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JAMES CAPEL INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31st DECEMBER 1997

Registered Number : 974343



JAMES CAPEL INVESTMENTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The directors present their report and the financial statements of the company for the year ended 31 December 1997.

COMPANY'S BUSINESS AND REVIEW

The principal activity of the Company was securities trading until the first half of the year, when it ceased to trade.

The profit for the year after taxation amounted to £342,869 (1996 - loss £224,584) which together with the profit of £614,870 brought forward, results in a total profit carried forward of £957,739.

The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who served during the year were as follows:

D. F. Agar (resigned 16 February 1998)
K. Patel
R. J. Scurr (appointed 21 February 1997)

Subsequent to the end of the year, R. J. Scurr resigned as director on 3 April 1998 and A. J. Moss was appointed as a director on 16 April 1998.

DIRECTORS' INTERESTS

The only directors' interests which require disclosure in accordance with the Companies Act 1985 are stated below:

	HSBC Holdings plc	
	Ordinary shares of HK\$10 each held	
	31.12.97	21.2.97 (date of appointment)
R. J. Scurr	396	386

AUDITORS

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditors annually and therefore KPMG Audit Plc will continue in office.

JAMES CAPEL INVESTMENTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditors' Statement of their Responsibilities set out on page 3, is made with a view to distinguishing for the shareholder the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare the financial statements on the going concern basis unless it is not appropriate.

The directors consider that in preparing the financial statements on pages 4 to 9, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD



P. A. Stafford
Secretary

10 Queen Street Place
London EC4R 1BL

26 October 1998

JAMES CAPEL INVESTMENTS LIMITED

REPORT OF THE AUDITORS, KPMG AUDIT PLC, TO THE MEMBER OF JAMES
CAPEL INVESTMENTS LIMITED

We have audited the financial statements on pages 4 to 9.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London

26 October 1998

JAMES CAPEL INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

		<u>1997</u> £	<u>1996</u> £
	<u>Note</u>		
Net operating income	3 & 4	548,195	(16,863)
Operating expenses	5	(58,145)	(382,623)
		-----	-----
Operating profit/(loss) on ordinary activities before taxation	6	490,050	(399,486)
Tax on profit/(loss) on ordinary activities	7	(147,181)	174,902
		-----	-----
Profit/(Loss) retained for the financial year		<u>342,869</u>	<u>(224,584)</u>

STATEMENT OF RETAINED PROFITS

Balance at 1 January	614,870	839,454
Profit/(loss) for the financial year	342,869	(224,584)
	-----	-----
Balance at 31 December	<u>957,739</u>	<u>614,870</u>

TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses other than the profit for the year.

CONTINUING OPERATIONS

The Company ceased to trade during the year.

JAMES CAPEL INVESTMENTS LIMITED

BALANCE SHEET AT 31 DECEMBER 1997

		<u>1997</u> £	<u>1996</u> £
	<u>Note</u>		
CURRENT ASSETS			
Debtors	8	493,000	371,348
Cash at bank and in hand	9	843,223	1,394,837
		-----	-----
		1,336,223	1,766,185
CREDITORS : Amounts falling due within one year			
	10	(278,484)	(1,051,315)
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,057,739</u>	<u>714,870</u>
CAPITAL AND RESERVES			
Called up share capital	11	100,000	100,000
Profit and loss account		957,739	614,870
		-----	-----
Shareholder's funds - equity	12	<u>1,057,739</u>	<u>714,870</u>

Approved by the board and signed on its behalf on 26 October 1998.


A.J. MOSS, director

JAMES CAPEL INVESTMENTS LIMITED

NOTES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST
DECEMBER 1997

1. Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain securities, and in accordance with applicable accounting standards.

As the Company is a wholly owned subsidiary of HSBC Holdings plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

2. Principal accounting policies

(a) Income Recognition

The directors are of the opinion that turnover and cost of sales do not have meaningful equivalents in a securities business and they are therefore not included in the profit and loss account.

(b) Foreign Currencies

Assets and liabilities originating in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Income and expense transactions originating in currencies other than sterling are translated into sterling at the exchange rate ruling at the time of the transactions. Foreign currency profits and losses arising are treated as normal items of the company's operations.

(c) Cash flow statement

In accordance with Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements", no cash flow statement is presented as the Company is a wholly owned subsidiary undertaking of HSBC Holdings plc which provides such a statement in its own financial statements.

(d) Marketable securities held as current trading assets are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the result for the year of a securities dealer that holds readily marketable investments as current assets, since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available.

JAMES CAPEL INVESTMENTS LIMITED

NOTES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

3. Net operating income

Net operating income comprises profits and losses from dealing in securities and certain items of interest receivable and payable.

Interest receivable and payable in respect of dealing in securities have been included in operating income as, in the opinion of the directors, this presentation is necessary in order to show a true and fair view.

	<u>1997</u> £	<u>1996</u> £
Included in operating income :		
Interest received and receivable :		
From group undertakings	98,993	231,943
Other	-	102,860
Interest paid and payable to group undertakings :		
Bank loans, overdrafts, and other loans repayable within five years	-	103,660
	<u> </u>	<u> </u>

4. Exceptional item

Net operating income for 1997 includes £493,000 which related to a refund of stamp duty from the Inland Revenue which the Company had paid in prior years on an intragroup transaction.

5. Operating expenses

Operating expenses solely comprise administrative expenses.

6. Operating profit/(loss) on ordinary activities before taxation

	<u>1997</u> £	<u>1996</u> £
The operating profit/(loss) on ordinary activities before taxation includes charges for :		
Auditors' remuneration	-	4,000
	<u> </u>	<u> </u>

The Company has no employees. No emoluments were received or are receivable by any director in respect of their services to the Company during the year.

JAMES CAPEL INVESTMENTS LIMITED

NOTES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

7. Tax on profit/(loss) on ordinary activities

	<u>1997</u> £	<u>1996</u> £
Tax charge/(group relief receivable) at 31.5% (1996 - 33%) based on the results for the year	147,181	(137,870)
Adjustments in respect of prior years	-	(37,032)
	<u>147,181</u>	<u>(174,902)</u>

8. Debtors

	<u>1997</u> £	<u>1996</u> £
Amounts owed by group undertakings	-	6,713
Other debtors	493,000	364,635
	<u>493,000</u>	<u>371,348</u>

9. Cash at bank and in hand

	<u>1997</u> £	<u>1996</u> £
Balances held with group undertakings	<u>843,223</u>	<u>1,394,837</u>

10. Creditors: amounts falling due within one year

	<u>1997</u> £	<u>1996</u> £
Amounts owed to group undertakings	-	916,292
Other creditors including taxation and social security	278,484	135,023
	<u>278,484</u>	<u>1,051,315</u>

JAMES CAPEL INVESTMENTS LIMITED

NOTES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

11. Capital and reserves

	<u>1997</u> £	<u>1996</u> £
Share capital :		
Authorised :		
£1 ordinary shares	<u>100,000</u>	<u>100,000</u>
Allotted, called and fully paid :		
£1 ordinary shares	<u>100,000</u>	<u>100,000</u>

12. The movement in the shareholder's funds is reconciled as follows :

	<u>1997</u> £	<u>1996</u> £
Opening surplus/(deficit) on the shareholder's funds	714,870	939,454
Profit/(loss) for the financial year	342,869	(224,584)
	-----	-----
Closing shareholder's funds	<u>1,057,739</u>	<u>714,870</u>

13. Ultimate parent undertaking

The Company's immediate parent company is HSBC Investment Bank plc, which is registered in England. The Company's ultimate holding company is HSBC Holdings plc, which is registered in England.

The largest and smallest group in which the financial statements of the Company are consolidated is that headed by HSBC Holdings plc. The consolidated financial statements of HSBC Holdings plc are available to the public and may be obtained from 10 Lower Thames Street, London EC3R 6AE.