange rate prevailing on the date the proposed dividend was announced. On that day, the proposed final dividend was equivalent to HK\$1.578. For shareholders who are to receive the final dividend in Hong Kong dollars, the payment will be converted at the exchange rate on 21 May. In future, dividends will be expressed in sterling terms. Shareholders are recommended to read page 62 for particulars of taxation on dividends.

By any measure, 1992 was a significant year for the HSBC Group, indeed one of the most important in its modern history. The acquisition of Midland — which is represented in more countries in continental Europe than any other UK bank — fulfilled a long-standing strategic objective to establish a major presence in Europe to complement our extensive network in Asia-Pacific and the Americas.

Trade and investment flows between the world's major economies are increasing. Our Group is determined to capture a growing share of those flows and to serve our customers at both ends of their international banking transactions. The emergence of a single European market gave additional impetus to our objective. Since first establishing a relationship with Midland, in 1987, we had had time to get to know them; we had co-operated actively and successfully across a wide range of business, operational and technical areas. We saw considerable further opportunities to achieve synergy benefits from a full merger; in trade finance, in treasury, in private banking, in correspondent banking, and in the all-important area of technology by spreading the considerable research and development costs across a greatly enlarged customer base.

In the course of making our offer for Midland we said that we estimated that the contribution to pre-tax profits from the merger would exceed £800 million over the first four years resulting from a combination, in roughly equal proportions, of cost savings and revenue enhancements. We stand by that estimate.

The speed with which Midland returns to a more acceptable level of profitability will be dictated to a considerable degree by the rate of recovery in the British economy and this continues to give cause for concern. Midland's management team, strengthened by colleagues from elsewhere in the Group, is seeking to rationalise the bank's operations, to reduce costs and to improve customer service. I expect that, when economic conditions improve, the results of their initiatives will become increasingly evident. Meanwhile, I am pleased to report that encouraging progress has been made on integrating Midland into the Group. Common information technology and other Group standards are being introduced. The major treasury operations in London, New York and Tokyo are now fully integrated, with the majority of new business being transferred to Midland's balance sheet to take advantage of the United Kingdom's OECD status. Midland has begun to direct a much greater proportion of its business to Group offices around the world. A number of offices and businesses have been combined.

One consequence of the acquisition of Midland was that the head office of the HSBC Group, but not that of HongkongBank, was obliged to move from Hong Kong to London with effect from 1 January this year in order to comply with regulatory requirements. The Bank of England is now the lead regulator for HSBC Holdings. The role of the Group's head office is to provide strong functional management across all parts of the enlarged Group. Its responsibilities include overseeing the allocation of capital, risk monitoring, strategic planning and the co-ordination of international lines of business. We firmly intend, however, to keep the day-to-day management of the operating subsidiaries of the Group close to our customers and to retain our traditional emphasis on fast decision-making and on local accountability.

Ahead of the formal adoption in July of the Code of Best Practice on the Financial Aspects of Corporate Governance formulated by the Cadbury Committee, we have separated the roles of the Group Chairman and the Group Chief Executive. Mr John Bond was appointed Group Chief Executive with effect from 1 January. I also stepped down as Chairman of HongkongBank on the same date and was succeeded in that position by Mr John Gray.

The acquisition of Midland and the transfer of HSBC Holdings' management from Hong Kong to London has in no way reduced the Group's commitment to Asia and to doing business in that region. HongkongBank is the Group's flagship in Asia. It remains headquartered in Hong Kong. Its top management is in Hong Kong and its Board will continue to meet in the territory. Despite the arguments about constitutional development between Britain and China, I believe that Hong Kong's prospects remain good and that China's impressive economic development will continue, bringing significant opportunities to the territory and to the Group.

The Group maintains links with a wide variety of trade, economic and other professional organisations around the world and participates fully in discussions of the issues which most affect our industry. In June 1992, I was privileged to preside over the meeting of the International Monetary Conference in Toronto which brings together the chairmen or chief executive officers of over 100 of the world's leading banks.

The Group recognises its full responsibilities to the communities which it serves and during 1992 donated £2,414,000 to charitable causes. Support for education and for environmental protection remain its principal areas of interest.

The total number of staff employed by HSBC Holdings and its subsidiaries at the end of 1992 was 99,148. I am grateful to them for their continued dedication. I am particularly conscious that the major changes in our organisation over the last year have brought a great deal of additional work to some staff, and a measure of uncertainty to others.

Since the last Annual General Meeting there have been a number of changes to the Board of HSBC Holdings as we have sought gradually to create a more international board of directors and to separate the Board of the holding company from that of HongkongBank.

Sir Peter Walters and Mr Brian Pearse joined the Board of HSBC Holdings in July following the acquisition of Midland. Mr Minoru Murofushi joined at the same time.

Mr Richard Delbridge joined the Board as Group Finance Director on 1 January this year. Sir Colin Marshall and Mr Geoffrey Maitland Smith became non-executive Directors and Sir Peter Walters became a non-executive Deputy Chairman on the same date.

Mr Nigel Rich and Mr John Swaine stepped down as non-executive Directors of HSBC Holdings on 31 December. They remain on the Board of HongkongBank.

I record with great personal sadness the death of Mr Brian Goldthorpe in November 1992. As Midland's Deputy Group Chief Executive, Mr Goldthorpe had been a non-executive Director of HSBC Holdings since 1991 and had played an important role in the discussions which preceded the acquisition.

The continuing improvement in the Group's performance is closely linked to the outlook for the world economy in 1993. The economy of the United States is recovering gradually, but economic prospects in the United Kingdom and much of the rest of Europe are less encouraging. We are determined to continue to develop our business in Asia, which contains some of the world's fastest growing economies and where we have an unrivalled position.

As a result of the acquisition of Midland, the HSBC Group now ranks as one of the largest banking and financial services organisations in the world. We have a dedicated staff, a strong capital base, well diversified assets, and a unique combination of local and international businesses linked by some of the industry's most advanced technology. Our task now is to maximise our returns to shareholders by pulling the various parts of our Group more tightly together and exploiting the combined strengths of the enlarged Group.



Sir William Purves, *Group Chairman*  
15 March 1993



## Five-year comparison

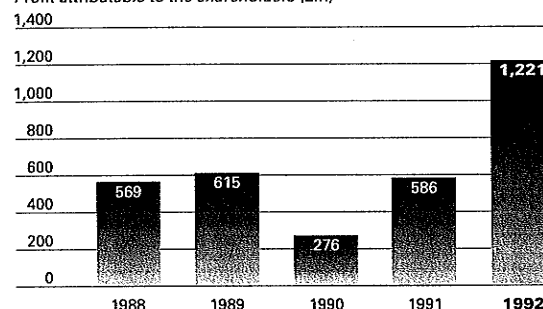
At year-end (£m)	1988	1989	1990	1991	1992
Share capital	937	1,157	1,079	1,120	2,054
Shareholders' funds	3,081	5,033	4,318	4,819	8,011
Capital resources	4,915	7,289	6,232	6,789	13,975
Assets	63,213	82,612	77,361	85,786	170,450
<b>For the year (£m)</b>					
Pre-tax profit	763	834	533	880	1,710
Profit attributable to the shareholders	569	615	276	586	1,221
Dividends	150	194	168	207	472
<b>Earnings per share (p)</b> <i>(adjusted)</i>	36.03	38.61	17.10	36.06	62.07
<b>Dividends per share (p)</b>	9.44	12.18	10.42	12.71	19.00

## Group profit

The 1992 profit attributable to shareholders was £1,221 million, an increase of 108 per cent compared with 1991. Excluding the contribution from Midland of £184 million, the result would have been £1,037 million, an increase of 77 per cent over 1991.

The growth in profit in 1992 includes the profits of Midland since its acquisition half-way through the year, and reflects improved results from most major subsidiaries of the Group. In particular, increases in profit were achieved by HongkongBank, Hang Seng Bank and The British Bank of the Middle East. Both Marine Midland Bank and HongkongBank of Australia returned to profit after reporting losses in 1991. Grenville Transportation Holdings contributed an exceptional profit of £270 million made on the sale of the company's indirect interest in Cathay Pacific Airways.

Profit attributable to the shareholders (£m)



£m	1988	1989	1990	1991	1992
Profit before exceptional items	717	763	483	789	1,440
Exceptional items	46	71	50	91	270
Profit before tax	763	834	533	880	1,710
Taxation	(119)	(127)	(163)	(173)	(283)
Profit after tax	644	707	370	707	1,427
Profit attributable to shareholders	569	615	276	586	1,221

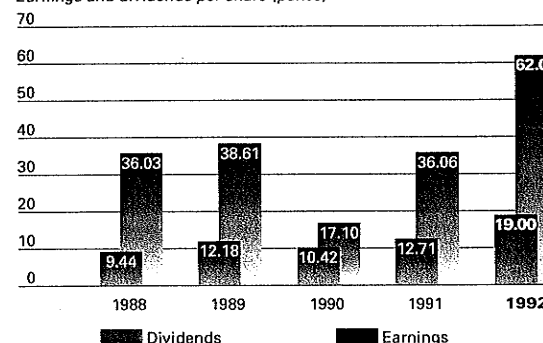
## Earnings and dividends per share

Earnings per share for 1992, calculated by dividing the Group profit of £1,221 million by the weighted average number of shares in issue during the year of 1,967 million, amounted to 62.07p. This compares with 36.06p for 1991, an increase of 72.1 per cent.

Dividends per share for 1992 amounted to 19p (interim of 4.8p, final of 14.2p) compared with 12.71p (interim of 3.71p, final of 9p) for 1991, an increase of 49.5 per cent. The dividend for 1992 represented 38.7 per cent of attributable profit compared with 35.3 per cent in 1991.

The comparative dividend and earnings per share figures for the years 1988 to 1990 are those of HongkongBank adjusted for the reduction in the number of shares in issue following the Scheme of Arrangement which came into effect in April 1991.

Earnings and dividends per share (pence)



**Performance ratios**

The return on average shareholders' funds is calculated by dividing the profit attributable to shareholders by the average shareholders' funds for the year.

The return on average assets is calculated by dividing the profit attributable to shareholders by the average total assets for the year.

Performance ratios (%)

	1988	1989	1990	1991	1992
Return on average shareholders' funds	20.0	15.2	5.9	12.8	19.0
Return on average assets	0.9	0.8	0.3	0.7	1.0

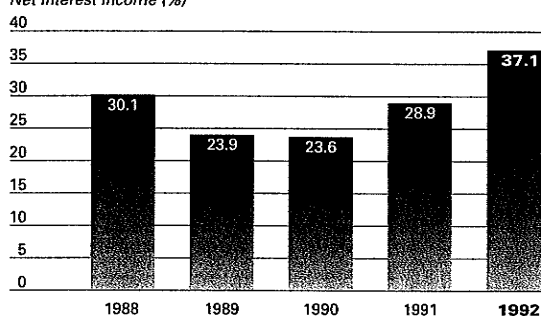
**Net interest income**

Net interest income for 1992 rose to £3,338 million, an 81.3 per cent increase over net interest income in the previous year. Net interest income for 1992 was 37.1 per cent of gross interest income, compared with 28.9 per cent in 1991.

Adjusting for both the impact of the Midland results, which contributed £882 million to net interest income, and the impact of the movement in reporting exchange rates, net interest was 8 per cent greater in 1992 than in 1991.

HongkongBank in Hong Kong and Hang Seng Bank continued to report a net increase, whilst Marine Midland and HongkongBank of Australia continued to bear the burden of supporting a high level of non-performing loans.

Net interest income (%)



£m	1988	1989	1990	1991	1992
Interest income	4,731	6,984	6,844	6,364	8,999
Interest expense	(3,308)	(5,316)	(5,226)	(4,523)	(5,661)
Net interest income	1,423	1,668	1,618	1,841	3,338
Net interest income (%)	30.1	23.9	23.6	28.9	37.1

**Other operating income and operating expenses**

Other operating income increased to £2,626 million, a 118.1 per cent improvement on 1991. As a proportion of total operating income, it increased to 44 per cent compared with 39.5 per cent the previous year.

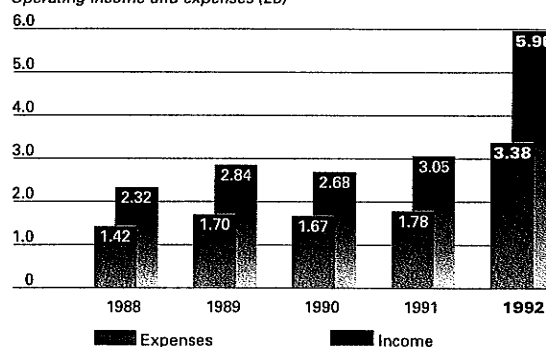
Excluding the Midland second half contribution, other operating income increased by £617 million, or 51.2 per cent.

Income from dealing and long-term investments increased substantially in 1992, together with underlying improvements in foreign exchange earnings, commissions and service charges before the positive effect of translating at lower exchange rates into sterling.

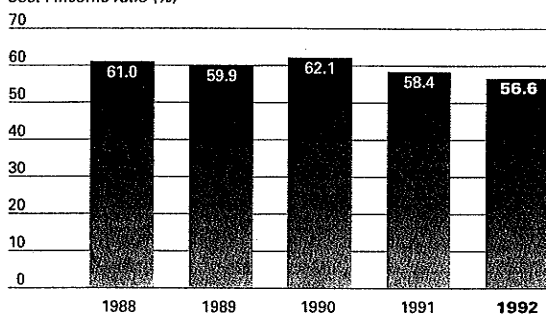
Operating expenses, comprising personnel costs, premises and equipment costs and other expenses, were £3,377 million for 1992, an increase of 89.8 per cent on 1991.

Excluding Midland and the effects of translation using a lower sterling rate for 1992, operating expenses rose marginally by 2 per cent year on year.

Operating income and expenses (£b)



Cost : income ratio (%)



### Other operating income and operating expenses (continued)

As a result of cost control measures and an increase in operating income, the ratio of operating expenses to operating income was 56.6 per cent for 1992 — 51.9 per cent excluding Midland — a significant improvement on 1991's figure of 58.4 per cent.

£m	1988	1989	1990	1991	1992
Net interest income	1,423	1,668	1,618	1,841	3,338
Other operating income	895	1,170	1,064	1,204	2,626
Operating income	2,318	2,838	2,682	3,045	5,964
Staff costs	723	912	866	954	1,802
Premises and equipment	181	224	227	257	463
Other costs	511	564	573	568	1,112
Operating expenses	1,415	1,700	1,666	1,779	3,377
Cost : income ratio (%)	61.0	59.9	62.1	58.4	56.6

### Charge for bad and doubtful debts

The charge for bad and doubtful debts of £1,185 million in 1992 represents an increase of £683 million compared with 1991. Midland accounts for £321 million of the increase. The remaining increase relates primarily to the Group's exposure to the Olympia and York Group and to provisions raised within Concord Leasing. Offsetting these are reduced provisions in Marine Midland and HongkongBank of Australia.

Provisions against exposure to the Olympia and York Group were progressively increased during the year to us\$450 million (£297 million), or approximately 60 per cent of the HSBC Group's total exposure of us\$757.7 million (£500.1 million) to this borrower.

A review of Concord Leasing's asset portfolio resulted in a total bad debt charge of us\$136.4 million (£90 million), of which us\$75 million (£49.5 million) related to shipping loans.

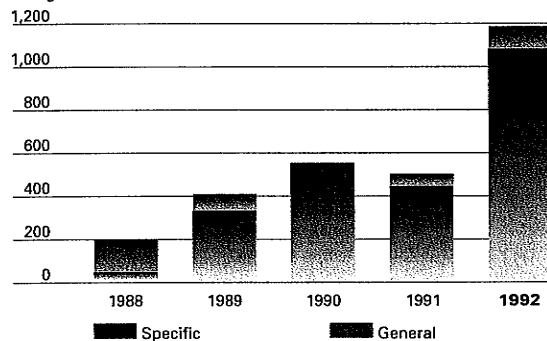
Total provisions were £5,371 million at 31 December 1992, representing an increase of £3,803 million compared with 1991. £3,165 million of the increase relates to the acquisition of Midland. Total provisions for bad and doubtful debts stood at 5.4 per cent of advances to customers and other accounts (including trade bills, accrued interest and other accounts), an increase of 1.8 per cent compared to 1991.

Provisions against interest on bad and doubtful advances totalled £864 million (1991: £321 million; 1990: £265 million). Of the £543 million increase, £438 million relates to Midland.

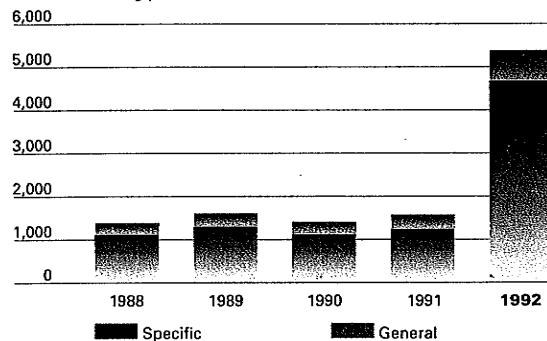
Non-performing advances were £7,511 million at 31 December 1992 (1991: £3,014 million). Midland accounted for £4,005 million of the increase.

Mexican, Venezuelan and Philippine par bonds are not classified as LDC debt due to the underlying US treasuries which securitise the debt. If these were to be included, total outstanding LDC debt would become £2,857 million (1991: £390 million) which, with provisions unchanged at £1,226 million (1991: £106 million), results in a provision percentage of 43 per cent (1991: 27 per cent).

Charge for bad and doubtful debts (£m)



Total outstanding provisions (£m)



£m	1988	1989	1990	1991	1992
<b>Profit and loss account:</b>					
Specific charge	51	334	554	448	1,085
General charge	149	74	0	54	100
Total charge	200	408	554	502	1,185
<b>Total outstanding provisions:</b>					
Specific provisions	1,121	1,304	1,125	1,249	4,679
General provisions	259	298	277	319	692
Total provisions	1,380	1,602	1,402	1,568	5,371
<b>Total provisions to gross lending:</b>					
Specific provisions (%)	3.1	2.8	2.7	2.9	4.7
General provisions (%)	0.7	0.6	0.7	0.7	0.7
Total provisions (%)	3.8	3.4	3.4	3.6	5.4
<b>LDC exposure and provisions:</b>					
Outstanding loans	1,533	1,146	636	169	1,901
Provisions	548	520	312	106	1,226
LDC provisions (%)	35.7	45.4	49.1	62.7	64.5

**Geographical distribution of pre-tax profits**

Group profit before tax for 1992 was £1,710 million, an increase of £830 million, or 94.3 per cent, compared with 1991. Of this increase, £430 million, or 51.8 per cent, arose in the Asia-Pacific region. This was primarily due to strong performances by Hang Seng Bank and Hongkong Bank, together with an exceptional profit of £270 million on the sale of the Group's interest in Cathay Pacific Airways by Grenville Transportation, through its subsidiary Fort Hall Limited.

The Americas showed an improvement of £9 million over 1991. This was largely the result of the

return to profitability of Marine Midland, partly offset by a downturn in the US leasing business, as reported by Concord Leasing.

The profit before tax reported for Europe improved by £341 million, or 41.1 per cent of the total increase. This was largely the result of the acquisition of Midland.

The Middle East/India regions improved by £50 million, or 6 per cent of the total increase, largely due to a strong performance by The British Bank of the Middle East.

*Geographical distribution of pre-tax profits*

£m	1991					Total	1992					Total
	Asia-Pacific	Americas	Europe	Middle East/India	Intra-Group items		Asia-Pacific	Americas	Europe	Middle East/India	Intra-Group items	
Net interest income	1,174	581	13	73	—	1,841	1,604	698	932	104	—	3,338
Other operating income	678	301	351	44	(170)	1,204	1,299	414	1,222	68	(377)	2,626
Operating income	1,852	882	364	117	(170)	3,045	2,903	1,112	2,154	172	(377)	5,964
Operating expenses	(841)	(712)	(343)	(53)	170	1,779	(1,378)	(813)	(1,489)	(74)	377	(3,377)
Profit before bad and doubtful debts	1,011	170	21	64	0	1,266	1,525	299	665	98	0	2,587
Charge for bad and doubtful debts	(233)	(203)	(61)	(5)	—	(502)	(497)	(323)	(371)	6	—	(1,185)
Share of profits of associated undertakings	9	0	2	14	—	25	10	—	9	19	—	38
Profit before exceptional items and taxation	787	(33)	(38)	73	0	789	1,038	(24)	303	123	0	1,440
Exceptional items	91	—	—	—	—	91	270	—	—	—	—	270
Profit before taxation	878	(33)	(38)	73	0	880	1,308	(24)	303	123	0	1,710

**Group profit attributable to shareholders by subsidiary**

£m	1991	1992
<b>Hongkong Bank</b>		
Reported attributable profit for the year	599	1,007
Less results of subsidiaries (shown below*)	(347)	(666)
Less other minor subsidiaries	(64)	(57)
	188	284
<b>Midland Bank plc</b>		
Reported attributable profit for the year	—	102
Less results for six months to 30 June 1992	—	(5)
Attributable profit for six months to 31 December 1992	—	97
Less items accounted for in merger reserve:		
— property write-down	—	31
— profit on disposal of Thomas Cook	—	(66)
— restructuring costs	—	122
	—	184
<b>* Hang Seng Bank Limited</b>		
Reported attributable profit for the year	311	486
Less minority interests	(120)	(187)
	191	299
<b>Marine Midland Bank</b>		
Reported attributable profit for the year	(102)	72
Less preference dividend adjustment	(4)	(4)
Less CM&M Group included in results	(2)	(3)
	(108)	65
Hongkong Bank of Canada	24	29
The British Bank of the Middle East	38	68
* Hongkong Bank of Australia	(15)	4
* Wardley Group	22	40
HSBC Asset Management	9	12
James Capel Group	14	2
CM&M Group	5	7
Carlingford and Gibbs Insurance Groups	8	11
Trustee Group	2	4
* Wayfoong Finance Limited	19	30
* HSBC Finance (Malaysia) Berhad	1	1
* Wayfoong Mortgage And Finance (Singapore) Limited	1	3
* Mortgage And Finance Berhad	1	2
Hongkong Bank International Trade Finance Limited	3	8
Concord Leasing, Inc.	11	(75)
* Grenville Transportation Holdings Limited	127	287
Other subsidiaries	45	(44)
	586	1,221

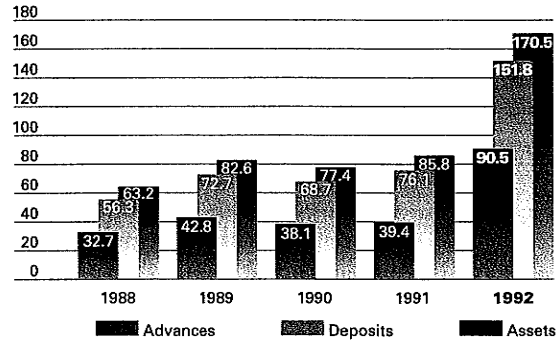
## Assets, deposits and advances

At the end of 1992, total assets stood at £170.5 billion, an increase of £84.7 billion, or 98.7 per cent, compared with 1991. Midland accounted for £61.4 billion, or 72.5 per cent of the increase. Of the 98.7 per cent increase in assets, cash and short-term funds increased by 52 per cent, whilst placings with banks maturing between one and 12 months rose by 69 per cent.

Advances to customers and other customer accounts increased by 129.8 per cent, of which Midland accounted for 108.5 per cent, to a total of £90.5 billion (1991: £39.4 billion), representing 53.1 per cent (1991: 45.9 per cent) of total assets.

The increase in both deposits and advances, primarily due to the inclusion of Midland, resulted in the advances to deposits ratio increasing to 59.6 per cent at the year-end (1991: 51.8 per cent).

Assets, deposits and advances (£b)



£m	1988	1989	1990	1991	1992
Advances (and other accounts)	32,664	42,839	38,108	39,385	90,517
Deposits	56,284	72,705	68,696	76,089	151,801
Assets	63,213	82,612	77,361	85,786	170,450
Advances : deposits ratio (%)	58.0	58.9	55.5	51.8	59.6

## Assets (excluding Hong Kong Government certificates of indebtedness)

The proportion of advances held at 31 December 1992 increased by 7.3 per cent compared with the previous year. This is primarily due to the inclusion of Midland, whose advances represent 59.8 per cent of their total assets.

Cash and short-term funds represent 21.3 per cent of total assets (1991: 28 per cent). The decrease is primarily due to Midland, where the proportion of short-term funds represents 14.9 per cent of total assets.

As a consequence of the change in mix, the ratio of cash and short-term funds to current, deposit and other accounts decreased to 23.3 per cent (1991: 30.5 per cent). The ratio of cash and short-term funds, together with placings with banks of one to 12 months, to current, deposit and other accounts showed a reduction to 32.6 per cent (1991: 41.6 per cent). The general decrease in these ratios reflects the effect of consolidating Midland.

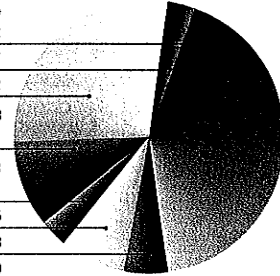
Assets 1992

	£b
Advances (49.7%)	82.5
Fixed assets (2.9%)	4.8
Cash and short term (21.3%)	35.4
Placings with banks < 1 year (8.5%)	14.1
Trade bills and certificates of deposit (3.8%)	6.3
Investments (8.8%)	14.6
Other accounts (5.0%)	8.4
Total	166.1



Assets 1991

	£b
Advances (42.4%)	35.2
Fixed assets (3.2%)	2.7
Cash and short term (28.0%)	23.2
Placings with banks < 1 year (10.1%)	8.3
Trade bills and certificates of deposit (3.3%)	2.8
Investments (7.8%)	6.5
Other accounts (5.2%)	4.3
Total	83.0



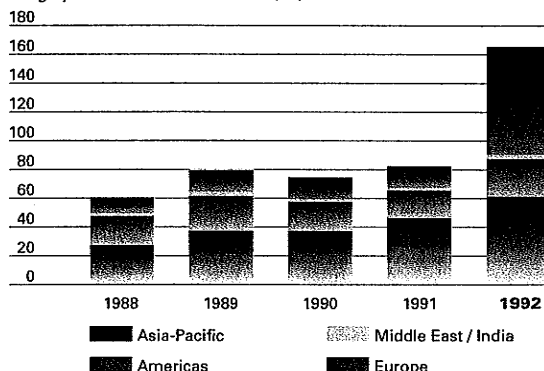
**Geographical distribution of assets**

(excluding Hong Kong Government certificates of indebtedness)

The proportion of assets in Europe grew by £61 billion during 1992, primarily due to the acquisition of Midland. Excluding Midland, there was overall growth in each main geographical area. In particular, there was significant growth in the Asia-Pacific region, primarily due to HongkongBank branch operations, where total assets rose by 31 per cent in sterling terms (6 per cent in local currency), and to Hang Seng's operations, where assets increased by 29 per cent (4 per cent in local currency terms).

The proportion of advances is classified by the location of the subsidiary, or in the case of the operations of HongkongBank, Midland and The British Bank of the Middle East, of the lending branch, which is not necessarily the same as the country of the borrower.

Geographical distribution of assets (£b)



**Advances by industry exposure**

The outstanding balance of advances at 31 December 1992 was £87.8 billion, an increase of 139.3 per cent over the balance in 1991. Midland accounts for 108 per cent of the increase.

Advances to the commercial, industrial and international trade sector as a percentage of gross advances have decreased by 1.6 per cent to 26 per cent. Advances to individuals have decreased by 1.9 per cent to 11 per cent.

Advances by industry sector as a percentage of total advances

	1988	1989	1990	1991	1992
Commercial, industrial and international trade	29.3	28.0	29.9	27.6	26.0
Residential mortgages	13.4	12.6	15.5	19.7	21.5
Real estate construction	16.2	15.2	14.7	15.0	15.2
Individuals	15.3	18.3	15.2	12.9	11.0
Financial institutions	5.6	5.1	5.3	5.3	5.0
Other	20.2	20.8	19.4	19.5	21.3
Total	100.0	100.0	100.0	100.0	100.0

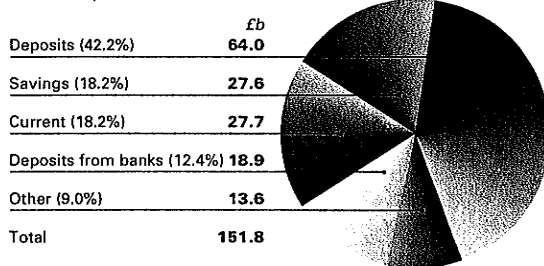
Percentages calculated on advances gross of provisions.

**Current, deposit and other accounts**

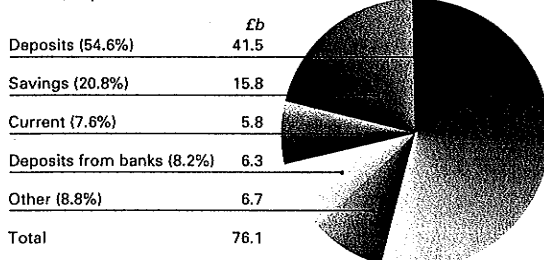
Current, deposit and other accounts totalled £151.8 billion at 31 December 1992, an increase of 99.5 per cent compared with 1991. The inclusion of Midland accounts for 74.1 per cent of the increase.

Current accounts (which include demand accounts) increased as a proportion of total deposits, primarily due to the impact of the Midland acquisition.

Current, deposit and other accounts 1992



Current, deposit and other accounts 1991



## Capital resources

The Group's risk-weighted assets grew by £54.1 billion to £105.7 billion, an increase of 105 per cent, of which £41.7 billion (77 per cent) was attributable to the inclusion of Midland. The remaining increase of £12.4 billion was primarily due to the devaluation of sterling.

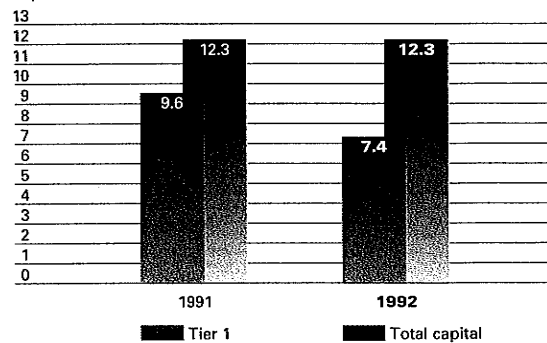
Tier 1 capital grew by £2.8 billion (57 per cent), which was lower than the growth of risk assets. The tier 1 ratio fell accordingly from 9.6 per cent at 31 December 1991 to 7.4 per cent at the 1992 year-end.

The Group's total capital adequacy ratio remained unchanged at 12.3 per cent after inclusion of Midland's subordinated debt and HSBC Holdings' sterling bonds, both of which qualify as tier 2 capital.

Both the capital adequacy and tier 1 ratios were compiled on the basis of the extant rules of the Hong Kong Commissioner of Banking for HSBC Holdings, the regulators of the Group until 31 December 1992.

After making adjustments to reflect known differences between the capital adequacy frameworks of the Hong Kong Commissioner of Banking and the Bank of England, the HSBC Holdings capital ratios for 31 December 1992 on the basis of the Bank of England guidelines would have been 12.6 per cent for total capital/risk-weighted assets and 7.4 per cent for tier 1 capital/risk-weighted assets.

Capital ratios (%)



	1991	1992
<i>Capital ratios (%)</i>		
Total capital/risk assets	12.3	12.3
Tier 1 capital/risk assets	9.6	7.4
<i>Composition of capital</i>		
<i>Tier 1:</i>		
Shareholders' funds and minorities (excluding property revaluation reserve)	£m 4,970	£m 7,803
<i>Tier 2:</i>		
Property revaluation reserve	381	1,054
General provisions	319	692
Perpetual subordinated debt	694	1,882
Term subordinated debt	500	2,113
Latent reserve on equities	228	167
Total qualifying tier 2 capital	2,122	5,908
Unconsolidated investments	(365)	(703)
Investments in other banks	(391)	(3)
Total capital	6,336	13,005
Total risk-weighted assets	51,564	105,677

## Group staff numbers

(as at 31 December)

	1990	1991	1992
The Hongkong and Shanghai Banking Corporation Limited	23,690	23,352	23,348
Midland Bank plc	—	—	46,008
Hang Seng Bank Limited	7,041	7,472	7,234
Marine Midland Bank	11,345	10,450	9,397
Hongkong Bank of Canada	3,200	2,873	2,812
The British Bank of the Middle East	2,111	2,086	2,120
HongkongBank of Australia Limited	633	590	580
Wardley Group	1,215	1,384	1,581
James Capel Group	2,111	1,877	1,977
CM&M Group	344	330	342
Carlingford and Gibbs Insurance Groups	988	1,139	1,229
Trustee Group	328	332	333
Wayfoong Finance Limited	200	222	205
HSBC Finance (Malaysia) Berhad	197	206	206
Wayfoong Mortgage And Finance (Singapore) Limited	35	34	36
Mortgage And Finance Berhad	23	22	22
HongkongBank International Trade Finance Limited	46	40	33
Concord Leasing, Inc.	293	296	267
Other	817	1,065	1,418
<b>Total</b>	<b>54,617</b>	<b>53,770</b>	<b>99,148</b>

In 1992, the profit attributable to shareholders of the Group was £1,221 million, an increase of 108 per cent compared with the profit of £586 million for 1991. Excluding the contribution of £184 million from Midland, the 1992 profit attributable to shareholders would have been £1,037 million, an increase of 77 per cent over 1991. The growth in profit during 1992 reflects improved results from most of the major subsidiaries of the Group, in addition to an exceptional profit of £270 million on the sale of the Group's interest in Cathay Pacific Airways.

Net interest income for 1992 rose to £3,338 million, an 81 per cent increase over 1991. Net interest income increased to 37 per cent of gross interest income for 1992, compared with 29 per cent of gross interest income in 1991. Other operating income increased to £2,626 million, a 118 per cent improvement on 1991. As a proportion of total operating income, other operating income increased to 44 per cent, compared with 40 per cent for the previous year. Income from dealing and long-term investments increased substantially in 1992, together with underlying improvements in foreign exchange earnings, commissions and service charges before the positive effect of translating results into sterling at lower exchange rates.

Operating expenses, comprising personnel costs, premises and equipment costs, and other costs, were £3,377 million for 1992, an increase of 90 per cent over 1991. As a result of cost control measures and an increase in operating income, the cost to income ratio improved to 57 per cent for 1992, compared with 58 per cent in 1991. Excluding Midland, it would have fallen to 52 per cent.

The Group provides for taxation in the countries in which it operates at the appropriate rates of taxation. The charge for taxation for 1992 increased by 64 per cent, to £283 million, over 1991, compared with an increase in the underlying profit before taxation of 94 per cent, resulting in an effective rate of tax of 17 per cent for 1992, compared with 20 per cent for 1991.

The charge for bad and doubtful debts of £1,185 million in 1992 represented an increase of £683 million compared with 1991. Midland accounted for £321 million, or 47 per cent, of this increase. The remaining increase relates primarily to exposure to the Olympia and York Group and to provisions raised with Concord Leasing, which were only partially offset by reduced provisions in Marine Midland Bank and Hongkong Bank of Australia. Total provisions for bad and doubtful debts were £5,371 million at 31 December 1992, including provisions of £1,226 million against loans to developing countries, and represented an increase of £3,803 million. Of this increase, £3,165 million is attributable to Midland. Total provisions for bad and doubtful debts stood at 5.4 per cent of advances to customers and other accounts (including trade bills, accrued interest and other accounts).

At 31 December 1992, total assets stood at £170.5 billion, an increase of approximately £84.7 billion or 99 per cent over the figure at the end of 1991. Midland accounted for around £61 billion, or 72.5 per cent, of the increase in total assets in 1992. The growth in assets was spread across all asset categories. Cash and short-term funds increased by 52 per cent, but shrank as a percentage of total assets to 21 per cent at 31 December 1992, compared with 27 per cent at the end of 1991, the decrease being due primarily to Midland, where the proportion of short-term funds represented 15 per cent of total assets at year-end. Placements with banks maturing between one and 12 months rose by 69 per cent, but diminished as a percentage of total assets from 10 per cent at the end of 1991 to 8 per cent at 31 December 1992.

Advances to customers and other accounts rose by 130 per cent to £90.5 billion during 1992, increasing to 53 per cent of total assets from 46 per cent at the end of 1991. This increase was due mainly to the inclusion of Midland, whose advances represent 60 per cent of Midland's total assets. Investments held by the Group as at 31 December 1992 totalled £14.6 billion, an increase of 125 per cent over the amount held at 31 December 1991.



Current, deposit and other accounts totalled £151.8 billion at 31 December 1992, almost doubling the level at the end of 1991. The strongest growth was registered in current accounts and savings accounts, and the inclusion of Midland accounts for the majority of this increase. The increase in both advances and deposits resulted in the advances to deposits ratio increasing to 60 per cent at 31 December 1992, compared with 52 per cent at year-end 1991.

Total shareholders' funds at 31 December 1992 were £8,011 million, an increase of approximately 66 per cent over 1991. Tier 1 capital grew by £2.8 billion or 57 per cent during 1992, which was lower than the growth of risk assets. Accordingly, the tier 1 ratio fell to 7.4 per cent at 31 December 1992 from 9.6 per cent at year-end 1991. The Group's total capital adequacy ratio, however, remained unchanged at 12.3 per cent after the inclusion of Midland's subordinated debt and the Group's sterling bonds, both of which qualify as tier 2 capital.

### **Group Functions**

Following the acquisition of Midland Bank in 1992, the HSBC Group has reorganised its senior management structure. For management purposes the Group's world-wide activities have been assembled into four key lines of business: commercial banking, investment banking, private banking and insurance. To maintain effective management control over commercial banking, which is by far the Group's largest single business, four regional offices have been established: an Asia-Pacific office in Hong Kong, an Americas office in New York, a Middle East office in Dubai, and a European office in London.

The Group's head office was established in London from 1 January 1993 to meet regulatory requirements.

### ***Treasury***

The Group's treasury operations continued to grow strongly in 1992, generating substantial profits from its dealing rooms in 39 countries. Major contributors to treasury profits were higher volumes in the swaps and interbank currency markets and increased trading activity for corporate customers.

One goal of the acquisition of Midland Bank was the integration of HongkongBank's and Midland's treasury activities, particularly in the key trading centres of London, New York and Tokyo. By the end of 1992, Group trading rooms in New York and Tokyo had been merged and were operating largely under the Midland name. In London, the Group's new, combined trading room, into which the dealing operations of James Capel & Co. and Greenwell Montagu Gilt-Edged have also been incorporated, is the largest treasury trading operation in Europe. TREATS, the Group's computer-based treasury trading system, is being installed in the new London trading room during 1993.

### ***Financial Institutions Group***

The Financial Institutions Group (FIG), which is responsible for co-ordinating the world-wide sale of Group products and services to financial institutions, expanded its business substantially in 1992. Growth was particularly strong in trade services, reflecting the Group's objective of increasing its market share in this area. Securities revenue also expanded strongly, benefiting from significant growth in HongkongBank's settlement and custody activities in the Asia-Pacific region. Despite difficult market conditions, Midland correspondent banking maintained its dominant share of the sterling automated payments business and increased its commission income. Considerable progress was made in integrating this business into FIG and the process will continue in 1993.

A joint review of the Group's strategic alliance with Wells Fargo Bank of California reaffirmed the substantial benefits that it provides to both organisations. Several new initiatives were taken over the course of the year to enhance this very successful relationship.

**Global Banking Services**

Global Banking Services, which develops financial products and services for sale and delivery by Group companies world-wide, worked with members of the enlarged Group to expand its operations in 1992. GlobalAccess, the Group's proprietary automated teller machine (ATM) service, was extended to Indonesia, Jordan and Sri Lanka, providing customers with access to more than 150,000 ATMs in some 60 countries. The GlobalAccess cash card, a new ATM remittance product aimed at expatriate workers, was launched in Hong Kong to serve, in particular, the territory's Filipino community. HongkongBank's Asia-Pacific securities service successfully developed custodial operations to support global cross-border investment in China (Shanghai and Shenzhen), India (Bombay), Jordan, South Korea and Mauritius. Credit card operations achieved record profits, with expansion in the Middle East and the Asia-Pacific region complementing continued growth in North America and Europe.

**Technical Services**

Technical Services (TSV) had two primary tasks during 1992. One was the continued provision of secure, reliable and efficient computer systems and telecommunications networks throughout the Group. This included expanding the Group's GlobalAccess ATM network and adding new software components to handle specialised business applications in a number of the Group's offices throughout the world. TSV's other main task during the year arose from the Group's acquisition of Midland Bank: initiating the integration of Midland into the Group's technology strategy, resources and projects. Multinational teams were established to develop global systems that will efficiently support the enlarged Group's operations well into the next century.

**Commercial Banking****The Hongkong and Shanghai Banking Corporation Limited**

HongkongBank and its subsidiary companies reported a 1992 profit of HK\$11,810 million, an increase of 35.4 per cent over the HK\$8,721 million recorded, on a fully disclosed basis, in 1991.



Total assets at 31 December 1992 amounted to HK\$972,760 million, an increase of 3.6 per cent over the previous year. The overall return on average assets was 1.47 per cent compared with 0.67 per cent in 1991. At the year-end, the consolidated capital ratio was 13.85 per cent, up from 12.15 per cent in 1991. HongkongBank's capital resources increased during the year by 22.4 per cent to HK\$78,888 million.

Financial highlights*	1992		1991	
	£m	HK\$m	£m	HK\$m
Share capital and reserves†	3,651	42,817	2,960	43,085
Profit attributable to shareholders‡	1,007	11,810	599	8,721
Dividends paid and proposed‡	460	5,400	192	2,800
Total assets	82,943	972,760	64,485	938,715

\* Figures for HongkongBank and its subsidiaries

† 1991 comparatives restated to reflect the disclosure of inner reserves

‡ Paid out of current year's profits

In line with Group policy, an independent professional valuation of properties held by HongkongBank and its subsidiaries was conducted at the end of November 1992. This resulted in a consolidated surplus of market value over net book value attributable to shareholders of HongkongBank of HK\$5,160 million, which was credited to reserves. At the end of 1992, the adjusted total reserve arising on revaluation of properties amounted to HK\$12,890 million.

HongkongBank itself recorded an increase in profit of 61 per cent after taking into account dividends received from subsidiary companies. This included the proceeds from the sale by a subsidiary of the bank's remaining holding of 10 per cent of Cathay Pacific Airways Limited, which yielded a surplus of approximately HK\$3,200 million. Hong Kong was the main area of growth, where the development of southern China and a thriving local economy continued to generate favourable opportunities. Good results were also recorded in China, India, Macau, Malaysia, New Zealand, Taiwan and the United Kingdom.

Hang Seng Bank, which is 61.48 per cent owned by HongkongBank, made a significant contribution; its profit grew by 26 per cent on a fully disclosed basis. Wardley Limited, HongkongBank's investment banking arm, had another record year. Its profit grew by 47 per cent in favourable trading conditions in Hong Kong. HongkongBank of Australia returned to profit after three years of losses, despite difficult local economic conditions.

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### **Hong Kong**

China's vigorous economic growth of nearly 13 per cent in 1992 had a strong impact on other Asian economies, including that of Hong Kong. In south China, where economic activity is increasingly linked to Hong Kong, lively expansion helped to spur Hong Kong's own robust gross domestic product growth of 5 per cent. Rising investment in plant and equipment, vigorous domestic consumption, and continued growth in exports of both goods and services, despite the recession in its major Western markets, also contributed to the momentum of Hong Kong's economy.

In this setting of economic expansion and strong credit demand, HongkongBank's operations recorded a substantial increase in profits for 1992. Effective cost control, favourable interest rate movements, and wider Hong Kong dollar interest rate margins also assisted profit growth.

The bank's retail banking business in Hong Kong yielded profits from both personal loans and deposit taking. By the end of the year, customer deposits in Hong Kong had expanded by 3.78 per cent. As a result, the bank's ratio of loans to deposits in Hong Kong at year-end 1992 stood at 62.4 per cent. To serve its retail customers in Hong Kong the bank maintains a network of some 240 branches, supplemented by more than 800 ATMs which are operated jointly with Hang Seng Bank.

The bank's credit card business, bolstered by an innovative, high-profile, television advertising campaign, also expanded in 1992. Both the volume of merchant business and the value of cardholder purchases increased, while the bank's investment in enhanced security systems led to a sharp decline in fraud and counterfeit losses.

In its treasury operations, the bank retained its dominant position in the local money-market. Substantial profits were generated by taking advantage of volatility in global currency markets.

Corporate banking activity in 1992 included a successful drive to increase returns in the bank's traditional trade finance business. Hong Kong is now China's largest single trading partner, and the bank's revenue from the increased flow of trade and lending involving China, and the triangular trade between China, Hong Kong and Taiwan, rose substantially.

The strong gains made by Hong Kong's stock-market during 1992, and the corresponding inflow of investment funds, helped to sustain the bank's role as Hong Kong's leading custodian and clearing agent for institutional investors. With the inauguration during the year of the new, community-wide, electronic scrip clearing and settlement system, the bank is starting to achieve its long-standing goal of eradicating intensive paper-based procedures.

In the year ahead, the economic momentum of 1992 is expected to continue, with Hong Kong's real gross domestic product projected to grow by 5.5 per cent. A moderate increase in inflation, which fell from 12 per cent in 1991 to 9.6 per cent last year, is expected as the restructuring of Hong Kong's economy continues.

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### **Asia-Pacific**

Strong domestic demand throughout the Asia-Pacific region, coupled with large infrastructural projects and steadily rising intra-Asian trade, provided sufficient momentum during 1992 to maintain Asia's economic growth. Major exporting countries within the region continued to achieve substantial trade surpluses despite the prolonged recession in North America and Europe.

In this economic environment, most of HongkongBank's operations recorded good net results. Operating profits in Malaysia, where branches undertook a programme to improve the quality of their customer service, were encouraging. In India, prudent asset growth in a less regulated economy produced record profits. In Singapore, the bank's operating profits were also very strong, but provisions for loans to the Canadian company Olympia and York adversely affected the area's final result.

Throughout the region, the bank increased its earnings from both fee income and treasury operations. Falling interest rates in major trading currencies provided opportunities for favourable treasury positioning, while the strengthening of the US dollar and the instability of a number of other currencies led to enhanced trading profits. Non-funds income rose markedly as a result of strong growth in card products, the bank's expanding role as a regional securities custodian, and an aggressive strategy to increase market share in trade finance.

As part of the continuing expansion of its business in Asia, the bank set up an offshore banking office in Malaysia, opened three new branches in Sri Lanka, one in India and one in Macau, and established a representative office in Vietnam.

In keeping with the rapid growth of China's economy, HongkongBank has sought to upgrade a number of its offices in China and was granted permission for its representative office in Qingdao to become a full branch. The bank plays a key role as an official clearing agent for foreign investors in China's stock-markets in Shenzhen and Shanghai.

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### Europe

The worst recession since the 1930s continued to stifle economic growth in the United Kingdom. As a consequence, most banks were forced to increase their provisions for doubtful debts and HongkongBank raised its provisioning levels substantially. Despite the increase in provisions, the bank's UK operations generated strong net profits. Contributing to these higher profits were wider sterling interest rate margins and treasury operations that took advantage of volatility in currency markets and interest rates. The bank's representative offices in Frankfurt and Stockholm also had a successful year.

The rationalisation of HongkongBank's office network in Europe, undertaken some four years ago in continental Europe, moved ahead swiftly in the United Kingdom following the HSBC Group's acquisition of Midland Bank in July. The functions of the bank's London branch were redirected to focus primarily upon Asian business and the provision of trade services. The bulk of its treasury business was transferred to Midland, to be followed in 1993 by the transfer of the branch's large corporate accounts. Planning also began for the creation and installation of shared information technology systems.

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### Americas

In the United States, a strong performance by the bank's treasury, coupled with rising commercial loan demand, led to a considerable increase in operating profit before provisions and taxation. As a result of the prolonged recession, however, non-performing assets, particularly property loans, continued to rise and a corresponding increase in provisioning was required. In California, the recession caused an abrupt reduction in loan demand and dampened expectations of a strong performance by the bank's branches there. The bank's operations in the Bahamas, Chile and Panama produced mixed results.

An initiative to increase trade finance business coincided with a rise in US exports, generating good results during the year. As part of the integration of Midland Bank into the HSBC Group, Midland's treasury operations in New York City were combined with those of HongkongBank to create a single and much larger global trading unit.

## Midland Bank



Despite the economic recession in the United Kingdom, Midland Bank, a member of the HSBC Group since July, reported a pre-tax profit of £178 million for 1992, compared with a profit of £36 million in 1991. The pre-tax profit for the second half of 1992 was £89 million. Trading profit before the charge for bad and doubtful debts grew by 1 per cent to £960 million. The bad debt charge of £676 million reflects the continuing impact of the recession and slower growth rates in continental Europe; it includes a release of provisions of £89 million against loans to developing countries.

Profit attributable to shareholders in 1992 was £102 million, compared with a loss of £39 million in 1991. The attributable profit for the second half of 1992 was £97 million. This result included a charge of £122 million for restructuring costs and £31 million for permanent diminution of property values, and an extraordinary gain of £66 million on the sale of Thomas Cook. All these items were taken to reserves in the Group's consolidated accounts, resulting in a net contribution of £184 million.

Financial highlights	1992* £m	1991 £m
Share capital and reserves	2,224	2,350
Profit before taxation	178	36
Profit/(Loss) attributable to shareholders	102	(39)
Dividends paid and proposed	—	26
Total assets	61,354	59,796†

\* Midland's results have been incorporated into the consolidated results of the Group with effect from July 1992

† Restated to include the long-term assurance assets attributable to policyholders of Midland Life Limited

The depressed level of economic activity had an adverse effect on interest income. Other operating income, excluding Thomas Cook, increased by 1.48 per cent, mainly as a result of higher levels of currency and money-market trading following the merging of HongkongBank's and Midland's treasury teams in London, New York and Tokyo, and of the growth of Midland Financial Services.

Costs in 1992, excluding Thomas Cook, were £7 million lower than in 1991 and reflected effective cost management. Total assets grew by 2.6 per cent in 1992, mainly as a result of the effects of the weakening of sterling on the translation of balances

denominated in foreign currencies. Midland's capital ratios strengthened in 1992.

By the autumn, concerns about recovery and a sharp rise in the public sector borrowing requirement forced major revisions to the UK Government's economic policies. Sterling's exit from the European Exchange Rate Mechanism in September led to a devaluation of the pound of more than 10 per cent against the deutschmark and there were progressive base rate reductions, from 10 per cent to 7 per cent by the year-end. Due to the uncertainty caused by rising unemployment, the depressed housing market, debt overhang coupled with still relatively high real interest rates, and the large number of business failures, these stimuli have yet to translate into higher output. The recession presents a continuing problem for the UK banking industry as a whole.

Subsequent to Midland's acquisition by the HSBC Group, organisational changes were implemented to bring about the benefits to shareholders and customers described in the offer documents. Action was taken within the international and European branch networks, and in head office support functions, treasury and capital markets, correspondent banking, trade finance, international corporate accounts, private banking, investment management and private client stockbroking.

Midland's strategy for 1992 focused on the achievement of a more reliable and better service. The structure of Midland's UK regional organisation was streamlined by reunifying the corporate and retail divisions. Five locally based general managers were made responsible for all aspects of the business in their regions, with the aim of providing a more straightforward and effective banking service to customers. The new approach was launched by Mr Brian Pearse, the Chief Executive, in the form of a letter to each of the bank's four million customers underlining Midland's strategy and soliciting comments. About 8,000 responses, many of which were favourable, were received and all reported problems were investigated.

In May, Midland introduced its own code of banking practice, 'Banking with Midland'. A system of measuring service was also established, and a service quality director responsible for this initiative was appointed in December. In addition, a number of changes were made in the interests of greater customer convenience; these included simplifying the personal product range and extending opening hours in many branches. Midland Personal Financial Services — which groups insurance, unit trusts, retail stockbroking, global custodianship and investment advisory services — increased the size of its consultant sales force from 350 to 500 to provide a better service to the bank's personal customer base for investment and protection products. In retail stockbroking, the number of Shareshops, located within larger branches, rose by 30 to 130.

Midland extended its commitment to small businesses by training more specialist staff and establishing national and regional funds to provide such businesses with access to sources of equity.

Firstdirect, Midland's telephone banking division, continued to grow rapidly: the total number of accounts at the end of 1992 was 350,000, a 75 per cent increase over year-end 1991. New initiatives are planned to enhance Firstdirect's status as the UK market leader in direct banking.

The recession undermined the profitability of corporate banking, but overall bad debt provisions showed some improvement over 1991 levels. Despite the economic environment, new business was acquired in 1992 and relationships with corporate customers strengthened across all industry sectors.

The pre-tax profits of Forward Trust Group, the finance house arm of Midland Bank, were broadly in line with those for 1991, despite lower volumes of lending due to decreases in capital investment and consumer spending in the United Kingdom. Amongst Midland's wholesale businesses, treasury and capital markets performed outstandingly well.

Against a background of weakening economies, the overall results from operations in continental Europe were disappointing. Good performances from Trinkaus & Burkhardt in Germany, Guyerzeller Bank in Switzerland, and Midland's branches in Greece were diluted by losses sustained in the Italian and Scandinavian businesses and by Midland Bank S.A. in France, with the latter adversely affected by a downturn in the French property market.

The bank was able to capitalise on economic improvements in several Latin American countries in the financing of foreign trade, debt trading, capital markets activity and the management of debt/equity investments. Significant progress was made towards debt restructuring agreements for Argentina and Brazil. Midland's developing countries' portfolio was reduced by us\$1,177 million, or 21 per cent.

In line with Midland's strategy of concentrating on its core banking business, the sale of the Thomas Cook Group and Thomas Cook Inc. to the LTU Group and Westdeutsche Landesbank was completed in September. However, existing commercial links between Midland and Thomas Cook — principally involving the provision of foreign exchange and travellers' cheques through Midland branches — have been maintained.

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### Hang Seng Bank



During the year, Hong Kong benefited from a significant increase in re-exports, paced by brisk two-way trade with China, strong domestic consumption, and surging stock prices. While lower than in 1991, inflation remained high compared with that of other economies in the region. Assisted by the growing strength of Hong Kong's economy, Hang Seng (Group interest 61.48 per cent) performed well, with profit attributable to shareholders on a fully disclosed basis rising by 26 per cent.

Notwithstanding the rapid growth of the local economy, a general slow-down in the rate of increase in deposits occurred throughout the territory in 1992: Hang Seng's customer deposits and other accounts rose by only 2.5 per cent to HK\$226,608 million at year-end.

Although the local residential property market weakened in the second half of the year, credit demand from both external and domestic borrowers remained strong. Loans and advances rose by 6.1 per cent to HK\$82,855 million at year-end from HK\$78,067 million at the end of 1991. The ratio of loans to deposits rose to 36.6 per cent from 35.3 per cent.

Consolidated shareholders' funds grew by 29.5 per cent to HK\$29,993 million at year-end from HK\$23,155 million a year earlier. A revaluation of premises conducted during the year contributed to the increase.

Financial highlights	1992		1991	
	£m	HK\$m	£m	HK\$m
Share capital and reserves	2,557	29,993	1,591	23,155
Profit attributable to shareholders (on a fully disclosed basis)	486	5,698	311	4,522
Dividends paid and proposed	253	2,972	102	1,486
Total assets	22,120	259,419	16,897	245,970

To mark its 60th anniversary, Hang Seng announced on 4 March 1993 that it will recommend to shareholders at its forthcoming Annual General Meeting payment of a special dividend and a free scrip issue in the proportion of one new share for every ten. To bring issued share capital more into line with total assets, a free scrip issue in the proportion of one new share for every five held on 22 April 1993 will also be recommended.

During 1992, as part of its continuing efforts to improve customer service, Hang Seng opened two new branches, bringing the total number of local branches and offices to 126, and continued the branch refurbishment programme which began in 1987. To enable HongkongBank and Hang Seng account holders to check their balances quickly and efficiently, the network of instant balance terminals was expanded. Single-line queueing for banking services was extended to all branches; a speedy cheque deposit service, the Express Cheque Deposit Box, was also introduced to reduce queueing time. In October, a unit trust agency service was launched. The operation, which distributes the unit trusts of three well-established investment houses, has already drawn encouraging customer response.

Overseas, Hang Seng's two branches in New York and limited service branch in San Francisco focused mainly on consolidating their operations in a sluggish US economy. In China, Hang Seng's three representative offices — in Shenzhen, Xiamen and Shanghai — continued to provide liaison and business enquiry services, playing an important role in supporting and assisting customers doing business across the border.

In Hong Kong, the two wholly owned subsidiaries Hang Seng Finance Limited (a restricted licence bank) and Hang Seng Credit Limited (a deposit-taking company) again registered good performances. Associated Bankers Insurance Company Limited, a 68.83 per cent owned subsidiary, also produced a satisfactory result, despite mounting competition in the industry. On 19 February 1993, Hang Seng made an offer to acquire all the shares in Associated Bankers Insurance that it did not already own for a consideration of HK\$450 million before expenses and the company became a wholly owned subsidiary on 6 March 1993.

The Wing On Bank Limited, in which Hang Seng took a 50.3 per cent interest in 1986, reported good results. In November 1992, a cash offer for Wing On Bank, made on behalf of Dah Sing Financial Holdings Limited, was accepted. The transaction was completed on 9 March 1993, providing a realised surplus of HK\$260 million for credit to Hang Seng's accounts for the year ending 31 December 1993.

Throughout the year, Hang Seng continued its tradition of supporting community services. Among its most visible endeavours were the provision of the Education Advisory Service and the compilation of the Hang Seng Share Index and the Hang Seng Consumer Price Index. The Hang Seng School of Commerce, a non-profit-making coeducational institution offering a one-year diploma course in business studies and a matriculation course in commercial subjects, completed its 12th year of operation. The school awarded nine scholarships in 1992 to outstanding graduates to study business-related degree courses at tertiary institutions overseas.

**Marine Midland Bank**

Despite the difficult operating environment caused by continued recession in the United States in general and in New York State in particular, Marine Midland Bank returned to profit in 1992 for the first time in three years. Net income totalled us\$109.2 million, compared with a net loss of us\$189.9 million the previous year. Marine's major objectives during the year were to improve productivity, credit quality and customer service; significant progress was achieved in all three areas.

Although the bank's balance sheet remained flat during the year, cost-containment efforts introduced previously continued. Operating expenses, excluding those related to credit, declined by 8.1 per cent to us\$739.4 million from us\$804.7 million in 1991. Staffing levels fell by 10 per cent during the year, reducing the total number of employees to below 9,400.

Financial highlights	1992		1991	
	£000s	us\$000s	£000s	us\$000s
Share capital and reserves	794,759	1,204,053	588,207	1,100,534
Profit/(Loss) before taxation	79,325	120,178	(94,879)	(177,519)
Profit/(Loss) attributable to shareholders	72,053	109,160	(101,517)	(189,940)
Dividends paid and proposed*	3,988	6,041	3,738	6,994
Total assets	11,293,298	17,109,244	9,057,615	16,946,784

\*Preferred stock dividends

Reflecting Marine's improving credit quality, credit-related expenses fell by 45 per cent to us\$213.8 million in 1992 from us\$389.8 million in 1991. Non-accruing loans had declined at year-end by 28 per cent from us\$968.9 million (us\$385.5 million, net of reserves) in 1991 to us\$697.8 million (us\$167.9 million, net of reserves). As a percentage of loans outstanding, these non-accruing loans comprised 6.7 per cent of the total in 1992, compared with 8.7 per cent in 1991.

After two years of trimming its asset base, Marine ended 1992 with assets of us\$17.1 billion, slightly above the 1991 year-end figure of us\$16.9

billion. Marine continued to strengthen its balance sheet; at the end of 1992 its tier 1 capital ratio stood at 9.12 per cent compared with 7.66 per cent at the end of 1991.

Throughout 1992, Marine Midland continued to focus on its core business as a New York State bank. With 315 branches across the state, Marine has a presence in counties where 94 per cent of the population resides. In the year ahead, it will work to expand its presence in these markets by simplifying and enhancing its products to improve efficiency and customer service.

In addition to its activities in New York State, Marine competes selectively on a nationwide basis in a number of consumer businesses. The bank is the country's sixth-largest originator of US government-guaranteed student loans. It is one of America's top mortgage servicers, with a portfolio of mortgage loans of more than us\$12.2 billion, and ranks as the nation's seventh-largest provider of home equity loans. Marine also supports over 300 affinity credit card relationships, having added such organisations as The Martin Luther King, Jr. Center, Nikon Camera and the Certified Public Accountants in 1992.

Marine Midland's focus in 1993 is to build on the progress made during 1992. Emphasis will continue to be placed on providing superior customer service; enhancing its regional, consumer and commercial banking operations; and further developing its trade finance capabilities, an objective that will be aided by the integration of Midland Bank into the HSBC Group.

**Hongkong Bank of Canada**

The Canadian economy made a modest recovery in 1992 after undergoing major restructuring. The annual rate of inflation, at 1.5 per cent, was one of the lowest among the OECD countries. Exports, particularly to the United States, rose substantially. The prices of primary commodities continued to decline, however, and unemployment remained in excess of 11 per cent.

The debate on the amendment of the Canadian constitution during the year, and speculation on the Canadian dollar, resulted in temporary reversals of the long downward trend in interest rates. Following the referendum in October, however, and the subsequent



removal of the constitutional debate from the national agenda, the downward movement was resumed, and by year-end interest rates had declined by more than four percentage points compared with the end of 1991. The trend aided economic recovery, with the growth rate for the last quarter of 1992 registering an improvement over the same period in 1991.

Against this background, Hongkong Bank of Canada's consolidated income after tax for the year ended 31 October 1992 was c\$55.4 million, an increase of 6.9 per cent compared with the previous year. While commercial loans expanded slightly, the major area of growth was the retail sector, which saw deposits rising by more than 15 per cent and residential mortgage holdings by over 30 per cent.

The bank's market share continued to increase in all regions of Canada. Three new branches were opened with the aim of attracting business from the growing number of immigrants in the country. The bank also launched a range of mutual investment fund products during the year and incorporated the investor services division of its merchant banking subsidiary, Wardley Canada Inc., into its private banking operations.

Financial highlights	1992		1991	
	£000s	c\$000s	£000s	c\$000s
Share capital and reserves	229,776	441,580	221,406	478,657
Profit before taxation	42,910	82,464	32,095	69,386
Profit attributable to shareholders	28,835	55,414	23,973	51,828
Total assets	6,200,412	11,915,848	4,749,553	10,268,060

The decline in interest rates was reflected in a decrease in both interest income and interest expenses for Hongkong Bank of Canada. Notwithstanding a 54 per cent increase in the provision for income tax, tight cost controls and aggressive marketing resulted in improved margins. While provisions for credit losses increased, the bank's loan loss position was considerably better than the industry average. At 31 October 1992, total assets stood at c\$11.9 billion, a rise of 16 per cent compared with c\$10.3 billion a year earlier.

Canada's gross national product is forecast to grow by 3 per cent in 1993. Hongkong Bank of Canada is expected to continue to gain market share and maintain profitability.

### The British Bank of the Middle East



Most countries in the Middle East experienced a year of satisfactory economic growth, stimulated in part by robust demand for imports and a number of significant infrastructural projects. Oil prices remained relatively stable throughout the year.

The British Bank of the Middle East achieved record profits in 1992 — assisted by the strong performance of its 40 per cent owned associate The Saudi British Bank — despite the narrowing of interest rate margins in some countries. Profit attributable to shareholders increased by 80 per cent to £68.1 million. Customer deposits grew by 29 per cent to £2,512.6 million, helped in part by favourable exchange rate movements. Both trade services and treasury activities generated increased profits from higher business volumes during the year.

Financial highlights	1992 £000s	1991 £000s
Share capital and reserves	195,607	224,676
Profit before taxation	84,160	49,490
Profit attributable to shareholders	68,102	37,932
Dividends paid and proposed	115,000	28,000
Total assets	3,121,913	2,400,525

Credit growth was strong and evenly distributed across market sectors: advances to customers and other accounts increased by 37 per cent to £1,260.6 million at year-end from £918.3 million at the end of 1991. Credit quality also improved, which allowed a reduction in specific debt provisions of £4.7 million. The particularly buoyant demand for

consumer credit in the United Arab Emirates assisted the bank's subsidiary, Middle East Finance Company Limited, to return to profit after internal restructuring.

During the year, The British Bank of the Middle East continued to expand its retail banking operations. In the United Arab Emirates, the bank became the first to install off-site ATMs. The success of the bank's debit card product is expected to lead to the introduction of charge and credit cards in 1993.

To co-ordinate the HSBC Group's activities in the Middle East, a new regional management office was established during the year in Dubai. The office, one of four regional management offices throughout the world, has responsibility for strategic planning and strengthening the direction and control of Group banking and financial operations throughout the Middle East.

**HongkongBank of Australia**



Despite a growth rate of only 2 per cent in the Australian economy in 1992, the HongkongBank of Australia Group returned to profit after three years of losses with a consolidated after-tax profit of over A\$8 million. This compares with a loss of A\$37.8 million in 1991 and was achieved after taking into account additional provisioning on non-performing advances.

The corporate banking division performed well, recording a significant increase in its client base, which now includes nearly half of Australia's top 50 companies. The Group continued to focus on the growing economic links between Australia and Asia as a source of quality business. The bank's trade services division performed very well and the financial markets division reported another record year. Among the bank's new business initiatives was the establishment of the HKB Money Market Trust, which was given a triple A rating by a leading rating agency. During the year, a new branch was opened in Sydney, bringing to seven the number of branches in the country.

Financial highlights	1992		1991	
	£000s	A\$000s	£000s	A\$000s
Share capital and reserves	53,450	117,783	44,600	109,726
Profit/(Loss) before taxation	3,487	7,686	(18,368)	(45,186)
Profit/(Loss) attributable to shareholders	3,656	8,057	(15,364)	(37,799)
Total assets	1,343,111	2,959,699	1,105,007	2,718,546

Wardley James Capel Corporate Finance Limited also returned to profit, due mainly to the A\$300 million in equity issues originated by the company and underwritten by stock-broker James Capel Australia Limited.

Both James Capel Australia and investment fund manager Wardley Investment Services (Australia) Limited reported improved performances last year and expect to return to profit in 1993.

**Associated Commercial Banks**

**The Saudi British Bank**



The Saudi British Bank (Group interest 40 per cent) had another good year, reporting record net income of SR268.1 million. Total assets grew by 30 per cent, and customer deposits and the loan portfolio by 20 per cent and 54 per cent respectively. To maintain its lead in the market, the bank continued to upgrade its computer system and to expand the range of its products and services. The branch network was expanded by three to give a total network of 53 offices, and the bank's service for foreign exchange and money-market customers was enhanced by the installation of TREATS.

Financial highlights	1992		1991	
	£000s	SR000s	£000s	SR000s
Share capital and reserves	223,440	1,271,516	143,013	1,003,392
Profit before taxation	47,117	268,124	35,705	250,511
Profit attributable to shareholders	47,117	268,124	35,705	250,511
Dividends paid and proposed	—	—	12,300	86,296
Total assets	3,638,320	20,704,315	2,271,677	15,938,239

During the year, The Saudi British Bank implemented a new strategic plan aimed at repositioning its services across a broader spectrum of retail and commercial customers. In the three years covered by the plan, new businesses will be established and the treasury function will be enhanced and expanded.

The Saudi British Bank expects to generate strong profits and healthy business expansion in the coming years. To support this growth, in February 1993 the bank's share capital was increased from SR400 million to SR1,000 million through a one for one bonus issue followed by an issue of two million new shares. The level of the HSBC Group's shareholding has been maintained at 40 per cent.

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**The Cyprus Popular Bank**

The Cypriot economy rebounded strongly in 1992 from the recessionary effects of the 1991 Gulf crisis, registering growth of 7.5 per cent. A revival of the tourist industry and strong consumer demand provided the main impetus to growth. Unemployment fell below 2 per cent, but inflation accelerated, rising to 6.5 per cent.

In a competitive banking environment and under tight monetary conditions, The Cyprus Popular Bank (Group interest 24.34 per cent) achieved satisfactory results, with profits after taxation and minority interests rising by 17 per cent to c£8.638 million from the c£7.397 million achieved in 1991. At year-end, the bank's issued share capital was c£60.3 million and its capital adequacy ratio 14.5 per cent. The European Popular Bank Limited (in which The Cyprus Popular Bank has a majority shareholding) began operating in Greece in November.

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**Hongkong Egyptian Bank**

Although Egypt's economy remained sluggish throughout 1992, the Government's fiscal reform programme achieved some positive results. Inflation fell, the budget deficit was reduced, foreign exchange reserves increased, and exchange rates remained stable. In a flat but competitive market, and despite making further provisions, Hongkong Egyptian Bank S.A.E. (Group interest 40 per cent) produced a better result than in 1991, with an increase in profits of 21 per cent.

As the country continues to move towards a market-driven economy, the bank announced plans during the year to strengthen its position by increasing its capital base and expanding its branch network in 1993.

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**Investment Banking**

The Investment Banking Group was established towards the end of 1992 to develop and integrate the merchant banking, asset management and securities activities of the enlarged HSBC Group. While these businesses co-operated closely before the acquisition of Midland, the formalised relationship that has now been put in place will ensure that their full range of products and services is delivered globally with little overlap.

The investment banking structure is based on the strengths of the HSBC Group's traditional businesses. Responsibility for conducting merchant banking operations in the Asia-Pacific region lies with the Wardley Group, and in the United Kingdom, continental Europe and the United States with Samuel Montagu. The HSBC Group's world-wide fund management business is run by the HSBC Asset Management Group. The securities businesses in the United Kingdom, continental Europe, North America and Japan are managed by James Capel & Co. Limited, and in South-East Asia by Wardley James Capel Limited.

The new arrangement is the result of considerable rationalisation. Midland Montagu Asset Management has been brought within the Group's global asset management operation. Greenwell Montagu Stockbrokers has been fully integrated with James Capel. All European merchant banking has been brought under Samuel Montagu, and Wardley's merchant banking interests have been regrouped under Wardley Holdings. In the Far East, Wardley Limited is to become the HSBC Group's primary operating company for private banking.

Priority has been given to addressing areas of duplication, and significant progress has been achieved in locating investment banking businesses in common premises. This has already occurred in New York, Amsterdam and Paris, where James Capel's operations have been restructured and moved into offices occupied by Midland Bank S.A. Back-office functions are being reviewed to eliminate duplication.

The overall profit of the Investment Banking Group in 1992 was restrained by a number of exceptional charges incurred as a result of this rationalisation and restructuring. There was also serious damage to James Capel's London headquarters in April, which forced the business to relocate within the City of London.

At an operating level, given the depressed state of the market, performance in the United Kingdom and Europe was satisfactory. Substantial provisioning, however, adversely

affected Samuel Montagu's results, which are included in Midland's financial accounts. In contrast, investment banking activities in the Asia-Pacific region expanded in line with economic growth, with good results reported for the year.

### Merchant Banking

#### Wardley Group



The Wardley Group registered another good year, with profit surpassing the high level achieved in 1991. During the year, a number of significant changes were made in the Group's management and structure.

In the treasury area, Wardley benefited from good trading conditions, especially in the volatile foreign exchange market which provided significant profits. The capital markets trading unit enjoyed an outstanding year and served as lead arranger for a number of new bond issues in Hong Kong.

Financial highlights	1992		1991*	
	£000s	HK\$000s	£000s	HK\$000s
Share capital and reserves	158,961	1,859,848	152,133	2,215,502
Profit before taxation	45,846	536,403	24,578	357,859
Profit attributable to shareholders	40,382	472,471	22,075	321,409
Dividends paid and proposed	79,915	935,000	9,135	133,000
Total assets	3,916,023	45,817,465	2,933,090	42,705,784

\* Restated

Wardley Capital Limited maintained its position as the region's leader for project finance and financial advice, serving as financial adviser or arranger for many of the region's principal infrastructural and transport projects. These included arranging financing for Hopewell Holdings' us\$750 million Shajiao 'C' Coal-Fired Power Station in Guangdong Province and acting as adviser to the consortium selected to develop the HK\$7 billion Western Harbour Crossing in Hong Kong. Mandates secured in 1992 should provide a strong earnings base in 1993.

Wardley Corporate Finance Limited registered significant growth in 1992. Benefiting from the strength of Hong Kong's stock-market and the expansion of markets in China, the company sponsored or lead-managed over HK\$14.2 billion in new issues, placements and rights offerings, and participated in the underwriting of over HK\$10.5 billion in new issues and placements. Wardley Corporate Finance also played a significant role in advising both HSBC Holdings in its purchase of Midland, and Hutchison Whampoa Limited in privatising Cavendish International Holdings Limited.

Wardley Shipping Services Limited was adversely affected by the recessionary economies in the United States and Europe, which led to a poor market for the sale and purchase of ships.

Good results were produced by Central Registration Hong Kong Limited, a 50 per cent-held associate that provides a computerised share registration service for Hong Kong-listed companies. Future income is likely to be limited, however, by the introduction of the stock exchange's central clearing system.

Wardley's Malaysian affiliate, Utama Wardley Berhad, registered strong growth and record profits.

An improved performance was also achieved by Wardley's operations outside the Far East. Equator Holdings Limited, specialists in providing advice and credit in Africa, registered a strong turn around, benefiting from the introduction of innovative facilities and new measures for controlling risk. Wardley Cyprus Limited was helped by renewed confidence in the island and its improving economy. Wardley Canada Inc., a Hongkong Bank of Canada subsidiary that provides corporate finance services, achieved a satisfactory profit.

#### Samuel Montagu



Continuing recession in the United Kingdom impeded Samuel Montagu & Co. Limited's overall performance. Substantial provisions were required, adversely affecting the company's results, which are consolidated with Midland's results (see page 19).

Although mergers and acquisitions activity remained subdued, the company was able to increase its market share. Within specialised financing, demand was strong for advisory

services, particularly in the fields of debt restructuring and tax-based financing. Through its direct representation in continental Europe, Samuel Montagu is well placed to take advantage of the growing volume of cross-border European business. Additionally, Samuel Montagu has taken over Midland's activities in export and project finance, a move that has helped it to establish strong links with Wardley Capital Limited, which possesses complementary skills in the Far East. To ensure that Midland's customers receive effective delivery of the full range of export and project finance services, Samuel Montagu's strong relationship with Midland will be maintained.

Euromobiliare SpA, the Italian merchant banking subsidiary, came under new management during 1992. Following unusually turbulent market conditions in Italy in the middle of the year, the company has concentrated upon core activities.

Over the course of 1992, the renamed venture capital business Montagu Private Equity Limited was the top UK institution in management buy-outs. Despite difficult market conditions, favourable opportunities for new investments existed, providing a sound basis for the future development of the business.

#### Asset Management

##### HSBC Asset Management



In 1992, the HSBC Group's fund management businesses were amalgamated under a new management team as HSBC Asset Management. The new group continues, however, to trade under names that are familiar in their local markets: James Capel Asset Management in Europe; Wardley Investment Services Limited in the Asia-Pacific region; and Marinvest, Inc. in the United States. With offices in London, New York, Tokyo, Hong Kong, Singapore, Melbourne and Luxembourg, the group focuses on five operational areas: institutional fund management; retail fund management; private client fund management; management of third-party venture capital funds; and the provision of life assurance and retirement benefits.

Financial highlights	1992 £000s	1991 £000s
Share capital and reserves	5,228	8,051
Profit before taxation	17,240	10,870
Profit attributable to shareholders	12,230	8,718
Dividends paid and proposed	16,154	6,113
Total assets	992,253	845,670

HSBC Asset Management achieved satisfactory profits in 1992, with funds under management rising by 103 per cent to £16 billion from £7.9 billion in 1991. The most significant contribution to this growth was the merger of the two London-based companies James Capel Fund Managers

Limited and Midland Montagu Asset Management Limited. The merger resulted in a broader client mix within a larger, more efficient organisation, and provided the critical mass that the previously independent businesses lacked. Under this arrangement, future profitability should be enhanced and HSBC Asset Management's position in the increasingly competitive global fund management industry strengthened.

#### Securities

##### James Capel Group



With its diversified product range helping to shield it from the adverse effects of volatile and occasionally difficult markets, the operating performance of the James Capel Group improved significantly during the year, but the Group's overall result was adversely affected by restructuring costs and other charges. Exchanges in UK, North American and most Far Eastern markets recorded high trading volumes, but activity was reduced in continental Europe and Japan.

In the United Kingdom, James Capel & Co. continued to be the leading agency broker. Its core business of equity sales to institutional and private clients achieved significant profits, reflecting its commitment to superior research and high-quality client service. Market share of turnover on the London Stock Exchange rose and corporate broking performed strongly, benefiting in particular from its role in the Wellcome plc issue and the acquisition of Midland by the HSBC Group. Despite difficult market conditions, the continental European equity

## The HSBC Group

## Review of the Group

(continued)

Financial highlights	1992		1991*
	£000s		£000s
Share capital and reserves	132,791		75,351
Profit before taxation	7,566		17,660
Profit attributable to shareholders	2,216		14,214
Dividends paid	4,263		8,791
Total assets	3,003,185		2,493,995

\*Restated

sales team increased its business substantially and the portfolio trading unit also had a successful year. During 1992, the company acted as lead manager on a greater number of international equity and equity-linked issues than in previous years.

In Paris, significant losses in poor trading conditions led to a refocusing of activities on equity broking and research. Operations in Amsterdam also suffered from low turnover and trading losses, and steps were taken to curtail trading and to concentrate upon agency business.

In Madrid, the joint venture James Capel-Midland Agencia de Valores S.A. continued to trade profitably. In Stockholm, James Capel assumed management responsibility at year-end for broking operations previously operated by Midland.

In the Far East, the establishment of Wardley James Capel Limited brought strong profits, reflecting economies of scale and the ability to provide clients throughout the region with a wide range of products. Action is being taken to enhance the Group's ability to distribute equities and its position as a leading regional securities house. In Tokyo, despite the stock-market's huge fall in both value and turnover, success in the derivatives market helped to achieve a nearly break-even result.

In the Americas, James Capel Incorporated improved on 1991's outstanding results, benefiting from its first full year as a member of the New York Stock Exchange and increased investor interest in Latin America. The loss incurred as a result of its involvement with New Europe Hotels, an unsuccessful venture capital fund, has been reflected in the financial results. In Canada, BBN James Capel Inc. continued to prosper, helped by strong corporate finance activities.

### Capital Markets

#### CM&M Group



Carroll McEntee & McGinley, the HSBC Group's primary dealer in US government securities, reported net earnings of us\$10.4 million for 1992, an increase of 12 per cent over 1991. CM&M is also active in other fixed-income and derivative products.

Proprietary risk trading and arbitrage activities benefited from declining interest rates throughout most of 1992. Sales to larger institutional customers generated strong revenue growth, while retail business continued to come under pressure from outside factors, including competition from screen-based pricing services. To strengthen its position in the market, the company has installed automated execution systems for its larger retail customers.

Financial highlights	1992		1991	
	£000s	us\$000s	£000s	us\$000s
Share capital and reserves	62,626	94,878	45,126	84,432
Profit before taxation and extraordinary items	7,825	11,855	6,096	11,407
Profit attributable to shareholders	6,896	10,446	4,979	9,315
Total assets	2,945,477	4,462,397	1,556,615	2,912,446

Futures commission volume in Chicago rose steadily in 1992. In Singapore, both revenue and earnings grew strongly as a result of the company's increased global business and expanding client base. CM&M's office in London, which conducts international dealing activities, is starting to benefit from the integration of its trading operations with those of other HSBC Group companies.

Further integration is planned for 1993, when the company will relocate its New York headquarters to offices that it will share with other Group treasury operations in New York. This more unified approach to the market will enhance the service that CM&M can offer to its customers.

## Insurance

### Carlingford and Gibbs Insurance Groups



Operating conditions for the Carlingford and Gibbs Insurance Groups were difficult in 1992. Most of the markets in which their subsidiaries operate continued to experience low property and casualty premium rates and to offer reduced secure underwriting capacity. As a result, overall profit growth was slow and post-tax profit increased by just 8 per cent to HK\$132.14 million.

In Hong Kong, underwriting activities in the general insurance sector produced good results. Although this strong performance was partially offset by reduced investment income, record profits were achieved in a competitive environment. The UK-based insurance broking and pensions consultancy businesses reported working profits well ahead of those achieved in 1991, and the premium financing business more than doubled its profit contribution.

Financial highlights	1992		1991	
	£000s	HK\$000s	£000s	HK\$000s
Share capital and reserves	46,460	544,864	43,493	633,177
Profit after taxation	11,268	132,146	8,408	122,401
Dividends paid and proposed	8,527	100,000	3,061	44,557
Total assets	241,561	2,832,898	190,403	2,771,923

During the year, an additional reinsurance division was established and a further insurance portfolio of commercial risks was acquired by Gibbs Hartley Cooper Limited, the Group's Lloyd's broker in the United Kingdom. New insurance agency operations commenced in Australia and New Zealand. The Group's 49 per cent owned specialist reinsurance company in Bermuda and wholly owned Lloyd's Survey Agency in Chile, which did not complement other Group businesses, were divested. The agency in Brunei, which had poor profit growth prospects, was closed.

Towards the end of 1992, the Group Insurance head office, which is responsible for co-ordinating and monitoring the insurance activities of the HSBC Group, was relocated to London. In 1993, the scope of its work will expand to include the insurance activities of Midland Bank.

## Trustee Services

### Trustee Group

The Trustee Group had a good year. Despite rising rents and other costs, the after-tax profit of Group companies rose by 48 per cent, to HK\$44.9 million from HK\$30.3 million in 1991. The much improved result was due to greater marketing efforts and to the buoyant economies of South-East Asia. However, assets at year-end 1992 fell by 14.4 per cent to HK\$72.8 million from HK\$85 million a year earlier, mainly as a result of internal restructuring and a planned reduction in retained profits.

The Group's private client business grew as a result of intensive marketing. Corporate business expanded more slowly because of the postponement until 1993 of legislation regulating retirement benefit schemes in Hong Kong. Nevertheless, the HongkongBank Pooled Provident Plan was launched successfully in the territory by HongkongBank International Trustee Limited in association with various local fund management companies.

Financial highlights	1992		1991	
	£000s	HK\$000s	£000s	HK\$000s
Share capital and reserves	3,785	44,388	4,293	62,491
Profit before taxation	4,866	57,070	2,699	39,291
Profit attributable to shareholders	3,829	44,906	2,081	30,290
Dividends paid and proposed	4,450	52,189	2,021	29,432
Total assets	6,203	72,751	5,841	85,026

In Jersey, good progress was made with the integration of the trustee operations of Midland Bank with those of the HSBC Group. Rationalisation of the two operations in the Cayman Islands was also undertaken. In May, the Trustee Group established offices in the Cook Islands to serve a growing market for trustee services.

The Trustee Group's good performance was due to both its continuing drive to develop new business and new markets and its stringent control of costs. A business plan initiated by management in late 1991 identified areas where efficiency could be improved and cost

savings made. Investment in technology has led to improved client service and will result in greater operational efficiency. Under these circumstances, the Trustee Group is well positioned for growth in the long term.

### *Private Banking*

The HSBC Group's long-standing private banking businesses in Hong Kong and Singapore, particularly those operated by Wardley Limited, performed strongly during 1992, aided by the region's buoyant economies and healthy trading markets. In Geneva, The British Bank of the Middle East, which has a substantial, largely Middle Eastern client base, also recorded good profit growth.

Private banking is one of the business areas that will benefit most from the acquisition of Midland. During the course of the year, a number of complementary business units were added to the Group's existing private banking activities which operate principally under the HongkongBank and Wardley names in Hong Kong and Singapore and under The British Bank of the Middle East in Geneva and London. They include Guyerzeller Bank AG in Zurich, which provides a full range of traditional Swiss private banking services; Trinkaus & Burkhart KGaA, based in Düsseldorf and one of Germany's leading private banks; London-based Midland International Private Banking, which has a valuable franchise in the Middle East and continental Europe; and Samuel Montagu Private Bank, which serves the UK domestic market. In addition, small private banking units are located in the Midland offices in Athens, Madrid, Paris and Stockholm.

A major challenge is to ensure that these businesses, though geographically diverse and distinct in product range, are developed in a cohesive manner. An important step towards this goal was taken during the year with the appointment of a Group General Manager who is responsible for running private banking as a global business line. Plans are also in place to establish a Middle East marketing team, based in Dubai and Bahrain, and to create an integrated private banking and trustee business in Jersey. In the Far East, Wardley Limited's private banking department, which has built a strong reputation in Hong Kong and the Asia-Pacific region, is to become a specialist private bank and flagship of the Group's private banking operations there.

### *Finance Services*

#### **Wayfoong Finance Limited**

Financial highlights	1992		1991	
	£000s	HK\$000s	£000s	HK\$000s
Share capital and reserves	50,444	591,577	40,210	585,331
Profit before taxation	36,521	428,298	22,545	328,186
Profit attributable to shareholders	30,377	356,246	18,744	272,853
Dividends paid and proposed	29,845	350,000	13,739	200,000
Total assets	950,326	11,144,902	667,503	9,716,851

Although tighter mortgage lending criteria introduced at the end of 1991 led to a less active property market in Hong Kong — and a resultant decline in Wayfoong Finance Limited's mortgage finance activity — in 1992, this was offset by significant growth in hire-purchase and leasing business.

The company's deposit base grew despite low interest rates throughout 1992, and overall interest revenue rose on higher volumes. A reduction in overheads also contributed to a substantial increase in profits and dividends available for distribution.

In May 1992, the company formed a joint-venture auto-finance subsidiary with the Dah Chong Hong Group, one of the territory's leading distributors of motor vehicles.



### HSBC Finance (Malaysia) Berhad

Financial highlights	1992*		1991	
	£000s	M\$000s	£000s	M\$000s
Share capital and reserves	18,614	73,631	14,392	73,380
Profit before taxation	1,827	7,229	1,891	9,644
Profit attributable to shareholders	1,454	5,752	1,136	5,791
Dividends paid and proposed	1,390	5,500	1,177	6,000
Total assets	221,844	877,548	172,561	879,806

\* Subject to approval

The company's current emphasis is on increasing corporate business in Peninsular Malaysia, where it has its headquarters.

### Wayfoong Mortgage And Finance (Singapore) Limited

Financial highlights	1992*		1991	
	£000s	S\$000s	£000s	S\$000s
Share capital and reserves	11,256	27,994	8,347	25,384
Profit before taxation	4,566	11,355	1,517	4,615
Profit attributable to shareholders	2,658	6,610	814	2,478
Dividends paid and proposed	1,608	4,000	318	966
Total assets	156,045	388,065	100,452	305,502

\* Subject to approval

albeit at a slower pace. General provisions were again increased, as required by the Monetary Authority of Singapore.

### Mortgage And Finance Berhad

Financial highlights	1992		1991	
	£000s	B\$000s	£000s	B\$000s
Share capital and reserves	2,709	6,737	2,082	6,331
Profit before taxation	2,932	7,291	1,956	5,949
Profit attributable to shareholders	2,056	5,114	1,367	4,156
Dividends paid and proposed	1,809	4,500	1,266	3,850
Total assets	52,844	131,418	41,982	127,680

Growth prospects are likely to be affected, however, by the decision of local banks to offer similar products at competitive rates.

HSBC Finance (Malaysia) Berhad reported a lower operating profit for 1992 than for 1991 and conditions for the company remained difficult despite the continuing strength of Malaysia's economy.

Loan growth was depressed by weak credit demand in the timber-exporting states of East Malaysia and the dampening effect of government measures to curb inflation and consumer spending.

Competitive pressures led to finer lending rates and, with the cost of funds remaining relatively high, interest margins were squeezed further whilst provisioning for doubtful accounts rose.

Wayfoong Mortgage And Finance (Singapore) Limited performed strongly in 1992, achieving record profits for the year. Sustained growth in receivables and deposits, coupled with a decline in the cost of funds, resulted in profit attributable to shareholders rising by 167 per cent to S\$6.61 million compared with S\$2.48 million in 1991.

Operating expenses remained under tight control, growing only marginally during the year.

The company further increased its market share in vehicle financing, while maintaining gross yields. Property financing receivables also grew steadily,

Mortgage And Finance Berhad made reasonable progress in 1992.

Continuing support from Brunei's major car dealers allowed the company to increase its market share in its main business — the hire-purchase financing of private vehicles. This increase, together with a lower cost of funds, resulted in profit attributable to shareholders rising by 23 per cent.

Despite lower interest rates, the company's deposit base expanded in the latter part of 1992.

**HongkongBank International Trade Finance Limited**

Financial highlights	1992		1991	
	£000s	us\$000s	£000s	us\$000s
Share capital and reserves	5,183		5,188	
Profit before taxation	8,470		2,998	
Profit attributable to shareholders	7,612		2,868	
Dividends paid and proposed	7,612		2,868	
Total assets	117,869		132,488	

HongkongBank International Trade Finance Limited performed well in 1992, recording an increase in profit attributable to shareholders of 165 per cent over 1991. Although much of the increase can be attributed to the exceptional recovery of Nigerian debts incurred some 10 years ago, the company's core business — cross-border trade finance — also achieved its objectives.

New electronic data-processing systems were introduced during the year. The new systems will permit the handling of a larger volume of business, without the allocation of additional resources, in the company's specialist area, automotive distribution, as well as in its core business of financing trade in raw materials, chemicals and semi-capital equipment. Although its main market is Western Europe, the company will consider profitable and secure niche roles in other markets.

**Concord Leasing, Inc.**

Financial highlights	1992		1991	
	£000s	us\$000s	£000s	us\$000s
Share capital and reserves	73,810	111,622	66,741	124,873
Profit/(Loss) before taxation	(82,587)	(125,119)	18,125	33,913
Profit/(Loss) attributable to shareholders	(74,909)	(113,485)	11,159	20,879
Total assets	1,401,657	2,123,498	1,160,009	2,170,392

Concord Leasing, Inc., the Group's primary secured equipment leasing operation in the United States, had a difficult year. During the third quarter, an internal audit determined that the asset quality of the company's shipping portfolio would no longer support the values previously ascribed to it and a charge of us\$75 million was taken.

Concord took a further charge of us\$61.4 million for the same quarter following a full review of its asset portfolio and business strategy. A new Chief Executive Officer and several new senior managers were appointed. The HSBC Group provided a capital injection of us\$100 million and reaffirmed its support for the company, which will in future focus on its core equipment financing business.

**Investments**

**Grenville Transportation Holdings Limited**

Financial highlights	1992		1991	
	£000s	HK\$000s	£000s	HK\$000s
Share capital and reserves	—	1	29,151	424,353
Profit attributable to shareholders	286,671	3,362,075	127,118	1,850,459
Dividends paid and proposed	322,744	3,785,143	131,393	1,912,688
Total assets	—	—	109,626	1,595,821

During 1992 Grenville Transportation Holdings Limited, through its subsidiary Fort Hall Limited, sold its remaining holding of 287 million shares in Cathay Pacific Airways Limited.

It also sold its other major investments to fellow subsidiary companies as part of a Group restructuring exercise completed in December 1992.

The exceptional gains on these sales resulted in a significant increase in the company's profit for the year and in the dividends paid.

### Results for the Year

The Group profit for the year attributable to shareholders of the Company was £1,221 million, an increase of 108 per cent.

The Directors recommend the payment of a final dividend of 14.2p per ordinary share on 4 June 1993 to shareholders who are registered as at the close of business on 8 April 1993. With the interim dividend of 4.8p per ordinary share already paid, the total distribution for the year will amount to £472 million. The dividend will be payable in cash in sterling or in Hong Kong dollars at an exchange rate to be fixed on 21 May 1993, and with a scrip alternative.

Further information about the results is given in the accompanying profit and loss account on page 38.

### Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of financial services — commercial banking, investment banking, private banking and insurance — through an international network of more than 3,000 offices in 66 countries throughout the Asia-Pacific region, the Middle East, Europe and the Americas.

Midland Bank plc became a wholly owned subsidiary during the year. The Company purchased 35,622,158 Midland Bank ordinary shares of £1 each in the market at prices ranging from £4.15 to £4.68, and issued 775,596,133 ordinary shares of 75p each and £413,457,163 11.69 per cent Subordinated Bonds 2002 to acquire the remaining 646,330,117 Midland Bank shares under the terms of a recommended offer made on 11 June. The offer remained open until January 1993 to enable holders of options under Midland Bank employee share option schemes to accept the offer. The last of the options over Midland Bank shares expired on 10 January 1993.

In July 1992, an indirectly wholly owned subsidiary of the Company sold its 10 per cent shareholding in Cathay Pacific Airways Limited for a total consideration of approximately HK\$3.39 billion, representing a surplus of approximately £270 million over the book value of the shareholding in the Group accounts.

In November 1992, Wardley Investment Services Limited, an indirectly wholly owned subsidiary of the Company, purchased from Banyan Limited, a wholly owned subsidiary undertaking of Swire Pacific Limited, the 255 shares (representing 25.5 per cent) in Wardley Swire Holdings Limited that it did not already own for a total cash consideration of HK\$80 million.

Hang Seng Bank Limited (a 61.48 per cent owned subsidiary) entered into an agreement with Dah Sing Financial Holdings Limited in November 1992, pursuant to which a cash offer of HK\$33.215 per share was made for all the issued shares of Wing On Bank Limited. Hang Seng Bank accepted the offer in respect of its 50.3 per cent shareholding in Wing On Bank which will result in a HK\$260 million realised surplus in its 1993 accounts. Also in November 1992, Wing On Bank entered into an agreement for the sale and lease-back of part of its head office building in Hong Kong with Wing On International Holdings Limited, a substantial shareholder in Wing On Bank. The premises were sold by Wing On Bank for a cash consideration of HK\$250 million and were leased back from Wing On International Holdings for a period of two years at a rent of HK\$1.77 million per month. The terms were agreed at an open market valuation by an independent property valuer.

In February 1993, Hang Seng Bank made an offer for all the 2,623,624 shares of HK\$10 each in its 68.8 per cent owned subsidiary Associated Bankers Insurance Company Limited ('ABI') which it did not already own at a price of HK\$171.65 per ABI share — an aggregate consideration of HK\$450.3 million. Eight directors of Hang Seng Bank were interested in 11.7 per cent of the issued share capital of ABI and two directors of ABI were interested in 0.2 per cent of the issued share capital of ABI. Hang Chong Investment Company, Limited (not part of the Group) was interested in 13.1 per cent of the issued share capital of ABI.

A review of the development of the business of Group undertakings during the year, particulars of important events since the end of the year, and an indication of likely future developments are given in the Review of the Group on pages 14 to 32.

Geographical analyses of Group assets and of profit before taxation are set out in Note 30 on pages 58-59.

**Capital and Reserves**

The following events occurred during the year:

1. The authorised share capital of the Company, denominated in pounds sterling, was increased from £301,500 to £1,125,301,500 by the creation of 1,500,000,000 ordinary shares of 75p each.
2. Under the terms of the recommended offer for Midland Bank plc, the Company issued 775,596,133 ordinary shares of 75p each, credited as fully paid and £260,732,886 11.69 per cent Subordinated Bonds 2002. Of these, 296 shares and £160 Bonds were issued in January 1993. A further £152,724,277 Bonds were issued by private placing, the net proceeds of which were used to make payment to Midland shareholders who, under the terms of the offer, elected to receive cash instead of Bonds.
3. In connection with the acquisition of Midland Bank, holders of options under the Midland Bank employee savings-related and executive share option schemes were offered the opportunity to exchange their outstanding options over Midland Bank shares for options over the Company's shares in the ratio of 1.3722 for one. Options over 25,329,103 HSBC Holdings ordinary shares of 75p each were granted under these arrangements. Of these, options over 432,270 HSBC Holdings shares were exercised during the year at prices ranging from £1.1754 to £2.4064 per share, and options over 226,880 shares lapsed. Since the year-end, options over a further 67,117 shares have been exercised at prices ranging from £1.195 to £2.1847, and options over 108,927 shares have lapsed.
4. 7,944,365 ordinary shares of HK\$10 each were issued at par in lieu of the final dividend for 1991 to shareholders who had elected to receive new shares in lieu of cash dividends. The average market price per share used to calculate shareholders' entitlements to new shares was HK\$42.85.
5. 4,889,471 ordinary shares of 75p and 7,937,388 shares of HK\$10 each were issued at par in lieu of the interim dividend for 1992 to shareholders who so elected. The average market price per share used to calculate shareholders' entitlements to new shares was £3.512.
6. 35,000,000 ordinary shares of 75p each and 45,000,000 ordinary shares of HK\$10 each were issued for cash by private placing with independent third parties. Of these, 13,204,800 shares of HK\$10 each were issued at HK\$64.46 per share and 66,795,200 were issued at £5.48 per share — a discount of approximately 4.5 per cent to the closing price of HK\$67.50 per ordinary share of HK\$10 each on the Stock Exchange of Hong Kong on 11 November 1992. The net proceeds of the issue were used primarily to repay a short-term loan drawn in connection with the purchase of Midland Bank shares and for general working capital purposes.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2, on Friday, 28 May 1993 at 11.00 a.m.

**Close Company Provisions**

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

**Fixed Assets**

In November 1992, the freehold and long leasehold properties of the Group were revalued at open market value for existing use or, in the case of the few specialised properties, at depreciated replacement cost. Long leasehold properties are defined as being those with an unexpired lease in excess of 30 years in Hong Kong and 50 years elsewhere in the world. The properties have been valued either by professional external valuers or by professionally qualified staff and reviewed by professional external valuers. The surplus of £505 million has, after deduction of minority interests of £136 million, been credited to reserves at 31 December 1992.

The property of the Company was also valued by an independent, professionally qualified valuer at open market value for existing use. The surplus on revaluation of £6 million has been credited to reserves at 31 December 1992.

**Directors**

The names of the Directors serving at the date of this Report are set out on page 3.

During the year, F R Frame, D A Gledhill, B L Goldthorpe, Li Ka-shing, N M S Rich and J J Swaine resigned from the Board.

M Murofushi, B G Pearse and Sir Peter Walters were appointed to the Board during the year and R Delbridge, G Maitland Smith and Sir Colin Marshall have been appointed since the year-end. In accordance with the Articles of Association of the Company, the six Directors appointed will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

J R H Bond, Baroness Dunn, H C Lee and Sir William Purves retire by rotation in accordance with the Articles of Association of the Company. J R H Bond, Baroness Dunn and Sir William Purves, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. H C Lee does not seek re-election.

J R H Bond and R Delbridge have service contracts with the Company which may be terminated by the Company at 24 months' notice. None of the other Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or a subsidiary of the Company which is not determinable within one year without payment of compensation.

### Directors' Interests

According to the registers of Directors' interests kept by the Company under Section 325 of the Companies Act 1985 and Section 29 of the Securities (Disclosure of Interests) Ordinance, the Directors of the Company at the year-end had the following interests, all beneficial, in the shares and debentures of the Company and its subsidiaries at the beginning of the year (or date of appointment, if later) and at the end of the year:

	At 1 January 1992 (or date of appointment, if later)		At 31 December 1992			
	Personal	Family	Corporate	Other	Total	
<b>Ordinary Shares of HK\$10</b>						
J R H Bond	15,309	15,309	—	—	—	15,309
D E Connolly	170,616	178,235	—	—	—	178,235
J M Gray	15,349	3,553	12,477	—	—	16,030
J E Hotung	110,229	232	—	502,870*	—	503,102
N R Knox	7,562	7,560	—	—	—	7,560
H C Lee	17,589	18,373	—	—	—	18,373
D P H Liao	16,357	17,087	—	—	—	17,087
Sir Wilfrid Newton	2,151	2,246	—	—	—	2,246
Sir William Purves	30,421	31,779	—	—	—	31,779
H Sohmen	351,671	—	161,292	290,379*	—	451,671
J E Strickland	24,881	25,113	873	—	—	25,986

\*Interests held by private investment companies

### Ordinary Shares of 75p

D P H Liao	—	6,778	—	—	—	6,778
B G Pearse	12,264	12,431	12,164	—	—	24,595
Sir William Purves	—	1,269	—	—	—	1,269
Sir Peter Walters	12,000	12,164	—	—	—	12,164

### Subordinated Bonds 2002

Baroness Dunn	—	70,000	—	—	—	70,000
D P H Liao	—	3,622	—	—	—	3,622
B G Pearse	6,643	6,643	6,500	—	—	13,143
Sir Peter Walters	6,500	6,500	—	—	—	6,500

H C Lee had a personal interest in 16,200 Hang Seng Bank Limited Ordinary Shares of HK\$5 at 1 January and 20,250 shares at 31 December 1992.

As Directors of Marine Midland Bank, N.A., J R H Bond, J M Gray, N R Knox and Sir William Purves each had a personal interest in 10 shares of common stock of the Company at the beginning and at the end of the year. Mr Gray's interest in the shares ceased on 5 January 1993.

In August 1992, B G Pearse exercised options granted in 1991 to acquire 300,000 Midland Bank plc ordinary shares of £1 each. Of these shares, 290,000 were sold and the balance was transferred to a family member who accepted the HSBC Holdings offer.

Save as stated above, none of the Directors had an interest in any shares or debentures of any Group company at 1 January 1992, or at the date of their appointment as Directors if later, or at 31 December 1992, and none of the Directors, or members of their immediate families, was granted or exercised any right to subscribe for any shares or debentures during the year. Since the year-end, J R H Bond acquired a personal interest in £500,000 Subordinated Bonds 2002. There have been no other changes in these interests since the year-end.

None of the Directors had during or at the end of the year a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiary undertakings.

#### **Directors' and Officers' Liability Insurance**

Directors' and officers' liability insurance was maintained during the year.

#### **Employees**

At 31 December 1992 there were 99,148 persons employed by the Group.

The average number of persons employed by the Group during the year was 79,470. Of these, 26,611 were employed in the United Kingdom and their aggregate remuneration in respect of the year was £562 million.

#### **Substantial Interests in Share Capital**

The following interests in the Company's ordinary shares of 75p each are recorded in the register maintained under Section 211 of the Companies Act 1985:

Barclays Bank plc*	4.46 per cent
Schroder Investment Management Limited	4.17 per cent
Prudential Corporation	4.15 per cent
Robert Fleming Holdings Limited	3.26 per cent

\* *Non-beneficial*

No substantial interest in any of the equity share capital is recorded in the register maintained by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance.

#### **Political and Charitable Donations**

During the year, subsidiary undertakings made charitable donations totalling £2,414,000. Of this amount £281,000 was given for charitable purposes in the United Kingdom. No political donations were made during the year.

#### **Corporate Governance**

The Board has appointed a number of committees consisting of certain Directors and senior executives. The following are the principal committees.

##### ***Group Executive Committee***

The Group Executive Committee is chaired by the Group Chairman. The other members of the Committee are J R H Bond, B H Asher, R Delbridge, J M Gray, B G Pearse and J E Strickland, Directors, and F J French and A Mehta, Group General Managers. The Committee meets regularly and operates as a general management committee under the direct authority of the Board.

##### ***Group Audit Committee***

The Group Audit Committee meets regularly with the Group's senior financial, internal audit and compliance management and the external auditors to consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The members of the Group Audit Committee are D E Connolly (Chairman), G Maitland Smith and Sir Wilfrid Newton, all of whom are non-executive Directors, and F R Frame, Adviser to the Board.

##### ***Remuneration Committee***

The Remuneration Committee meets regularly to consider human resource policies of the Group, particularly those governing terms and conditions of employment, remuneration, retirement benefits, development of

high potential employees and key succession planning, and to make recommendations to the Board. The members of the Remuneration Committee are Baroness Dunn (Chairman), H Sohmen and Sir Peter Walters, all of whom are non-executive Directors, and R A Tennant, General Manager Group Human Resources.

#### **Auditors**

The Accounts have been audited by KPMG Peat Marwick, Hong Kong.

Consequent upon the Company transferring its Head Office to London on 1 January 1993, KPMG Peat Marwick of Hong Kong retire as Auditors at the forthcoming Annual General Meeting and do not seek reappointment. The Directors propose that KPMG Peat Marwick of London, an associated firm of the retiring Auditors, be appointed Auditors in place of the retiring Auditors. Special notice to propose the appointment of the replacement Auditors has been received.

On behalf of the Board  
R G Barber, *Secretary*

15 March 1993

Consolidated Profit and Loss Account  
for the Year Ended 31 December 1992

1991 £m		Note	1992 £m	1992 HK\$m	1992 US\$m
6,364	Interest income		8,999	105,540	13,633
(4,523)	Interest expense		(5,661)	(66,392)	(8,576)
1,841	Net interest income	3	3,338	39,148	5,057
1,204	Other operating income	4	2,626	30,798	3,978
3,045	Operating income		5,964	69,946	9,035
(1,779)	Operating expenses	5	(3,377)	(39,605)	(5,116)
1,266	Operating profit before charge for bad and doubtful debts		2,587	30,341	3,919
(502)	Charge for bad and doubtful debts	15	(1,185)	(13,898)	(1,795)
764	Operating profit		1,402	16,443	2,124
25	Share of profits less losses of associated undertakings		38	446	58
789	Profit before exceptional items and taxation		1,440	16,889	2,182
91	Exceptional items	6	270	3,167	409
880	Profit before taxation		1,710	20,056	2,591
(173)	Taxation	7	(283)	(3,319)	(429)
707	Profit after taxation		1,427	16,737	2,162
(121)	Profit attributable to minority interests		(206)	(2,416)	(312)
586	Profit attributable to the shareholders		1,221	14,321	1,850
(207)	Dividends	9	(472)	(5,536)	(715)
379	Retained profit for the year	23	749	8,785	1,135
Pence			Pence	HK\$	US\$
36.06	Earnings per share	10	62.07	7.28	0.94
12.71	Dividends per share	9	19.00	2.23	0.29

Movements in reserves are set out in Note 23



Consolidated Balance Sheet  
at 31 December 1992

1991 £m		Note	1992 £m	1992 HK\$m	1992 US\$m
<b>ASSETS</b>					
23,221	Cash and short-term funds	11	35,386	415,007	53,610
8,363	Placings with banks maturing between one and 12 months		14,148	165,928	21,434
2,765	Trade bills and certificates of deposit	12	6,324	74,168	9,581
2,757	Hong Kong Government certificates of indebtedness	13	4,313	50,583	6,534
6,473	Investments	14	14,576	170,947	22,083
39,385	Advances to customers and other accounts	15	90,517	1,061,583	137,133
82,964			165,264	1,938,216	250,375
148	Investments in associated undertakings	16	404	4,738	612
2,674	Premises and equipment	17	4,782	56,083	7,245
85,786			170,450	1,999,037	258,232
<b>LIABILITIES</b>					
2,761	Hong Kong currency notes in circulation	13	4,318	50,642	6,542
76,089	Current, deposit and other accounts	19	151,801	1,780,322	229,978
147	Proposed dividend	9	356	4,175	539
78,997			156,475	1,835,139	237,059
<b>CAPITAL RESOURCES</b>					
1,274	Loan capital and preference shares	21	4,665	54,711	7,067
696	Minority interests		1,299	15,235	1,968
1,120	Share capital	22	2,054	24,089	3,112
3,699	Reserves	23	5,957	69,863	9,026
4,819	Shareholders' funds		8,011	93,952	12,138
6,789			13,975	163,898	21,173
85,786			170,450	1,999,037	258,232

Sir William Purves, *Chairman*

Balance Sheet  
at 31 December 1992

1991 £m		Note	1992 £m	1992 HK\$m	1992 US\$m
	<b>FIXED ASSETS</b>				
	Tangible assets:				
4	Premises and equipment	17	10	117	15
	Investments:				
2,433	Subsidiary undertakings	18	7,358	86,295	11,147
	Debtors:				
—	Loans to subsidiary undertakings		1,052	12,338	1,594
<u>2,437</u>			<u>8,420</u>	<u>98,750</u>	<u>12,756</u>
	<b>CURRENT ASSETS</b>				
	Debtors:				
2,631	Amounts owed by subsidiary undertakings		477	5,594	724
	Cash at bank and in hand:				
—	Balances with subsidiary undertakings		188	2,205	285
<u>2,631</u>			<u>665</u>	<u>7,799</u>	<u>1,009</u>
	<b>CREDITORS: amounts falling due within one year</b>				
97	Amounts owed to subsidiary undertakings		9	106	14
5	Other creditors		96	1,126	145
—	Taxation		118	1,384	179
147	Proposed dividend	9	356	4,175	539
<u>249</u>			<u>579</u>	<u>6,791</u>	<u>877</u>
<u>2,382</u>	<b>NET CURRENT ASSETS</b>		<u>86</u>	<u>1,008</u>	<u>132</u>
4,819	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>8,506</b>	<b>99,758</b>	<b>12,888</b>
	<b>CREDITORS: amounts falling due after more than one year</b>				
—	Loan capital	21	(413)	(4,844)	(626)
	<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>				
—	Deferred taxation	20	(82)	(962)	(124)
<u>4,819</u>	<b>NET ASSETS</b>		<u>8,011</u>	<u>93,952</u>	<u>12,138</u>
	<b>CAPITAL AND RESERVES</b>				
1,120	Called up share capital	22	2,054	24,089	3,112
—	Share premium account	23	374	4,386	567
1,718	Revaluation reserve	23	2,431	28,511	3,683
1,981	Profit and loss account	23	3,152	36,966	4,776
<u>4,819</u>			<u>8,011</u>	<u>93,952</u>	<u>12,138</u>

Sir William Purves, *Chairman*

**Consolidated Cash Flow Statement  
for the Year Ended 31 December 1992**

	<i>Note</i>	<b>1992 £m</b>	1991 £m
<b>Net cash outflow/inflow from operating activities</b>	24	<b>(4,080)</b>	4,119
<b>Returns on investments and servicing of finance:</b>			
Interest paid on loan capital		(197)	(101)
Dividends received from associated undertakings		8	7
Preference dividend paid by subsidiary undertaking		(4)	(4)
Ordinary dividends paid		(208)	(151)
Dividends paid to minority interests		(64)	(18)
Dividends received on long-term investments		43	42
Interest received on long-term investments		292	194
Interest paid on finance leases		(8)	(2)
		(138)	(33)
<b>Net cash outflows from returns on investments and servicing of finance</b>		<b>(138)</b>	<b>(33)</b>
<b>Taxation paid</b>		<b>(208)</b>	<b>(154)</b>
<b>Investing activities:</b>			
Net cash inflow from acquisition of Midland		11,456	—
Net cash outflow from disposal of Thomas Cook Group Ltd		(280)	—
Purchase of premises and equipment		(175)	(150)
Proceeds of sale of premises and equipment		161	6
Purchases of intangible fixed assets		(34)	(16)
Purchases of long-term investments		(286)	(313)
Proceeds from sales of long-term investments		289	117
		11,131	(356)
<b>Net cash inflow/outflow from investing activities</b>		<b>11,131</b>	<b>(356)</b>
<b>Net cash inflow before financing</b>		<b>6,705</b>	<b>3,576</b>
<b>Financing:</b>			
	25		
Share issue — proceeds of private placement		439	—
Loan capital repaid		(157)	(106)
Loan stock issued		43	—
		325	(106)
<b>Net cash inflow/outflow from financing</b>		<b>325</b>	<b>(106)</b>
<b>Increase in cash and cash equivalents</b>	11	<b>7,030</b>	3,470
<b>Net cash inflow attributable to:</b>			
Shareholders and minorities		2,878	1,324
Other balance sheet movements		4,152	2,146
		7,030	3,470
<b>Increase in cash and cash equivalents</b>		<b>7,030</b>	3,470

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**1 Basis of preparation**

- a The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and premises, and in accordance with applicable accounting standards. Following the decision by the Board of the Company to disclose inner reserves, the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 1991 have been restated to reflect the reclassification of inner reserves from current, deposit and other accounts to reserves and minority interests, as appropriate. The consolidated profit and loss account for the year ended 31 December 1991 has been restated accordingly.

The consolidated accounts are prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 relating to banking groups. The consolidated accounts comply with Schedule 9 and the accounts of the Company with Schedule 4 to that Act. As permitted by that Act no profit and loss account is presented for the Company.

- b Pursuant to the Scheme of Arrangement which became effective on 2 April 1991, The Hongkong and Shanghai Banking Corporation Limited (HongkongBank), the former holding company of the Group, became a wholly owned subsidiary undertaking of the Company, which is now the holding company of the Group.

The consolidated financial statements for 1991 were prepared using the basis of merger accounting as if the Company had been the holding company for the whole of 1991.

- c The consolidated financial statements comprise the accounts of HSBC Holdings plc and its subsidiary undertakings made up to 31 December, except in the case of Hongkong Bank of Canada, whose accounts are made up to 31 October annually to comply with local regulations, and the stockbroking subsidiary undertakings in the United Kingdom and the Channel Islands, whose accounts are made up to the last Stock Exchange account day prior to 31 December.

Midland Bank plc ('Midland'), acquired on 10 July 1992, has been consolidated by means of acquisition accounting. This acquisition followed the successful completion of the Offer made by the Company for the whole of the share capital of Midland and options thereon not already held within the Group. The carrying value of Midland to the Group was revised to reflect the fair value attributed to its net assets as at the date of acquisition. A merger reserve was established at that date representing the difference between the fair value of the shares issued under the Offer and the nominal value of these shares. The investment in Midland is carried at net asset value in the Company.

Following the acquisition of Midland the reporting currency was changed from Hong Kong dollars to sterling with effect from 1 July 1992. Exchange differences which had accumulated in reserves up to 1 July 1992 in Hong Kong dollars have been translated into sterling at the rate prevailing at that date.

All significant intra-Group transactions have been eliminated on consolidation.

- d Goodwill arising on the acquisition of subsidiary or associated undertakings, being the excess of the cost of acquisition over the fair value of the Group's share of separable net assets acquired, has been charged against reserves in the year of acquisition. Goodwill arising on the acquisition of Midland has been charged against the merger reserve established at the date of acquisition.

- e The consolidated accounts include the attributable share of the results and reserves of its associated undertakings, based on accounts made up to dates not earlier than six months prior to 31 December.

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**2 Principal accounting policies**

a *Doubtful debts*

Provision is made for doubtful debts as and when they are so considered and in addition amounts have been set aside as general provisions for doubtful debts. These provisions are deducted from advances to customers, trade bills and other accounts. Interest on bad and doubtful advances continues to be charged to customers' accounts and credited to interest income and provision for said interest made as appropriate.

b *Foreign currencies*

- i Assets and liabilities denominated in foreign currencies and the results of overseas branches and subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year-end.
- ii Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging are accounted for in reserves.

## 2 Principal accounting policies (continued)

### c Premises and equipment

- i Premises are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:
  - Freehold land and land held on leases with more than 50 years to expiry is not depreciated.
  - Land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases.
  - Buildings and improvements thereto are depreciated on cost at the greater of 2% per annum on the straight line basis or over the unexpired terms of the leases.
- ii Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on the straight line basis to write off the assets over their estimated useful lives, which are generally between five and 20 years.

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### d Investments in subsidiary and associated undertakings

- i The Company's investments in subsidiary undertakings are stated at attributable net asset values. Changes in net tangible assets of subsidiary undertakings are accounted for as movements in reserves.
- ii Investments in associated undertakings are stated at the Group's attributable share of the net tangible assets of the relevant companies.

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### e Investments

- i Long-term strategic equity investments are stated at cost less provisions where there has been a permanent diminution in value.
- ii Other listed equity investments are stated at the lower of cost and market value.
- iii Other unlisted equity investments are stated at cost less provisions where there has been a permanent diminution in value.
- iv Dated securities which are intended to be held to maturity are stated at cost adjusted for the amortisation of premiums and discounts on purchase over the periods to redemption.
- v Undated securities are stated at the lower of cost and market value.
- vi Investments held for trading purposes are stated at market value.

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### f Deferred taxation

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

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### g Finance and operating leases

- i Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where the Group is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in 'Advances to customers and other accounts'. Finance charges receivable are recognised over the periods of the leases in proportion to the funds invested.
- ii Where the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Equipment' and the corresponding liability to the lessor is included in 'Current, deposit and other accounts'. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases.
- iii All other leases are classified as operating leases. Rentals payable and receivable under operating leases are accounted for on the straight line basis over the periods of the leases.

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### h Retirement benefits

The Group operates a number of pension schemes throughout the world. Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and custom. The major schemes, which cover the majority of scheme members, are of the defined benefit type, the pension cost of which is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

The cost of providing other post-retirement benefits is recognised as an expense in the year in which the claims are made.

**3 Net interest income**

	1992	1991
	£m	£m
<i>Interest income</i>		
Short-term funds	2,334	2,115
Dealing assets	396	274
Other investments	292	194
Advances to customers	5,605	3,546
Finance leases and instalment finance	285	160
Other	87	75
	<u>8,999</u>	<u>6,364</u>
<i>Interest expense</i>		
Deposits	5,123	4,072
Loan capital	218	101
Other	320	350
	<u>5,661</u>	<u>4,523</u>
Total net interest income	<u><u>3,338</u></u>	<u><u>1,841</u></u>

**4 Other operating income**

	1992	1991
	£m	£m
Service charges, fees and other banking income	1,381	653
Foreign exchange earnings	394	183
Income from investments	465	125
Rent received	57	36
Other	329	207
	<u>2,626</u>	<u>1,204</u>

**5 Operating expenses**

<b>a</b> <i>Operating expenses</i>	1992	1991
	£m	£m
Staff		
Salaries and other staff costs	1,630	888
Pension costs	172	66
	1,802	954
Premises and equipment		
Depreciation	208	130
Rents payable	255	127
	463	257
Other	1,112	568
	<u>3,377</u>	<u>1,779</u>

**b Retirement benefits**

The Group operates some 95 pension schemes throughout the world, with a total pension cost of £172 million (1991: £66 million), of which £117 million (1991: £59 million) relates to overseas schemes. The increase in cost is due mainly to the inclusion of amounts relating to schemes within Midland, together with the effect of exchange rate movements on certain overseas schemes. Of the overseas schemes £16 million (1991: £14 million) has been determined in accordance with best practice and regulations in the United States and Canada.

The majority of the schemes, which cover 90% of the Group's employees, are defined benefit schemes which are fully funded, with assets in the case of the larger schemes held in trust funds separate from the Group. The pension cost relating to these schemes was £164 million (1991: £60 million) which is assessed in accordance with the advice of professional actuaries; the schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. An amount of £61 million (1991: £37 million) has been included in other liabilities, resulting from a difference between amounts recognised as cost and amounts funded directly.

## 5 Operating expenses (continued)

The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the country in which they are situated. In the case of one scheme there is a deficiency on a current funding basis of £20 million (1991: £17 million), which is being supplemented on an ongoing basis in accordance with the advice of the actuary.

The pension cost for defined contribution schemes, which cover 10% of the Group's employees, was £8 million (1991: £6 million).

The Group also operates some post-retirement health care benefits schemes covering approximately 16,000 employees. Independent actuarial valuations as at 31 December 1992 estimated the present value of the accumulated post-retirement benefit obligation at £180 million (1991: £46 million) for the Group for which no provision has been made. When paid, the costs of meeting these liabilities are expected to attract tax relief. The cost relating to these Group schemes was £5 million (1991: £3 million). It is estimated that if an accruals basis of accounting had been adopted, then this charge would have increased by £12 million (1991: £4 million).

### c Directors' emoluments

The aggregate emoluments of the Directors of the Company, computed in accordance with Part I of Schedule 6 to the Companies Act 1985, are:

	1992	1991
	£m	£m
Fees	0.5	0.2
Other emoluments, including pension contributions	3.3	3.6
	<u>3.8</u>	<u>3.8</u>
Compensation for loss of office	<u>—</u>	<u>1.9</u>

During 1992 the Directors of the Company discharged their duties as such wholly or mainly outside the United Kingdom; the following information is provided on the basis that would have applied had the Directors discharged those duties within the United Kingdom.

### Emoluments

£	1992	1991	£	1992	1991
0 – 5,000	—	4	195,001 – 200,000	—	1
5,001 – 10,000	1	10	220,001 – 225,000	—	1
10,001 – 15,000	2	1	315,001 – 320,000	—	1
20,001 – 25,000	2	—	330,001 – 335,000	—	1
25,001 – 30,000	8	—	350,001 – 355,000	—	1
40,001 – 45,000	—	1	360,001 – 365,000	1	—
45,001 – 50,000	1	—	400,001 – 405,000	—	1
50,001 – 55,000	1	—	425,001 – 430,000	1	—
70,001 – 75,000	1	—	545,001 – 550,000	1	—
100,001 – 105,000	1	—	565,001 – 570,000	1	—
110,001 – 115,000	—	1	640,001 – 645,000	—	1
155,001 – 160,000	1	—	900,001 – 905,000	1	—
			1,065,001 – 1,070,000	—	1

The Chairman's emoluments totalled HK\$10,610,556 (1991: HK\$9,344,971).

The emoluments of the Chairman and most of the other Executive Directors include expatriate benefits in kind, which are normal within the locations in which they are employed and which constitute a significant portion of their emoluments.

Executive Directors who are also Directors of HongkongBank have agreed to waive fees due to them from HongkongBank. Seven Directors waived the right to receive emoluments of £57,101 in respect of 1992 (1991: two Directors £6,868).

### d Auditors' remuneration

Auditors' remuneration amounted to £11 million (1991: £5 million). £3 million was paid to the auditors of the Company and their associates for non-audit work.

**6 Exceptional items**

	1992 £m	1991 £m
Profit on disposal of long-term investment in Cathay Pacific Airways Limited	270	108
Expenses of the Scheme of Arrangement	—	(17)
	<u>270</u>	<u>91</u>

**7 Taxation**

The charge for taxation comprises:	1992 £m	1991 £m
United Kingdom corporation tax charge	28	—
Hong Kong profits tax charge	160	78
Other overseas taxation	108	88
Deferred taxation	(16)	5
	<u>280</u>	<u>171</u>
Associated undertakings	3	2
	<u>283</u>	<u>173</u>

The Company and its subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 17.5% (1991: 16.5%) on the profits for the year assessable in Hong Kong. Subsidiary undertakings in the United Kingdom provide for UK corporation tax at 33% (1991: 33.25%). Other subsidiary undertakings and overseas branches similarly provide for taxation in the countries in which they operate at the appropriate rates of taxation.

**8 Profit of the Company**

The profit of the Company for the year is £1,674 million (1991: £2,167 million) from which dividends have been paid and proposed. Dividends amounting to £1,254 million were paid by HongkongBank to the Company during the year.

**9 Dividends**

	1992 Pence per share	1991 Pence per share	1992 £m	1991 £m
Interim	4.80	3.71	116	60
Proposed final	14.20	9.00	356	147
	<u>19.00</u>	<u>12.71</u>	<u>472</u>	<u>207</u>

Of the interim dividend for 1992, £45 million (1991: £10 million) was settled by the issue of shares. Of the final dividend for 1991, £25 million was settled by the issue of shares in 1992 (1991: £15 million).

**10 Earnings per share**

Earnings per share is calculated by dividing earnings of £1,221 million (1991: £586 million) by the weighted average number of ordinary shares in issue in 1992 of 1,967 million (1991: 1,625 million). Fully diluted earnings per share is not materially different from the basic earnings per share shown.

**11 Cash and short-term funds**

	1992 £m	1991 £m	Changes during the year £m
Cash in hand and balances with other banks	4,675	2,165	2,510
Money at call and short notice	24,280	18,213	6,067
Treasury bills	6,431	2,843	3,588
	<u>35,386</u>	<u>23,221</u>	<u>12,165</u>

Included in cash in hand and balances with other banks are holdings of gold bullion of £207 million (1991: £143 million).



### 11 Cash and short-term funds (continued)

Deposits required by overseas government regulations are included in the above figures as follows:

	1992	1991	
	£m	£m	
Cash in hand and balances with other banks	498	217	
Treasury bills	40	22	
	<u>538</u>	<u>239</u>	
<i>Changes in cash and cash equivalents during the year</i>			
	1992	1991	
	£m	£m	
Balance at 1 January	28,341	24,957	
Net cash inflow before the effect of foreign exchange movements	7,030	3,470	
Effect of foreign exchange movements	5,272	(86)	
Balance at 31 December	<u>40,643</u>	<u>28,341</u>	
<i>Analysis of the balances of cash and cash equivalents</i>			
	1992	1991	Changes during the year
	£m	£m	£m
Cash and short-term funds	35,386	23,221	12,165
Less: non-cash equivalents	(3,503)	(1,278)	(2,225)
Add: cash equivalents included in balances with other banks	8,760	6,398	2,362
	<u>40,643</u>	<u>28,341</u>	<u>12,302</u>

### 12 Trade bills and certificates of deposit

	1992	1991
	£m	£m
Trade bills	4,466	1,961
Provisions for bad and doubtful debts (Note 15b)	(50)	(36)
	<u>4,416</u>	<u>1,925</u>
Certificates of deposit	1,908	840
	<u>6,324</u>	<u>2,765</u>

### 13 Hong Kong currency notes in circulation

	1992	1991
	£m	£m
Authorised note issue (HK\$60 million)	5	4
Excess note issue (HK\$50,584 million)	4,313	2,757
	<u>4,318</u>	<u>2,761</u>

The authorised note issue is secured by the deposit of investments having a market value of £6 million (1991: £4 million). The excess note issue is secured by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

**14 Investments**

	<i>Book value</i>		<i>Valuation</i>	
	1992	1991	1992	1991
	£m	£m	£m	£m
Listed				
— In Great Britain	2,034	632	2,057	493
— In Hong Kong	545	332	920	838
— Outside Great Britain and Hong Kong	9,134	4,750	9,147	4,835
	<u>11,713</u>	<u>5,714</u>	<u>12,124</u>	<u>6,166</u>
Unlisted	2,863	759	2,916	766
	<u>14,576</u>	<u>6,473</u>	<u>15,040</u>	<u>6,932</u>
Trading	9,631	3,438		
Long-term	4,945	3,035		
	<u>14,576</u>	<u>6,473</u>		

Included in the above are 3,619,256 (1991: 2,520,883) shares in the Company held by subsidiary undertakings as part of their insurance and retirement funds for the benefit of the policyholders. The 1991 comparative includes the Group's 10% investment in Cathay Pacific Airways Limited sold during the year and the 14.6% investment in Midland which has now become a subsidiary undertaking.

**15 Advances to customers and other accounts**

	1992	1991
	£m	£m
a <i>Advances to customers and other accounts</i>		
Advances to customers	87,765	36,671
Provisions for bad and doubtful debts	(5,223)	(1,475)
	<u>82,542</u>	<u>35,196</u>
Accrued interest and other accounts	7,846	4,048
Other provisions	(98)	(57)
Current taxation recoverable	39	40
Deferred taxation (Note 20)	36	11
Intangible assets:		
— mortgage servicing rights	105	99
— other	47	48
	<u>90,517</u>	<u>39,385</u>

Included in other accounts are settlement trade debtors arising in the stockbroking subsidiary undertakings, which reflect the level of activity in the securities markets.

**b Provisions for bad and doubtful debts**

1992	<i>Provisions against advances</i>			<i>Trade bills provisions</i>	<i>Other provisions</i>	<i>Total</i>
	<i>Specific</i>	<i>General</i>	<i>Sub-total</i>			
	£m	£m	£m	£m	£m	£m
At 1 January	1,156	319	1,475	36	57	1,568
Acquisition of subsidiary undertakings	2,781	226	3,007	3	—	3,010
Amounts written off	(1,091)	—	(1,091)	(16)	(6)	(1,113)
Recoveries of advances written off in previous years	56	—	56	—	2	58
Charge to profit and loss account	1,025	100	1,125	8	52	1,185
Exchange and other adjustments	604	47	651	19	(7)	663
At 31 December	<u>4,531</u>	<u>692</u>	<u>5,223</u>	<u>50</u>	<u>98</u>	<u>5,371</u>

15 Advances to customers and other accounts (continued)

1991	Provisions against advances		Sub-total	Trade bills provisions	Other provisions	Total
	Specific	General				
	£m	£m	£m	£m	£m	£m
At 1 January	1,044	277	1,321	31	50	1,402
Amounts written off	(401)	—	(401)	(8)	(15)	(424)
Recoveries of advances written off in previous years	42	—	42	—	4	46
Charge to profit and loss account	420	54	474	8	20	502
Exchange and other adjustments	51	(12)	39	5	(2)	42
At 31 December	<u>1,156</u>	<u>319</u>	<u>1,475</u>	<u>36</u>	<u>57</u>	<u>1,568</u>

c Advances to customers include equipment leased to customers under finance leases and hire-purchase contracts having the characteristics of finance leases:

	1992 £m	1991 £m
Finance leases	2,974	895
Hire-purchase contracts	2,074	580
	<u>5,048</u>	<u>1,475</u>

The cost of assets acquired during 1992 for letting to customers under finance leases and hire-purchase contracts by the Group amounted to £1,295 million (1991: £638 million).

16 Investments in associated undertakings

	Group	
	1992 £m	1991 £m
a Shares listed outside Great Britain and Hong Kong	126	81
Unlisted shares	278	67
	<u>404</u>	<u>148</u>

Loans to associated undertakings, other than normal trading balances, amount to £116 million (1991: £101 million).

b The principal associated undertakings of the Group are:

	Accounts made up to	Country of incorporation	Principal activity	Group's interest in equity capital	Issued equity capital
3i Group plc*	30.09.92†	England	Venture capital	18.0%	£236m
The Cyprus Popular Bank Limited*	31.12.92	Cyprus	Banking	24.3%	€60m
Hongkong Egyptian Bank S.A.E.*	31.12.92	Egypt	Banking	40.0%	£23m
The Saudi British Bank*	31.12.92	Saudi Arabia	Banking	40.0%	SR400m
UBAF Bank Limited*	31.12.92	England	Banking	25.0%	us\$174m
				25.0%	£46m of which £15m is 67% paid up
World Finance International Limited*	30.06.92	Bermuda	Shipping	37.5%	us\$58m

\*Held indirectly

†Interim accounts

**16 Investments in associated undertakings (continued)**

The 3i Group plc is owned by a consortium of UK clearing banks and the Bank of England and accordingly is treated as an associated undertaking.

The principal countries of operation are the same as the countries of incorporation except for World Finance International Limited which operates world-wide.

- c The associated undertakings listed above have no loan capital, except for The Cyprus Popular Bank Limited, which has issued c£8 million in which the Group has no interest, and UBAF Bank Limited, which has issued us\$28.7 million of subordinated unsecured loan stock and £10 million of subordinated loan stock in which the Group has a 25% and a 12% interest respectively.

**17 Premises and equipment**

	<i>Group</i>		<i>Company</i>	
	<i>Premises</i>	<i>Equipment</i>	<i>Premises</i>	<i>Equipment</i>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cost or valuation at 1 January 1992	2,647	689	4	—
Exchange adjustments	611	164	—	—
Surplus on revaluation	505	—	6	—
Additions	818	490	—	—
Disposals	(98)	(199)	—	—
<b>At 31 December 1992</b>	<b>4,483</b>	<b>1,144</b>	<b>10</b>	<b>—</b>
Accumulated depreciation	(348)	(497)	—	—
Net book value at 31 December 1992	<u>4,135</u>	<u>647</u>	<u>10</u>	<u>—</u>
<b>Total at 31 December 1992</b>	<b><u>4,782</u></b>		<b><u>10</u></b>	
Net book value at 31 December 1991	<u>2,371</u>	<u>303</u>	<u>4</u>	<u>—</u>
Total at 31 December 1991	<u>2,674</u>		<u>4</u>	
The net book value of premises comprises:				
	<i>Group</i>		<i>Company</i>	
	<b>1992</b>	<b>1991</b>	<b>1992</b>	<b>1991</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Freeholds	1,162	528	10	4
Leaseholds 50 years and over unexpired	2,612	1,593	—	—
Leaseholds less than 50 years unexpired	361	250	—	—
	<u>4,135</u>	<u>2,371</u>	<u>10</u>	<u>4</u>

In November 1992 the freehold and long leasehold properties of the Group were revalued at open market value for existing use or, in the case of the few specialised properties, at depreciated replacement cost. Long leasehold properties are defined as being those with an unexpired lease in excess of 30 years in Hong Kong and 50 years elsewhere in the world. The properties have been valued either by professional external valuers or by professionally qualified staff and reviewed by professional external valuers.

The surplus of £505 million has, after deduction of minority interests of £136 million, been credited to reserves at 31 December 1992.

The property of the Company was also valued by an independent, professionally qualified valuer at open market value for existing use. The surplus on revaluation of £6 million has been credited to reserves at 31 December 1992.

## 18 Investments in subsidiary undertakings

### a Movements during the year:

	£m
At 1 January 1992 as previously reported	1,481
Share of inner reserves of subsidiary undertakings	952
At 1 January 1992 restated	2,433
Exchange adjustments	649
Additions	4,234
Write-up of subsidiary undertakings to net asset value	42
<b>At 31 December 1992</b>	<b>7,358</b>

### b The principal subsidiary undertakings of the Company are:

	<i>Country of incorporation or registration</i>	<i>Principal activity</i>	<i>Issued equity capital</i>
The British Bank of the Middle East*	England	Banking	£100m
Carlingford Insurance Company Limited*	Hong Kong	Insurance	HK\$25m
Carroll McEntee & McGinley Inc.*	United States	Primary dealer in US government securities	—
Forward Trust Limited*	England	Finance	£265m
Gibbs Hartley Cooper Limited*	England	Insurance	£3m
Greenwell Montagu Gilt-Edged*	England	Finance	£30m
Guyzeller Bank AG (75%)*	Switzerland	Banking	Sfr5m
Hang Seng Bank Limited (61.48%)*	Hong Kong	Banking	HK\$7,429m
The Hongkong and Shanghai Banking Corporation Limited*	Hong Kong	Banking	HK\$16,254m
HongkongBank London Limited*	England	Banking	£40m
HongkongBank of Australia Limited*	Australia	Banking	A\$500m
Hongkong Bank of Canada*	Canada	Banking	C\$75m
HSBC Finance (Malaysia) Berhad*	Malaysia	Finance	M\$22m
HSBC Life (International) Limited*	Bermuda	Life assurance	HK\$25m
James Capel & Co. Limited*	England	Stockbroking	£125m
Marine Midland Bank, N.A.*	United States	Banking	US\$185m
Marine Midland Banks, Inc.*	United States	Bank holding	—
Midland Bank plc	England	Banking	£797m
Samuel Montagu & Co. Limited*	England	Merchant banking	£112m
Trinkaus & Burkhardt KGaA (70%)*†	Germany	Banking	DM786m
Wardley James Capel Limited*	Hong Kong	Commodity trading	HK\$200m
Wardley James Capel (Far East) Limited*	Hong Kong	Securities broking	HK\$5m
Wardley Limited*	Hong Kong	Merchant banking	HK\$770m
Wayfoong Finance Limited*	Hong Kong	Finance	HK\$300m
Wayfoong Mortgage And Finance (Singapore) Limited*	Singapore	Finance	S\$8m

\*Held indirectly

†Partnership limited by shares

Except where indicated otherwise, the above undertakings are wholly owned subsidiaries. The principal countries of operation are the same as the countries of incorporation except for The British Bank of the Middle East, which operates mainly in the Middle East, and HSBC Life (International) Limited, which operates in Hong Kong.

**18 Investments in subsidiary undertakings (continued)**

c The subsidiary undertakings listed above have no loan capital except for the following:	
The British Bank of the Middle East	us\$50m, £55m
The Hongkong and Shanghai Banking Corporation Limited	HK\$23,013m
Hongkong Bank of Australia Limited	A\$60m
Hongkong Bank of Canada	C\$354m
Marine Midland Bank, N.A.	us\$225m
Marine Midland Banks, Inc.	us\$671m
Midland Bank plc	£2,716m

Issued loan capital includes both that held by fellow Group subsidiary undertakings and that held by third parties. All loan capital held by third parties is listed in Note 21.

**19 Current, deposit and other accounts**

	1992	1991
	£m	£m
Current accounts	27,671	5,804
Savings accounts	27,590	15,833
Deposit accounts within 3 months	57,199	36,726
Deposit accounts 3 to 12 months	5,115	3,742
Deposit accounts over 12 months	1,743	1,035
Current, savings and deposit accounts	<u>119,318</u>	<u>63,140</u>
Loans from banks	18,873	6,261
Accrued interest	1,102	600
Current taxation	414	219
Deferred taxation (Note 20)	285	56
Other liabilities (Note 26)	11,809	5,813
Current, deposit and other accounts	<u>151,801</u>	<u>76,089</u>

Included in other liabilities are settlement trade creditors arising in the stockbroking subsidiary undertakings, which reflect the level of activity in the securities markets.

Liabilities of the Group amounting to £3,586 million (1991: £1,863 million) included under this heading and under guarantees (Note 29) are secured by the deposit of assets.

**20 Deferred taxation**

a Deferred taxation is provided for in accordance with the Group's accounting policy in Note 2f.

	1992	1991
	£m	£m
Included in current, deposit and other accounts	285	56
Included in advances to customers and other accounts	(36)	(11)
Net deferred taxation liability	<u>249</u>	<u>45</u>
Comprising:		
Short-term timing differences	38	18
Leasing transactions	204	—
Relief for tax losses	(56)	(22)
Advance corporation tax carried forward in Midland	(76)	—
Advance corporation tax on proposed dividend	(118)	—
Provision for additional UK tax on profit remittances from overseas	200	—
Other items	57	49
	<u>249</u>	<u>45</u>

The Company's deferred tax liability for 1992 of £82 million comprises the provision established on the acquisition of Midland of £200 million, less advance corporation tax on the proposed dividend of £118 million.

Save as disclosed below there is no significant deferred taxation liability not provided for.

## 20 Deferred taxation (continued)

- b The distribution of the reserves of certain subsidiary and associated undertakings may give rise to additional tax liabilities. From 1 January 1993 the Company has become UK tax resident and thereby will become subject to UK corporation tax in respect of all its income (including dividends remitted from its non-UK resident subsidiary undertakings) and chargeable gains. A provision for a potential UK tax charge of £200 million was established upon the acquisition of Midland to reflect the expected additional UK tax cost of remitting dividends.
- c No provision is made for deferred taxation on revalued premises. The Directors are of the opinion that, in view of the substantial number of properties involved, and having regard to the fact that they are occupied for the purposes of the Group's business, the likelihood of a material taxation liability arising is remote and no useful purpose would be served by attempting to quantify it.
- d At 31 December 1992 there were potential future tax benefits of approximately £450 million (1991: £201 million) in respect of trading losses and advance corporation tax carried forward by subsidiary undertakings which have not been recognised because recoverability of the potential benefits is not considered certain.

## 21 Loan capital and preference shares

Loan capital consists of undated primary capital notes, and other loan capital and preference shares, having an original term to maturity of five years or more, raised by the Company and its subsidiary undertakings listed below, or their subsidiaries, for the development and expansion of the Group's business.

	1992	1991
	£m	£m
The Company:		
£413m      11.69% subordinated bonds 2002	<u>413</u>	<u>—</u>
HongkongBank:		
us\$1,200m    Primary capital subordinated undated floating rate notes	792	642
¥27,000m    Fixed rate subordinated loans 1998	144	115
£30m        Floating rate subordinated loan 1998	30	30
	<u>966</u>	<u>787</u>
Marine Midland Banks, Inc.:		
us\$142m    Floating rate subordinated notes 2000 (1991: us\$154m)	94	82
us\$125m    8.625% fixed rate subordinated capital notes 1997	82	68
us\$103m    Floating rate subordinated notes 2009 (1991: us\$121m)	68	65
us\$117m    Floating rate subordinated notes 1994	78	62
us\$113m    Floating rate subordinated capital notes 1996	75	60
us\$98m     Perpetual preference shares	65	52
us\$87m     Floating rate subordinated capital notes 1999	57	47
us\$9m       7.25-9.02% fixed rate medium-term notes 1992	—	5
	<u>519</u>	<u>441</u>
Hongkong Bank of Canada:		
c\$40m       Floating rate subordinated debentures 2083	20	18
c\$39m       Floating rate guaranteed subordinated debentures 1999	20	18
c\$15m       9.5% fixed rate subordinated debentures 1994	8	7
c\$6m        11.75% guaranteed fixed rate notes 1999	3	3
	<u>51</u>	<u>46</u>

## 21 Loan capital and preference shares (continued)

	1992	1991
	£m	£m
Midland Bank plc:		
7½% subordinated unsecured loan stock 1983/93	5	—
10¾% subordinated unsecured loan stock 1993/98	31	—
Subordinated unsecured floating rate notes 2001*	250	—
14% subordinated unsecured loan stock 2002/07	100	—
6½% guaranteed bonds 1986/96 DM200m <sup>†</sup>	82	—
Guaranteed floating rate notes 1986/98 DM300m* <sup>†</sup>	123	—
7.55% guaranteed loan 1998 ¥6.3b <sup>†</sup>	34	—
9.25% notes 1991/98 LFr500m	10	—
Guaranteed floating rate notes 1999 us\$200m* <sup>†</sup>	132	—
7.25% guaranteed loan 1999 ¥3.1b <sup>†</sup>	16	—
7.41% guaranteed loan 1999 ¥10b <sup>†</sup>	53	—
7¾% dual currency guaranteed bonds 1999 ¥5b <sup>†</sup>	26	—
Guaranteed floating rate notes 1989/99 DM200m* <sup>†</sup>	82	—
6.99% guaranteed loan 1999 ¥5b <sup>†</sup>	26	—
Borrowings at fixed and variable rates repayable 2000/04 DM266m	109	—
Guaranteed floating rate unsecured loan stock 2001*	5	—
12¾% guaranteed notes 2003 us\$150m <sup>†</sup>	99	—
Undated floating rate primary capital notes us\$750m	497	—
Undated floating rate primary capital notes us\$500m	331	—
Undated floating rate primary capital notes (series 3) us\$300m	198	—
Borrowings at fixed and variable rates between 8.1% and 11.6% repayable 1994/98 FFr1,400m	168	—
6% bonds repayable 1993 DM75m	31	—
5½% bonds repayable 1993 DM75m	31	—
4% guaranteed note 1986/93 ECU8.7m	7	—
10% bonds repayable 1986/93 L13.9b	6	—
Multicurrency loan facility 1993 us\$25m	2	—
6% bonds repayable 1996 DM100m	41	—
Guaranteed floating rate notes 1997 FFr900m	108	—
Floating rate note 1999 skr200m	19	—
£52.5m 6¾% deep discount first mortgage bonds 2006	38	—
£15.33m deep discount loan stock 1998	8	—
DAX linked certificate 1997 DM89m	36	—
Mortgage loan L2.4b	1	—
Adjustable loan facility 2004 ch\$6.7b	11	—
	<u>2,716</u>	<u>—</u>
Total loan capital and preference shares	<u>4,665</u>	<u>1,274</u>

\*The interest rates on the floating rate loan capital are related to London Interbank Offered Rates.

<sup>†</sup>Issued by subsidiary undertaking under Midland's subordinated guarantee and on lent to Midland on a subordinated basis.



## 22 Share capital

### Authorised:

The authorised share capital of the Company is HK\$20,000 million divided into 2,000 million ordinary shares of HK\$10 each, £1,125,301,500 divided into 1,500 million ordinary shares of 75p each, and 301,500 non-voting deferred shares of £1 each (1991: 2,000 million ordinary shares of HK\$10 each, and 301,500 non-voting deferred shares of £1 each).

	HK\$10 shares	£0.75 shares	1992 £m	1991 £m
Issued:				
At 1 January	1,630,148,782	—	1,120	—
Shares issued in lieu of dividends	15,881,753	4,889,471	17	3
Shares issued on acquisition of Midland	—	775,595,837	582	—
Shares issued on private placement	45,000,000	35,000,000	65	—
Shares issued under option schemes	—	432,270	—	—
Shares issued under Scheme of Arrangement	—	—	—	1,117
Exchange adjustments	—	—	270	—
At 31 December	<u>1,691,030,535</u>	<u>815,917,578</u>	<u>2,054</u>	<u>1,120</u>

The 301,500 non-voting deferred shares are held by a subsidiary undertaking of the Company.

On 2 April 1991 the Company became the holding company of HongkongBank pursuant to a Scheme of Arrangement under which it issued to the shareholders of that company 1,625,396,824 ordinary shares of HK\$10 each at par in exchange for their shareholdings in that company.

### Options:

At 31 December 1992 there was a total of 24,669,953 options over unissued 75p ordinary shares of the Company (1991: nil). These options were outstanding to employees of the Group under the Midland savings related schemes to subscribe for ordinary shares of the Company, exercisable until 2002, at prices ranging from £1.1951 to £2.4124.

## 23 Reserves

	Group	Company	Associated undertakings
	£m	£m	£m
At 1 January 1992			
— as previously reported	2,747	2,747	49
— inner reserves	952	—	—
— share of inner reserves of subsidiary undertakings	—	952	—
At 1 January 1992 restated	<u>3,699</u>	<u>3,699</u>	<u>49</u>
Increase in attributable net assets of subsidiary undertakings	—	42	—
Retained profit for the year	749	1,202	27
Arising on shares issued in lieu of dividends	53	53	—
Surplus on revaluation of premises	369	6	—
Share premium	374	374	—
Merger reserve (Note 26)	184	—	—
Exchange adjustments	529	581	2
At 31 December 1992	<u>5,957</u>	<u>5,957</u>	<u>78</u>

The reserves of the Group include a reserve arising on the revaluation of premises of £1,506 million (1991: £930 million).

The revaluation reserves of the Company comprise a revaluation reserve of £2,421 million (1991: £1,714 million) arising from the attributable net assets of subsidiary undertakings and a surplus over cost on revaluation of premises of £10 million (1991: £4 million).

Goodwill amounting to £2,118 million (1991: £132 million) has been charged against reserves in current and prior years in respect of acquisitions.

**24 Reconciliation of operating profit to net cash flow from operating activities**

	1992	1991
	£m	£m
<b>Operating profit</b>	<b>1,402</b>	764
Change in accrued interest receivable and other accounts	(1,214)	498
Change in accrued interest payable and other liabilities	2,339	807
Provisions for bad and doubtful debts	1,185	502
Loans written off net of recoveries	(1,055)	(379)
Interest on loan capital	197	101
Profit on disposal of premises and equipment	(27)	(1)
Depreciation	208	130
Amortisation	30	18
Finance lease interest paid	8	2
Exceptional item expenses of the Scheme of Arrangement	—	(17)
Dividends received on long-term investments	(43)	(42)
Interest received on long-term investments	(292)	(194)
<b>Net cash inflow from trading activities</b>	<b>2,738</b>	2,189
Change in current, savings and deposit accounts	18,600	7,087
Change in loans from banks	1,867	(1,158)
Change in certificates of deposit and trade bills	(3,777)	(461)
Change in placings with banks maturing between one and 12 months	(1,690)	(151)
Change in advances to customers	(14,318)	(1,922)
Change in trading investments	(3,909)	(1,658)
Change in Hong Kong currency notes in circulation	1,557	373
Change in Hong Kong Government certificates of indebtedness	(1,556)	(373)
Elimination of exchange differences and other non-cash items	(3,592)	193
<b>Net cash outflow/inflow from operating activities</b>	<b>(4,080)</b>	4,119

**25 Changes in financing during the year**

	<i>Loan capital</i>	<i>Preference shares</i>	<i>Ordinary shares</i>	<i>Share premium</i>
	£m	£m	£m	£m
At 1 January 1992	1,222	52	1,120	—
Shares issued in lieu of dividends	—	—	17	—
Issued on acquisition of Midland	413	—	582	—
Issued during the year	43	—	65	374
Repaid during the year	(157)	—	—	—
Net cash inflow from financing	(114)	—	65	374
Midland loan capital	2,362	—	—	—
Exchange and other	717	13	270	—
<b>At 31 December 1992</b>	<b>4,600</b>	<b>65</b>	<b>2,054</b>	<b>374</b>

**Major non-cash transactions**

During the year the Group acquired Midland for consideration principally comprising the issue of shares and bonds by the Company. Details of this acquisition are set out in Note 26.

## 26 Acquisitions and disposals

The acquisition of Midland by the Company during the year, which has been accounted for by the acquisition method of accounting, contributed £184 million to the post-tax earnings of the Group.

### Net assets acquired

The fair value adjustments made to the net assets and liabilities acquired are set out in the table below:

	<i>Adjusted book value at acquisition</i>	<i>Revaluations</i>	<i>Provisions</i>	<i>Fair value to the Group</i>
	£m	£m	£m	£m
<b>Assets</b>				
— Cash and short-term funds	9,496			9,496
— Placings with banks maturing between one and 12 months	3,904			3,904
— Trade bills and certificates of deposit	1,969			1,969
— Investments	4,317			4,317
— Advances to customers and other accounts	36,868			36,868
	<u>56,554</u>	—	—	<u>56,554</u>
— Investments in associated undertakings	195			195
— Premises and equipment	1,471	(337)		1,134
	<u>58,220</u>	<u>(337)</u>	—	<u>57,883</u>
<b>Liabilities</b>				
— Current, deposit and other accounts	(53,299)			(53,299)
<b>Capital resources</b>				
— Loan capital and preference shares	(2,362)			(2,362)
— Minority interests	(155)	(7)		(162)
Restructuring costs			(177)	(177)
Deferred tax provisions			(200)	(200)
	<u>2,404</u>	<u>(344)</u>	<u>(377)</u>	<u>1,683</u>
Goodwill				<u>2,008</u>
Fair value of consideration for Midland				<u>3,691</u>
Consideration for acquisition				
Shares allotted at fair value				2,688
Bonds allotted				413
Cash consideration, including the initial 15% investment				551
Acquisition costs				39
				<u>3,691</u>

a The acquisition of Midland was declared unconditional in all respects on 10 July 1992 (the effective date of acquisition for accounting purposes). The table set out above reflects the Midland balance sheet at 30 June 1992, the closest date to the acquisition date at which full accounts were drawn up, adjusted for the proceeds of issues of share capital (£20 million, including share premium) arising from the exercise of options which were outstanding at the date of acquisition. There was no material movement in net assets between 30 June and 10 July 1992.

b Statutory share premium relief under Section 131 of the Companies Act 1985 has been taken in respect of the acquisition of Midland; in the Group accounts the fair value difference arising of £2,106 million has been transferred to the merger reserve and goodwill arising has been written off against this reserve.

c Net assets acquired have been adjusted to fair value based on external valuations and internal reviews. Other acquisition provisions amounted to £177 million, reflecting the restructuring costs of achieving the synergy benefits of the merger, together with an amount of £200 million of deferred taxation to reflect the expected additional UK tax cost of remitting dividends to HSBC Holdings from certain overseas subsidiary undertakings.

**26 Acquisitions and disposals** (continued)

- d The Thomas Cook Group Limited was acquired as part of the Midland Group and was sold on 30 September 1992, realising £86 million of the goodwill attributable to the acquisition of Midland. The goodwill attributed to Thomas Cook was such that no profit or loss arose on its disposal.
- e Of the other acquisition provisions of £177 million, £42 million has been utilised during the year. The unutilised balance of £135 million as at 31 December 1992 is included in other liabilities (Note 19).

**27 Capital commitments**

	1992	1991
	£m	£m
Expenditure contracted for	43	13
Expenditure authorised by the Directors but not contracted for	71	6
	<u>114</u>	<u>19</u>

**28 Lease commitments**

At the year-end annual commitments under non-cancellable operating leases were:

	1992	1991
	£m	£m
Premises		
Operating leases which expire:		
— within one year	33	17
— between one and five years	98	65
— after five years	104	32
	<u>235</u>	<u>114</u>
	1992	1991
	£m	£m
Equipment		
Operating leases which expire:		
— within one year	9	7
— between one and five years	16	3
— after five years	—	1
	<u>25</u>	<u>11</u>

**29 Contingent liabilities**

	1992	1991
	£m	£m
Acceptances	1,018	800
Guarantees and other obligations	17,011	8,439
	<u>18,029</u>	<u>9,239</u>

There are also contingent liabilities entered into in the ordinary course of business in respect of forward foreign exchange contracts, financial futures contracts, option contracts and various other off balance sheet instruments. It is not anticipated that any material loss will arise from these contracts.

The Group, through its subsidiary undertakings, is named in and is defending a number of legal actions in various jurisdictions arising from its banking activities. No material adverse impact on the financial position of the Group is expected to arise from these proceedings.

**30 Segmental analysis****a By geographic region**

The information concerning geographical analysis has been classified by the location of the subsidiary undertaking, or in the case of HongkongBank, Midland and The British Bank of the Middle East operations, of the location of the branch responsible for reporting the results or of advancing the funds. Due to the nature of the Group structure, the analysis of profit and net assets shown below includes intra-Group items between geographic regions.

### 30 Segmental analysis (continued)

Total assets:	At 31 December 1992		At 31 December 1991	
	£m	%	£m	%
UK	67,244	40.5	14,407	17.4
Continental Europe	8,771	5.3	604	0.7
Middle East/India	3,068	1.9	2,097	2.5
Hong Kong	48,739	29.3	37,440	45.1
Rest of Asia-Pacific	12,673	7.6	9,061	10.9
Americas	25,642	15.4	19,420	23.4
	<u>166,137</u>	<u>100.0</u>	<u>83,029</u>	<u>100.0</u>
Add: Hong Kong Government certificates of indebtedness	4,313		2,757	
Total assets	<u>170,450</u>		<u>85,786</u>	

Net assets:	At 31 December 1992		At 31 December 1991	
	£m	%	£m	%
UK	2,347	29.3	572	11.9
Continental Europe	315	3.9	6	0.1
Middle East/India	199	2.5	235	4.9
Hong Kong	3,377	42.2	2,587	53.7
Rest of Asia-Pacific	421	5.2	335	6.9
Americas	1,352	16.9	1,084	22.5
	<u>8,011</u>	<u>100.0</u>	<u>4,819</u>	<u>100.0</u>

#### Analysis of profit before exceptional items and taxation:

	<i>Operating profit before charge for bad and doubtful debts</i>	<i>Charge for bad and doubtful debts</i>	<i>Operating profit</i>	<i>Share of profits less losses of associated undertakings</i>	<i>Profit before exceptional items and taxation</i>
Year ended 31 December 1992	£m	£m	£m	£m	£m
UK	678	(370)	308	2	310
Continental Europe	(13)	(1)	(14)	7	(7)
Middle East/India	98	6	104	19	123
Hong Kong	1,247	(153)	1,094	10	1,104
Rest of Asia-Pacific	278	(344)	(66)	—	(66)
Americas	299	(323)	(24)	—	(24)
	<u>2,587</u>	<u>(1,185)</u>	<u>1,402</u>	<u>38</u>	<u>1,440</u>
Year ended 31 December 1991	£m	£m	£m	£m	£m
UK	99	(61)	38	—	38
Continental Europe	(78)	—	(78)	2	(76)
Middle East/India	64	(5)	59	14	73
Hong Kong	786	(123)	663	7	670
Rest of Asia-Pacific	225	(110)	115	2	117
Americas	170	(203)	(33)	—	(33)
	<u>1,266</u>	<u>(502)</u>	<u>764</u>	<u>25</u>	<u>789</u>

#### b By class of business

The Group operates no significant classes of business other than banking.

**31 Transactions, arrangements and agreements involving Directors and others**

Particulars of transactions, arrangements and agreements entered into by subsidiary undertakings of the Company with Directors and connected persons and with officers of the Company disclosed pursuant to Section 232 of the Companies Act 1985:

	<i>Number of persons 1992</i>	<i>Total 1992 £m</i>
Directors and connected persons:		
Loans and credit card transactions	17	81
Officers:		
Loans and credit card transactions	10	2

Particulars of Directors' transactions are recorded in a register held at the Registered Office of the Company which is available for inspection by members.

**32 Foreign currency amounts**

The Hong Kong and United States dollar figures shown in the consolidated profit and loss account and the balance sheets are for information only. They are converted from sterling at the rates of exchange ruling at 31 December 1992, which were as follows:

£1.00 = HK\$11.73  
£1.00 = US\$1.52

**33 Comparative figures**

Comparative figures have been restated from Hong Kong dollars into sterling using the rate of exchange ruling at 31 December 1991. In the case of the consolidated profit and loss account and balance sheets, this means that the sterling comparative figures are unchanged from the amounts which were previously shown in sterling for information only.

**34 Hong Kong and UK accounting standards**

There are no material differences between Hong Kong and UK Statements of Standard Accounting Practice.

**35 Approval of accounts**

These accounts were approved by the Board of Directors on 15 March 1993.

**Report of the Auditors, KPMG Peat Marwick,  
to the Members of HSBC Holdings plc**

We have audited the financial statements on pages 38 to 60 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1992 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick  
Chartered Accountants  
Registered Auditors  
Hong Kong  
15 March 1993

The pro forma statement of combined profit and loss accounts of the enlarged HSBC Group following the acquisition of Midland has been prepared to show how the enlarged Group would have looked had Midland's results been consolidated for the past two years. This information is provided for illustrative purposes only. It is based on the consolidated audited financial information relating to HSBC Holdings and Midland for the years ended 31 December 1991 and 31 December 1992. Dividends from Midland to HSBC Holdings in respect of HSBC Holdings' previous investment in Midland have been eliminated and HSBC Holdings' earnings have been presented on a fully disclosed basis. An adjustment has been made to account for the interest cost on the new HSBC Holdings bonds that were issued when the Final Offer was accepted in respect of all Midland shares other than those already held by the Group, and to account for the full exercise of all share options, and for interest receivable arising on the proceeds of exercised share options and the disposal of Thomas Cook, net of the cost of cash purchases of Midland shares by HSBC Holdings since 8 May 1992. The estimate of the interest is based on then applicable market rates. The income, expenses, profits and losses attributable to Thomas Cook have been eliminated.

	Year ended 31 December 1992			Year ended 31 December 1991		
	£m	HK\$m	us\$m	£m	HK\$m	us\$m
Interest received	11,690	137,100	17,711	12,726	185,291	23,816
Interest paid	(7,594)	(89,063)	(11,505)	(9,236)	(134,477)	(17,284)
Net interest income	4,096	48,037	6,206	3,490	50,814	6,532
Other operating income	3,123	36,627	4,732	2,484	36,167	4,648
Operating income	7,219	84,664	10,938	5,974	86,981	11,180
Operating expenses	(4,282)	(50,219)	(6,487)	(3,820)	(55,619)	(7,150)
Operating profit before charge for bad and doubtful debts	2,937	34,445	4,451	2,154	31,362	4,030
Charge for bad and doubtful debts	(1,539)	(18,049)	(2,332)	(1,400)	(20,384)	(2,620)
Operating profit	1,398	16,396	2,119	754	10,978	1,410
Share of profits of associated undertakings	51	598	77	37	539	69
Profit before exceptional items and taxation	1,449	16,994	2,196	791	11,517	1,479
Exceptional items	270	3,167	409	70	1,019	131
Profit before taxation	1,719	20,161	2,605	861	12,536	1,610
Taxation	(313)	(3,671)	(474)	(226)	(3,291)	(422)
Profit after taxation	1,406	16,490	2,131	635	9,245	1,188
Minority interests	(215)	(2,522)	(326)	(136)	(1,980)	(254)
Profit before extraordinary items	1,191	13,968	1,805	499	7,265	934
Extraordinary items	0	0	0	10	146	19
Profit attributable to shareholders	1,191	13,968	1,805	509	7,411	953
Earnings per share	48.8p	HK\$5.72	us\$0.74	20.4p	HK\$2.98	us\$0.38
Cost : income ratio	59.3%			63.9%		

*Note:*

Earnings per share is calculated by dividing profits before extraordinary items by the total number of HSBC Holdings shares in issue following the acquisition of Midland (assuming the exercise of all share options).

## 1. Cash Dividends

### *Interim Dividend for 1992 Paid on 10 November 1992*

This dividend was paid prior to HSBC Holdings plc becoming resident in the United Kingdom for taxation purposes. Taxation of this dividend will be on the same basis as for dividends previously paid by HSBC Holdings. UK-resident shareholders entitled to receive the interim dividend in sterling will have received it after deduction of UK income tax at the basic rate of 25 per cent. A shareholder who is not resident in the United Kingdom will not normally have suffered UK tax.

Where income tax was deducted, it has been paid to the UK Inland Revenue and shareholders have been sent vouchers evidencing the deduction. The tax deducted will be set off against a shareholder's liability to UK income tax or corporation tax; shareholders who are UK-resident may be liable for additional UK tax in excess of the tax deducted, or may be entitled to a refund where the amount deducted exceeds their liability to UK taxation on total income.

### *Final Dividend for 1992 to be Paid on 4 June 1993*

No tax will be withheld from the final dividend payment, but HSBC Holdings plc will account to the UK Inland Revenue for advance corporation tax when it pays the dividend.

For individual shareholders who are resident in the United Kingdom for taxation purposes and liable to UK income tax at the basic rate of 25 per cent, the tax credit attached to the dividend will continue to match the UK income tax liability exactly, but at 20 per cent. Individual UK-resident shareholders who are liable to UK income tax at the higher rate of 40 per cent will be taxed on the dividend, including the tax credit of 20 per cent. The tax credit will then be available for set-off against the higher rate liability. Individual UK-resident shareholders whose income falls within the lower rate band of income tax charged at 20 per cent will not be entitled to any tax credit repayment. Other UK-resident shareholders who are exempt from tax on their investment income will be entitled to repayment by the UK Inland Revenue of the tax credit in respect of dividends at the rate of 20 per cent.

Non-UK-resident shareholders are generally not entitled to any benefit from the tax credit in respect of any dividend received. However, some shareholders who are not resident in the United Kingdom may be entitled to a cash payment from the Inland Revenue of a proportion of the tax credit in respect of dividends received. Such entitlement depends in general either upon the provisions of any double-taxation agreement between the country of residence and the United Kingdom, or upon the shareholder being a Commonwealth (including Hong Kong) citizen or a citizen of the Republic of Ireland.

Dividends paid by HSBC Holdings plc will not be subject to tax in Hong Kong.

## 2. Scrip Dividends

### *Midland Bank Dividends*

*(for the information of former Midland Bank ordinary shareholders)*

During 1992 Midland Bank offered a scrip dividend alternative in respect of the 1991 second interim dividend paid in May 1992. The amount of the dividend necessary to give an entitlement to one new share was fixed at 259.8p. This price differed by more than 15 per cent from the market value of 402.5p for one new share on the first day of dealing on 22 May 1992 on the London Stock Exchange. The Inland Revenue has confirmed that it will wish to substitute the first day of dealing value and, consequently, the value for calculating the appropriate amount in cash for inclusion on an individual's tax return will be 402.5p per share. For capital gains tax purposes the base cost, before indexation, to be taken into account on any subsequent disposal of shares acquired under the May 1992 scrip dividend alternative offer will also be 402.5p per share.

### *HSBC Holdings Dividends*

Information on the taxation consequences of the HSBC Holdings plc scrip dividend to be offered in lieu of the 1992 final dividend is set out in the Secretary's letter to shareholders of 15 April 1993. Information on the 1992 interim dividend is set out in the Secretary's letter of 23 September 1992. Shareholders should contact their usual professional advisers to obtain further information.



Category of Shareholders

	75p shares		HK\$10 shares		Combined total	
	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total
Individuals	59,625	91.20	107,613	96.85	167,238	94.76
Trustee of Midland Bank 1979 profit-sharing share scheme*	1	—	—	—	1	—
Assurance and insurance companies	162	0.25	70	0.06	232	0.13
Commercial and industrial companies	376	0.58	1,401	1.27	1,777	1.01
Charities, local authorities, hospitals	216	0.33	58	0.05	274	0.16
Nominee companies	4,449	6.80	1,623	1.47	6,072	3.44
Pension funds and pension trusts	33	0.05	8	—	41	0.02
Unit trusts and investment trusts	515	0.79	335	0.30	850	0.48
	<u>65,377</u>	<u>100.00</u>	<u>111,108</u>	<u>100.00</u>	<u>176,485</u>	<u>100.00</u>
	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>
Individuals	117,191,346	14.36	408,229,409	24.14	525,420,755	20.96
Trustee of Midland Bank 1979 profit-sharing share scheme*	7,258,436	0.89	—	—	7,258,436	0.29
Assurance and insurance companies	28,983,128	3.55	3,756,822	0.22	32,739,950	1.31
Commercial and industrial companies	24,747,014	3.03	63,635,359	3.76	88,382,373	3.53
Charities, local authorities, hospitals	13,933,965	1.71	5,240,738	0.31	19,174,703	0.76
Nominee companies	548,523,047	67.23	1,186,027,060	70.15	1,734,550,107	69.19
Pension funds and pension trusts	17,123,954	2.10	5,369,407	0.31	22,493,361	0.89
Unit trusts and investment trusts	58,156,688	7.13	18,771,740	1.11	76,928,428	3.07
	<u>815,917,578</u>	<u>100.00</u>	<u>1,691,030,535</u>	<u>100.00</u>	<u>2,506,948,113</u>	<u>100.00</u>

\*The Trustee holds ordinary shares on behalf of 21,640 participants

Ordinary Shares Held

	75p shares		HK\$10 shares		Combined total	
	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total
1-100	11,340	17.35	14,080	12.67	25,420	14.40
101-400	11,435	17.49	19,734	17.76	31,169	17.66
401-500	3,146	4.81	3,801	3.42	6,947	3.94
501-1,000	12,765	19.53	17,312	15.58	30,077	17.04
1,001-5,000	22,557	34.50	39,055	35.15	61,612	34.91
5,001-10,000	2,118	3.24	8,466	7.62	10,584	6.00
10,001-20,000	623	0.95	4,477	4.03	5,100	2.89
20,001-50,000	423	0.65	2,650	2.39	3,073	1.74
50,001-200,000	499	0.76	1,159	1.04	1,658	0.94
200,001-500,000	224	0.34	231	0.21	455	0.26
500,001 and above	247	0.38	143	0.13	390	0.22
	<u>65,377</u>	<u>100.00</u>	<u>111,108</u>	<u>100.00</u>	<u>176,485</u>	<u>100.00</u>
	<i>Total number of shares held</i>	<i>Percentage of total</i>	<i>Total number of shares held</i>	<i>Percentage of total</i>	<i>Total number of shares held</i>	<i>Percentage of total</i>
1-100	284,844	0.03	538,009	0.03	822,853	0.03
101-400	2,792,449	0.34	5,033,729	0.30	7,826,178	0.31
401-500	1,419,294	0.17	1,703,881	0.10	3,123,175	0.12
501-1,000	9,351,728	1.15	12,602,688	0.75	21,954,416	0.88
1,001-5,000	47,644,824	5.84	90,468,453	5.35	138,113,277	5.51
5,001-10,000	14,389,424	1.76	59,757,883	3.53	74,147,307	2.96
10,001-20,000	8,695,424	1.07	62,495,945	3.70	71,191,369	2.84
20,001-50,000	13,831,356	1.70	80,425,616	4.76	94,256,972	3.76
50,001-200,000	52,864,718	6.48	105,716,216	6.25	158,580,934	6.33
200,001-500,000	72,672,375	8.91	71,248,217	4.21	143,920,592	5.74
500,001 and above	591,971,142	72.55	1,201,039,898	71.02	1,793,011,040	71.52
	<u>815,917,578</u>	<u>100.00</u>	<u>1,691,030,535</u>	<u>100.00</u>	<u>2,506,948,113</u>	<u>100.00</u>

	<i>Offices</i>		<i>Offices</i>
<b>Angola</b>			
Equator Bank Limited	1	Lion International Management Limited	1
Equator Trade Services Limited	1	Midland Bank	12
<b>Argentina</b>		Midland Bank Trust Corporation (Guernsey) Ltd	1
Midland Bank	1	Midland Bank Trust Corporation (Jersey) Ltd	1
<i>Banco Roberts SA</i>	30	<i>HongkongBank International Trustee Limited</i>	1
<b>Australia</b>		<b>Chile</b>	
HongkongBank of Australia Limited	7	Hexagon Inversiones y Servicios Limitada	1
James Capel Australia Limited	3	HongkongBank	2
Wardley Investment Services (Australia) Limited	1	Investment Management Co. Chile SA	1
Wardley James Capel Corporate Finance Limited	3	Midland Bank	1
<i>The Cyprus Popular Bank Limited</i>	3	Midland Servicios Financieros Chile SA	1
<i>Nevitts Limited</i>	8	Samuel Montagu & Co. Limited	1
<i>Phillips Henderson Ward Limited</i>	1	<b>China, People's Republic of</b>	
<i>Shadforth's Limited</i>	3	Hang Seng Bank Limited	3
<b>Bahamas</b>		HongkongBank	9
The British Bank of the Middle East	1	Wardley Shipping Services Limited	1
Equator Advisory Services Limited	1	<b>Colombia</b>	
Equator Bank Limited	1	Midland Bank	1
Equator Trade Services Limited	1	Samuel Montagu & Co. Limited	1
Hang Seng Bank (Bahamas) Limited	1	<b>Cook Islands</b>	
HongkongBank	1	Hongkong Bank Trustee (Cook Islands) Limited	1
HongkongBank (Bahamas) Limited	1	<i>HongkongBank International Trustee Limited</i>	1
Hongkong Shanghai (Shipping) Limited	1	<b>Cyprus</b>	
Wardley International Bank Limited	1	Gibbs Hartley Cooper Limited	1
Wardley Investment Services Limited	1	Wardley Cyprus Limited	1
Wardley Limited	1	<i>Cyprus Popular Bank (Finance) Limited</i>	1
<b>Bahrain</b>		<i>The Cyprus Popular Bank Limited</i>	128
The British Bank of the Middle East	4	<i>Demonax Computer Services Limited</i>	1
HongkongBank	1	<i>Laiki Factors Limited</i>	1
Midland Bank	1	<i>Laiki Insurance Co Limited</i>	1
<b>Bermuda</b>		<i>Laiki Investments Limited</i>	1
Gibbs Harnett & Richardson International Limited	1	<i>Popular Bank Computers Limited</i>	1
HSBC Life (International) Limited	1	<b>Czech Republic</b>	
<b>Brazil</b>		Samuel Montagu Financial Services SRO	1
HongkongBank	1	<b>Egypt</b>	
Midland Bank	1	<i>Hongkong Egyptian Bank S.A.E.</i>	2
Midland Montagu Administracao e Participacoes Limitada	1	<b>Finland</b>	
Samuel Montagu & Co. Limited	1	Samuel Montagu & Co. Oy	1
<i>Banco HKB SA</i>	1	<b>France</b>	
<b>Brunei Darussalam</b>		James Capel S.A.	1
HongkongBank	9	Midland Bank S.A.	1
Mortgage And Finance Berhad	1	Midland International Trade Services (France) S.A.	1
<b>Canada</b>		Samuel Montagu France & Cie	1
Hongkong Bank of Canada	106	<b>Germany</b>	
Wardley Canada Inc	2	HongkongBank	1
<i>BBN James Capel Inc.</i>	4	INKA-Internationale Kapitalanlagegesellschaft GmbH	1
<b>Cayman Islands</b>		James Capel (Deutschland) GmbH	1
Midland Bank Trust Corporation (Cayman) Ltd	1	Trinkaus & Burkhardt Immobilien GmbH	1
<i>HongkongBank International (Cayman) Limited</i>	1	Trinkaus & Burkhardt KGaA	8
<i>HongkongBank International Trustee Limited</i>	1	Trinkaus Capital Management	1
<i>Rofin International Bank and Trust Company</i>	1	Trinkaus Montagu Equity GmbH	1
<b>Channel Islands</b>		Trinkaus Montagu GmbH	1
BBME Trustee (Jersey) Limited	1	<b>Greece</b>	
Hongkong and Shanghai Bank Nominees (Jersey) Limited	1	Midland Bank	4
Hongkong and Shanghai Bank Trustee (Jersey) Limited	1	<b>Guam</b>	
Hongkong and Shanghai Banking Corporation (CI) Limited	1	HongkongBank	1
James Capel (Channel Islands) Limited	1		

	<i>Offices</i>		<i>Offices</i>
<b>Hong Kong</b>			
The British Bank of the Middle East	1	Wardley Limited	1
Carlingford Insurance Company Limited	8	<i>James Capel Pacific Limited</i>	1
Carlingford Medical Insurance Limited	1		
CM&M Futures (Singapore) Pte Limited	1	<b>Jordan</b>	
Gibbs Insurance Consultants Limited	1	The British Bank of the Middle East	5
Hang Seng Bank Limited	126		
HongkongBank	239	<b>Kenya</b>	
Hongkong & Shanghai Banking Corporation (Nominees) Limited	1	Equator Advisory Services Limited	1
Hongkong Bank Trustee Limited	1		
HSBC Life Limited	1	<b>Korea, Republic of</b>	
HSBC Life (International) Limited	1	HongkongBank	2
Lion International Management Limited	1	James Capel & Co. Limited	1
Wardley Capital Limited	1	MidAval Asia Pte Ltd	1
Wardley Corporate Finance Limited	1		
Wardley Data Services Limited	1	<b>Lebanon</b>	
Wardley Direct Investment Management Limited	1	The British Bank of the Middle East	3
Wardley Investment Services (Hong Kong) Limited	1		
Wardley Investment Services Limited	1	<b>Luxembourg</b>	
Wardley James Capel (Far East) Limited	1	HSBC Bank (Luxembourg) S.A.	1
Wardley James Capel Limited	1	Trinkaus & Burkhardt (International) S.A.	1
Wardley Limited	1	Wardley Investment Services (Luxembourg) S.A.	1
Wardley Nominees Limited	1		
Wardley Shipping Services Limited	1	<b>Macau</b>	
Wayfoong Credit Limited	1	Carlingford Insurance Company Limited	1
Wayfoong Finance Limited	1	HongkongBank	5
Wayfoong Property Limited	1		
<i>Arabian Gulf Investments (Far East) Limited</i>	1	<b>Malaysia</b>	
<i>Central Registration Hong Kong Limited</i>	1	HongkongBank	36
<i>Fortway Finance Limited</i>	1	HSBC Finance (Malaysia) Berhad	4
<i>Hongkong and Shanghai Thomas Cook Limited</i>	1	HSBC (Kuala Lumpur) Nominees Sdn Bhd	1
<i>HongkongBank International Trustee Limited</i>	1	HSBC (Malaysia) Trustee Berhad	1
<i>Wardley Nikko Management Limited</i>	1	James Capel & Co. Limited	1
<i>Way Chong Finance Limited</i>	1		
		<b>Mauritius</b>	
<b>Hungary</b>		HongkongBank	10
Samuel Montagu Advisory and Securities RT	1		
		<b>Mexico</b>	
<b>India</b>		James Capel Research Mexico S.A. de C.V.	1
The British Bank of the Middle East	2	Midland Bank	1
HongkongBank	21	Samuel Montagu & Co. Limited	1
<b>Indonesia</b>		<b>Netherlands</b>	
HongkongBank	5	Samuel Montagu & Co. BV	1
PT Wardley James Capel Indonesia	1	Van Meer James Capel N.V.	1
<b>Ireland</b>		<b>New Zealand</b>	
Midland Montagu International Financial Services (Ireland) Ltd.	1	HongkongBank	3
<b>Isle of Man</b>		<b>Norway</b>	
Midland Bank	1	Samuel Montagu & Co. AS	1
Midland Bank Trust Corporation (Isle of Man) Ltd	1		
		<b>Oman</b>	
<b>Italy</b>		The British Bank of the Middle East	4
Banca Euromobiliare SpA	2		
Euromobiliare Montagu Investimenti SpA	1	<b>Pakistan</b>	
Euromobiliare SpA	1	HongkongBank	2
Midland Bank	1		
		<b>Panama</b>	
<b>Japan</b>		HongkongBank	2
Carroll McEntee & McGinley Incorporated	1	HongkongBank (Bahamas) Limited	1
HongkongBank	3		
Hongkong International Trade Finance (Japan) KK	1	<b>Philippines</b>	
Midland Bank	1	HongkongBank	2
Midland Montagu Securities Limited	1	Wardley James Capel (Philippines) Inc.	1
Wardley Investment Services (Japan) KK	1		
		<b>Poland</b>	
		Samuel Montagu Financial Services Sp.z.o.o.	1
		<b>Portugal</b>	
		Samuel Montagu Portugal — Serçigos Financeiros SA	1
		<b>Qatar</b>	
		The British Bank of the Middle East	2

(continued)

	Offices		Offices
<b>Russia</b>			
Midland Bank	1	The British Bank of the Middle East	1
<b>Saudi Arabia</b>		Carroll McEntee & McGinley Incorporated	1
<i>The Saudi British Bank</i>	55	Equator Bank Limited	1
<b>Singapore</b>		Equator Trade Services Limited	1
CM&M Futures (Singapore) Pte Limited	1	Forward Trust Group Limited	1
Concord Leasing (Asia) Pte Limited	1	Gibbs Hartley Cooper Limited	17
Gibbs Insurance Brokers Singapore Pte Limited	1	Greenwell Montagu Gilt-Edged	1
HKIT (Singapore) Limited	1	Griffin Factors Limited	1
HongkongBank	11	Honggroup Nominees Limited	1
HSBC (Singapore) Nominees Private Limited	1	HongkongBank	3
HSBC Trustee (Singapore) Limited	1	HongkongBank International Trade Finance Limited	1
MidAval Asia Pte Ltd	1	HSBC Asset Management Limited	1
Midland Bank	1	HSBC Holdings plc	1
Wardley Investment Services (Singapore) Limited	1	James Capel & Co. Limited	2
Wardley James Capel Singapore Pte Limited	1	James Capel Fund Managers Limited	1
Wardley Limited	1	James Capel Investment Services Limited	1
Wayfoong Mortgage And Finance (Singapore) Limited	1	James Capel Unit Trust Management Limited	1
<i>Banking Computer Services Pte Limited</i>	1	Midland Bank	1,745
<i>HongkongBank International Trustee Limited</i>	1	Midland Bank Aval Limited	1
<i>Kay Hian James Capel Pte. Ltd.</i>	1	Midland Bank Trust Company Limited	18
<b>Spain</b>		Midland International Private Banking	1
Midland Bank	2	Midland Life Limited	1
Midland Servicios Financieros S.A.	1	Montagu Private Equity Limited	1
<i>James Capel-Midland Agencia de Valores S.A.</i>	1	Samuel Montagu & Co. Limited	1
<b>Sri Lanka</b>		Samuel Montagu Private Bank	1
HongkongBank	4	Wardley Capital Limited	1
<b>Sweden</b>		Wardley Shipping Services Limited	1
HongkongBank	1	<i>The Cyprus Popular Bank Limited</i>	5
Midland Montagu Bank	1	<i>The Saudi British Bank</i>	1
<b>Switzerland</b>		<b>United States of America</b>	
The British Bank of the Middle East	1	Carroll McEntee & McGinley Incorporated	6
Guyertzeller Bank AG	2	Concord Leasing, Inc.	8
James Capel & Co. Limited	1	Equator Advisory Services Limited	2
Midland Bank Aval Limited	1	Equator Bank Limited	1
Trinkaus & Burkhardt (Schweiz) AG	1	Equator Limited	1
<b>Taiwan</b>		Hang Seng Bank Limited	3
HongkongBank	2	HongkongBank	16
Midland Bank	1	James Capel Incorporated	1
Wardley James Capel Taiwan Limited	1	Marine Midland Bank	315
Wardley Taiwan Limited	1	Marine Midland Business Loans, Inc.	10
<b>Thailand</b>		Marine Midland Leasing Corporation	1
HongkongBank	1	Marine Midland Mortgage Corporation	6
Midland Bank	1	Marine Midland Mortgage (USA), Inc.	2
Wardley James Capel (Far East) Limited	1	Marine Midland Realty Credit Corporation	1
Wardley Thailand Limited	1	Marine Midland Securities, Inc.	2
<b>Turkey</b>		Marinvest, Inc.	1
Midland Bank AS	1	Marmid Life Insurance Company	1
<b>United Arab Emirates</b>		Midland Bank	2
The British Bank of the Middle East	8	Midland International Trade Services (USA) Corporation	1
Gibbs Gulf Insurance Consultants Limited	1	Public Financial Management, Inc.	9
Middle East Finance Company Limited	4	Samuel Montagu Inc.	1
<b>United Kingdom</b>		<b>Venezuela</b>	
Antony Gibbs Benefit Consultants Limited	10	Midland Bank	1
		<b>Vietnam</b>	
		HongkongBank	1
		<b>Zambia</b>	
		Equator Advisory Services Limited	1

The international network of the HSBC Group comprises more than 3,000 offices world-wide. Associated companies appear in italics.

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**COMMERCIAL BANKING**

**The British Bank of the Middle East**  
HONG KONG  
1 Queen's Road Central  
Telephone: 822 1111  
Facsimile: 810 1112

**The Cyprus Popular Bank Limited**  
CYPRUS  
Popular Bank Building  
39 Archbishop Makarios III Avenue  
Nicosia  
Telephone: (02) 450000  
Facsimile: (02) 453355

**Hang Seng Bank Limited**  
HONG KONG  
83 Des Voeux Road Central  
Telephone: 825 5111  
Facsimile: 845 9301

**The Hongkong and Shanghai  
Banking Corporation Limited**  
HONG KONG  
1 Queen's Road Central  
Telephone: 822 1111  
Facsimile: 868 1646

**HongkongBank of Australia Limited**  
AUSTRALIA  
Level 10, 1 O'Connell Street  
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Telephone: (02) 255-2888  
Facsimile: (02) 255-2332

**Hongkong Bank of Canada**  
CANADA  
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885 West Georgia Street  
Vancouver, BC V6C 3E9  
Telephone: (604) 685-1000  
Facsimile: (604) 641-1849

**Hongkong Egyptian Bank S.A.E.**  
EGYPT  
Abu El Feda Building  
Abu El Feda Street, Zamalek, Cairo  
Telephone: (2) 3404849, 3409186  
Facsimile: (2) 3414010

**Marine Midland Bank, N.A.**  
UNITED STATES OF AMERICA  
One Marine Midland Center  
Buffalo, NY 14240  
Telephone: (716) 841-2424  
Facsimile: (716) 841-5391

**Midland Bank plc**  
UNITED KINGDOM  
27-32 Poultry  
London EC2P 2BX  
Telephone: (071) 260 8000  
Facsimile: (071) 260 7065

**Midland Bank S.A.**  
FRANCE  
6 Rue Piccini, BP 4416  
F-75116 Paris, Cedex 16  
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**Midland Montagu Bank**  
SWEDEN  
Birger Jarlsgatan 10  
S-10394 Stockholm  
Telephone: (8) 614 5900  
Facsimile: (8) 611 6505

**The Saudi British Bank**  
SAUDI ARABIA  
Salah Al Din Ayubi Road, Riyadh  
Telephone: (01) 479-4400  
Facsimile: (01) 479-4400

**MERCHANT BANKING**

**Equator Bank Limited**  
BAHAMAS  
Suite 102, Saffrey Square  
Bank Lane and Bay Street, Nassau  
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Facsimile: (809) 326-5706

**Euromobiliare SpA**  
ITALY  
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Facsimile: (2) 6595452

**Montagu Private Equity Limited**  
UNITED KINGDOM  
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London EC3R 6AE  
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Facsimile: (071) 220 7265

**Samuel Montagu & Co. Limited**  
UNITED KINGDOM  
10 Lower Thames Street  
London EC3R 6AE  
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**Trinkaus & Burkhardt KGaA**  
GERMANY  
Königsallee 21-23  
4000 Dusseldorf 1  
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Suite 1301, 808 Nelson Street  
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**Wardley Corporate Finance Limited**  
**Wardley Limited**  
HONG KONG  
7/F, Hutchison House  
10 Harcourt Road  
Telephone: 841 8888  
Facsimile: 845 9047

**Wardley Cyprus Limited**  
CYPRUS  
11-13 Archbishop Makarios III  
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**Wardley James Capel Corporate  
Finance Limited**  
AUSTRALIA  
Level 10, 1 O'Connell Street  
Sydney, NSW 2000  
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**PRIVATE BANKING**

**The British Bank of the Middle East**  
SWITZERLAND  
1211 Geneva 11  
Quai General Guisan 2  
1204 Geneva  
Telephone: (22) 311 9611  
Facsimile: (22) 7810384

**Guyertzeller Bank AG**  
SWITZERLAND  
Genferstrasse 6-8  
CH-8027 Zurich  
Telephone: (1) 2067111  
Facsimile: 2067397

**Wardley Limited**  
HONG KONG  
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**FINANCE AND INVESTMENT**

**Concord Leasing, Inc.**  
UNITED STATES OF AMERICA  
40 Richards Avenue  
Norwalk, Connecticut 06856  
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**Forward Trust Group Limited**  
UNITED KINGDOM  
145 City Road, London EC1V 1JY  
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Facsimile: (071) 251-0064

**Hang Seng Finance Limited**  
HONG KONG  
83 Des Voeux Road Central  
Telephone: 825 5111  
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**HSBC Finance (Malaysia) Berhad**  
MALAYSIA  
3/F, Plaza See Hoy Chan  
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50200 Kuala Lumpur  
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Facsimile: (03) 2306514

**Middle East Finance Company  
Limited**  
UNITED ARAB EMIRATES  
Al Shaya Building, Al Itihad Street  
Dubai-Sharjah Road, Deira, Dubai  
Telephone: (4) 226261/11  
Facsimile: (4) 274219

*Offices listed in alphabetical order*

**Mortgage And Finance Berhad**  
BRUNEI DARUSSALAM  
Shops No. 3 and 4  
Goodwood Building  
Mile 2 Jalan Gadong  
Bandar Seri Begawan 3180  
Telephone: (02) 227969  
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**Wayfoong Credit Limited**  
**Wayfoong Finance Limited**  
HONG KONG  
18/F, Leighton Centre  
77 Leighton Road  
Telephone: 839 6333  
Facsimile: 895 4845

**Wayfoong Mortgage And Finance**  
**(Singapore) Limited**  
SINGAPORE  
6 Claymore Hill  
#03-01 Claymore Plaza  
Singapore 0922  
Telephone: 7377977  
Facsimile: 7378997

**INSURANCE, RETIREMENT  
BENEFITS, ACTUARIAL AND  
PERSONAL FINANCIAL  
SERVICES**

**Carlingford Insurance Company**  
**Limited**  
HONG KONG  
40/F, Sun Hung Kai Centre  
30 Harbour Road, Wanchai  
Telephone: 827 3322  
Facsimile: 827 7636

**HSBC Life Limited**  
HONG KONG  
Room 502, Citicorp Centre  
18 Whitfield Road  
Telephone: 802 6388  
Facsimile: 806 1892

**Gibbs Hartley Cooper Limited**  
UNITED KINGDOM  
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**Midland Life Limited**  
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Commercial Road  
Southampton SO1 0EX  
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**INVESTMENT MANAGEMENT**  
**HSBC Asset Management Limited**  
**James Capel Fund Managers**  
**Limited**  
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London EC2M 4HU  
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**Marinvest, Inc.**  
UNITED STATES OF AMERICA  
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New York, NY 10077  
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**Wardley Investment Services**  
**(Australia) Limited**  
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**Wardley Investment Services**  
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**BULLION DEALING AND  
COMMODITY/SECURITIES  
BROKERAGE SERVICES**  
**Wardley James Capel Limited**  
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Facsimile: 810 0145

**PROPERTY**  
**Wayfoong Property Limited**  
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**REGISTRARS**  
**Central Registration Hong Kong**  
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**James Capel & Co. Limited**  
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**Limited**  
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**SHIPPING SERVICES**  
**Wardley Shipping Services Limited**  
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**TRADE FINANCE**  
**HongkongBank International Trade**  
**Finance Limited**  
UNITED KINGDOM  
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London EC2P 2LA  
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**TRUSTEE SERVICES**  
**HongkongBank International**  
**Trustee Limited**  
HONG KONG  
Level 13, 1 Queen's Road Central  
Telephone: 533 6222  
Facsimile: 810 5259

**Midland Bank Trust Corporation**  
**(Jersey) Limited**  
CHANNEL ISLANDS  
28/34 Hill Street  
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**Chinese Translation**

A Chinese translation of this Annual Report is available on request from

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