

**HSBC International Financial  
Services (UK) Limited**

**(Formerly Midland Bank International Financial  
Services Limited)**

**Directors' report and financial statements**

**31 December 1999**

Registered number 980554



**HSBC International Financial Services (UK) Limited**  
(Formerly Midland Bank International Financial Services Limited)

**Report of the Directors and Financial Statements**

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# **HSBC International Financial Services (UK) Limited**

(Formerly Midland Bank International Financial Services Limited)

## **Report of the Directors**

The Directors submit their report and the audited financial statements of the Company for the year ended 31 December 1999.

### **Principal activities and business review**

The Company is the holding company for an international group of companies providing a comprehensive range of banking, financial and related services.

### **Results and dividends**

The results of the Company for the year are set out on page 5. The profit for the year after taxation amounted to £1,057,000 (1998 £13,710,000). Interim dividends of £638,974 were declared (1998 £28,000,000).

### **Change of name**

The name of the Company was changed from Midland Bank International Financial Services Limited to HSBC International Financial Services (UK) Limited on 27 September 1999.

### **Share Capital**

By a Special Resolution passed on 31 December 1999 the authorised share capital of the Company was increased by £100,000,000 by the creation of 100,000,000 Redeemable Preference Shares of £1 each.

### **Subsequent Events – Share Capital**

By a Special Resolution passed by the Company on 20 March 2000 the authorised share capital of the Company was further increased by the creation of an additional 100,000,000 Redeemable Preference Shares of £1 each. On the same day Midcorp Limited subscribed for 118,000,000 Redeemable Preference Shares at par value.

### **Subsequent Events – Reorganisation**

With effect from 20 March 2000 the Company transferred the beneficial ownership of all principal subsidiaries, with the exception of HSBC Europe B.V., to HSBC Europe B.V. a directly held subsidiary of the Company.

### **Directors**

Listed below are the names of all Directors who served on the Board during the year under review:

G S Cardona	(appointed 13 January 1999; resigned 31 December 1999)
C Kirkby	(resigned 25 January 1999)
R K McGregor	(alternate for G S Cardona and C S O'N Wallis until appointed 31 December 1999)
R M J Orgill	(resigned 14 January 1999)
C S O'N Wallis	

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Report of the Directors *(continued)*

### Directors' interests

The Directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, as required to be disclosed under the Companies Act 1985, are set out below. As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p each or HK\$10 each was replaced with three ordinary shares of US\$0.50 each.

	1 January 1999		31 December 1999
	Ordinary shares of 75p each	Ordinary shares of HK\$10 each	Ordinary shares of US\$0.50 each
R K McGregor	4,114	-	12,257
C S O'N Wallis	1,099	117	11,742

As a consequence of the share capital reorganisation, all awards under the Share Option Schemes, made in ordinary shares of 75p each, were adjusted by multiplying the number of shares by three and dividing the relevant exercise price by three.

During the year options over shares were granted/exercised as follows:

	Granted Ordinary Shares of 75p each	Exercised Ordinary shares of US\$0.50 each
R K McGregor	4,571	-
C S O'N Wallis	-	2,000

### Supplier Payment Policy

The company subscribes to the Better Payment Practice Code, the four principles of which are to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc, a parent undertaking. The payment performance of this unit is incorporated within the results of that company.

### Year 2000

There has been no disruption to the Company's operations, during or since the turn of the millennium, as a result of the Company's systems not being Year 2000 compliant. No disruption is expected and the Directors continue to monitor the position.

The costs of the Year 2000 modifications have been assessed on a group basis and are incorporated within the report of HSBC Bank plc.

# **HSBC International Financial Services (UK) Limited**

(Formerly Midland Bank International Financial Services Limited)

## **Report of the Directors** *(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, is made with a view to distinguishing for shareholders 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 these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors consider that in preparing the financial statements, 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.

On behalf of the Board



**RH Musgrove**

*Secretary*

10 Lower Thames Street

London

EC3R 6AE

*27 April 2000*

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Report of the Auditors to the members of HSBC International Financial Services (UK) Limited

We have audited the financial statements on pages 5 to 13.

### *Respective responsibilities of Directors and Auditors*

The Directors are responsible for preparing the Directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

### *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 1999 and of the result of the Company 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

28 April 2000

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Profit and loss account

*for the year ended 31 December 1999*

	Note	1999 £'000	1998 £'000
Income from shares in group undertakings		2,159	14,440
Amounts written off investments		-	(18)
Other operating expenses		<u>(225)</u>	<u>(5)</u>
<b>Operating profit</b>		1,934	14,417
Interest payable and similar charges	3	<u>(1,998)</u>	<u>-</u>
<b>Profit/(loss) on ordinary activities before taxation</b>	4	(64)	14,417
Tax on ordinary activities	6	<u>1,121</u>	<u>(707)</u>
<b>Profit on ordinary activities after taxation</b>		1,057	13,710
Dividends	7	<u>(639)</u>	<u>(28,000)</u>
<b>Retained profit/(loss) for the year</b>	14	<u><u>418</u></u>	<u><u>(14,290)</u></u>

All amounts relate to continuing activities.

The notes on pages 8 to 13 form part of the financial statements.

# HSBC International Financial Services (UK) Limited

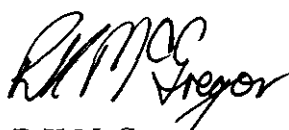
(Formerly Midland Bank International Financial Services Limited)

## Balance sheet

at 31 December 1999

	Note	1999 £'000	1998 £'000
<b>Fixed assets</b>			
Investments	8	374,578	167,368
<b>Current assets</b>			
Debtors	10	499	26,992
Cash at bank and in hand		<u>4,084</u>	<u>14,809</u>
		4,583	41,801
<b>Creditors: amounts falling due within one year</b>	11	<u>(122,338)</u>	<u>(17,178)</u>
<b>Net current assets</b>		<u>(117,755)</u>	<u>24,623</u>
<b>Total assets less current liabilities</b>		<u>256,823</u>	<u>191,991</u>
Provisions for liabilities and charges	12	<u>-</u>	<u>(1,400)</u>
<b>Net assets</b>		<u>256,823</u>	<u>190,591</u>
<b>Capital and reserves</b>			
Called up share capital	13	46,127	46,127
Share premium account	14	113,076	113,076
Revaluation reserve	14	96,821	31,007
Profit and loss account	14	799	381
		<u>256,823</u>	<u>190,591</u>

These financial statements were approved by the Board of Directors on 27 April 2000 and were signed on its behalf by:



**R K McGregor**  
Director

The notes on pages 8 to 13 form part of the financial statements.



## HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

### Statement of total recognised gains and losses for the year ended 31 December 1999

	1999 £'000	1998 £'000
<b>Profit for the financial year</b>	1,057	13,710
Write-up of investments in subsidiary undertakings to net asset value, including attributable goodwill	<u>65,814</u>	<u>29,086</u>
<b>Total recognised gains for the year</b>	<u><u>66,871</u></u>	<u><u>42,796</u></u>

### Reconciliation of movements in shareholders' funds for the year ended 31 December 1999

	1999 £'000	1998 £'000
Profit for the financial year	1,057	13,710
Dividends	<u>(639)</u>	<u>(28,000)</u>
	418	(14,290)
Other recognised gains and losses relating to the year	<u>65,814</u>	<u>29,086</u>
<b>Net increase in shareholders' funds</b>	66,232	14,796
Opening shareholders' funds	<u>190,591</u>	<u>175,795</u>
<b>Closing shareholders' funds</b>	<u><u>256,823</u></u>	<u><u>190,591</u></u>

No note of historical cost profits and losses has been presented as there is no material difference between the Company's results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The notes on pages 8 to 13 form part of the financial statements.

# **HSBC International Financial Services (UK) Limited**

(Formerly Midland Bank International Financial Services Limited)

## Notes on the accounts

### **1 Basis of preparation**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments in subsidiary undertakings, the policy for which is set out below, and in accordance with applicable accounting standards.

In accordance with Section 228 (i) of the Companies Act 1985, group accounts have not been prepared, as the Company is a wholly owned subsidiary of a parent undertaking incorporated in the European Union, for which consolidated accounts are prepared.

In accordance with Financial Reporting Standard 1 (revised 1996), "Cash Flow Statements", no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc which publishes such a statement in its own publicly available accounts.

The Company is involved solely in its principal activity as described in the Report of the Directors, and accordingly no analysis by business segment is given.

The Company complies with the requirements of Financial Reporting Standard 8, "Related Party Disclosures". No disclosure is presented of transactions between the Company and entities that are part of the HSBC Group in accordance with the exemptions granted to qualifying subsidiary undertakings under FRS 8, "Related Party Disclosures".

### **2 Principal accounting policies**

#### **(a) *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.

#### **(b) *Foreign currencies***

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end.

Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result of the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.

Other exchange differences are recognised in the profit and loss account.

#### **(c) *Dividend income***

Dividends received and receivable are stated gross of overseas withholding tax credits.

# HSBC International Financial Services (UK) Limited

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## Notes on the accounts (*continued*)

### (d) *Investments*

The Company's investments in subsidiary undertakings are stated at attributable net asset values, including goodwill. Changes in the net tangible assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

Other investments other than loans are stated at cost.

### 3 **Interest payable and similar charges**

This represents the unwinding of the discounted present value of the deferred payments, to be made in June 2000, for the acquisition of HSBC Bank Malta plc, which was completed in June 1999.

### 4 **(Loss)/profit on ordinary activities before taxation**

Certain expenses, including auditors' remuneration, have been borne by HSBC Bank plc and are therefore not charged in arriving at the (loss)/profit on ordinary activities before taxation.

### 5 **Directors and employees**

No emoluments were received or are receivable by any Director in respect of his services during the year (1998 *£nil*). The Company did not have any employees during the year (1998 *nil*).

### 6 **Tax on ordinary activities**

The (credit)/charge for taxation comprises:

	1999 £'000	1998 £'000
UK corporation tax at 30.25 % (1998: 31 %)	5,745	2,039
Relief for overseas tax	<u>(3,485)</u>	<u>(1,331)</u>
	2,260	708
UK corporation tax - prior year	(1,981)	(1,686)
Overseas tax	-	285
Deferred tax - current year	(2,290)	594
- prior year	<u>890</u>	<u>806</u>
	<u>(1,121)</u>	<u>707</u>

### 7 **Dividends**

	1999 £'000	1998 £'000
Interim dividends - first	639	13,000
- second	<u>-</u>	<u>15,000</u>
	<u>639</u>	<u>28,000</u>

**HSBC International Financial Services (UK) Limited**  
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Notes on the accounts (*continued*)

8 **Investments**

	Other investments other than loans £'000	Shares in group undertakings £'000	Total £'000
At 1 January 1999	3	167,365	167,368
Write-up to net asset value, including attributable goodwill	-	65,814	65,814
Additions	<u>10</u>	<u>141,386</u>	<u>141,396</u>
<b>At 31 December 1999</b>	<u><u>13</u></u>	<u><u>374,565</u></u>	<u><u>374,578</u></u>

On the historical cost basis, the Company's interests in shares in group undertakings would have been included as follows:

	£'000
At 31 December 1998	<u><u>136,358</u></u>
<b>At 31 December 1999</b>	<u><u>277,744</u></u>

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Notes on the accounts (*continued*)

### 9 Principal subsidiary undertakings as at 31 December 1999

	Country of incorporation	Company's interest in equity capital	Principal activity
HSBC Europe B.V.	The Netherlands	100%	Holding Company
HSBC Insurance (Ireland) Ltd	Republic of Ireland	100%	Insurance Broking
HSBC Bank AS (formerly Midland Bank AS)	Turkey	100%	Commercial Banking
HSBC Bank International Ltd (formerly Midland Bank Offshore Ltd)	Jersey	100%	Deposit Taking and Corporate Service
HSBC Financial Services (Cayman) Ltd (formerly Midland Bank Trust Corporation (Cayman) Ltd)	Cayman Islands	100%	Trust and Corporate Services
HSBC Trust Corporation (Isle of Man) Ltd (formerly Midland Bank Trust Corporation (Isle of Man) Ltd)	Isle of Man	100%	Trust and Corporate Services
HSBC Bank Malta p.l.c. (formerly Mid-Med Bank p.l.c.)	Malta	70%	Commercial Banking
HSBC Life (Europe) Ltd (formerly Midland Life International Ltd)	Republic of Ireland	100%	Life Assurance

The Company acquired a 70% interest in HSBC Bank Malta p.l.c. on 2 June 1999.

### 10 Debtors

	1999 £'000	1998 £'000
Amounts owed by fellow subsidiary undertakings	-	12,204
Dividends receivable from subsidiary undertakings	<u>499</u>	<u>14,788</u>
	<u>499</u>	<u>26,992</u>

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Notes on the accounts *(continued)*

### 11 Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Dividends payable by the Company	-	15,000
Amounts owed to parent undertaking	122,255	-
UK corporation tax	-	2,178
Sundry creditors	<u>83</u>	<u>-</u>
	<u>122,338</u>	<u>17,178</u>

### 12 Provisions for liabilities and charges

Deferred tax provision

	1999 £'000
At 1 January 1999	1,400
Credit to the profit and loss account	<u>(1,400)</u>
At 31 December 1999	<u>-</u>

### 13 Called up share capital

	'A' ordinary shares £'000	'B' ordinary shares £'000	'C' ordinary shares £'000	Non-voting Redeemable Preference Shares £'000	Total £'000
<b>Authorised shares of £1 each</b>					
At 31 December 1998	<u>8</u>	<u>2</u>	<u>49,990</u>	<u>-</u>	<u>50,000</u>
At 31 December 1999	<u>8</u>	<u>2</u>	<u>49,990</u>	<u>100,000</u>	<u>150,000</u>
<b>Issued, allotted and fully paid shares of £1 each</b>					
At 31 December 1998 and 1999	<u>8</u>	<u>2</u>	<u>46,117</u>	<u>-</u>	<u>46,127</u>

Class C Shares are non-voting and not entitled to dividends, but rank with A and B shares in the event of a winding up.

# HSBC International Financial Services (UK) Limited

(Formerly Midland Bank International Financial Services Limited)

## Notes on the accounts (*continued*)

### 14 Reserves

	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000
At 1 January 1999	113,076	31,007	381
Profit for the year	-	-	418
Write-up of investments in subsidiary undertakings to net asset value, including attributable goodwill	-	65,814	-
At 31 December 1999	<u>113,076</u>	<u>96,821</u>	<u>799</u>

### 15. Post-balance sheet event

On 20 March 2000, the authorised share capital was increased by a further 100,000,000 non-voting redeemable preference shares of £1 each and 118,000,000 of such shares were issued to the Company's parent undertaking at par. These preference shares have no voting or dividend rights but in the event of a winding up would be paid out prior to the Ordinary shares.

Also on 20 March 2000, the Company sold all but one of its investments in subsidiary undertakings to HSBC Europe BV, the remaining subsidiary undertaking. The consideration comprised the issue of additional shares in HSBC Europe BV. These new shares issued were valued such that the Company realised a net loss of £2,769,320 on the disposals.

### 16 Parent undertakings

The ultimate parent undertaking and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc, and the parent of the smallest such group is HSBC Bank plc, both of which are incorporated in England. The results of the Company are included in the group financial statements of HSBC Bank plc and HSBC Holdings plc.

Midcorp Ltd is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party as defined under FRS 8, "Related Party Disclosures".

Copies of the financial statements of HSBC Bank plc and HSBC Holdings plc may be obtained from:

HSBC Bank plc  
Poultry  
London  
EC2P 2BX

HSBC Holdings plc  
10 Lower Thames Street  
London  
EC3R 6AE