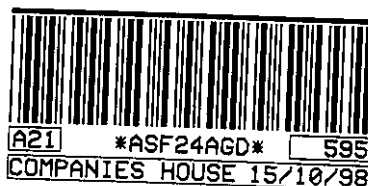


EQUATOR HOLDINGS LIMITED

Directors' Report and Consolidated Financial Statements

For the Year Ended 31 December 1997

Registered number: 3205201



Equator Holdings Limited

Report of the directors for the year ended 31 December 1997

Results for 1997

The profit for the year attributable to the shareholders of Equator Holdings Limited ("the Group") amounted to \$7.7 million before tax and \$7.1 million after tax. Given the need for increased capital to sustain growing the business, the directors recommend that all profits be retained in the Company and therefore do not recommend the payment of a dividend.

Further information about the results is given in the accompanying consolidated profit and loss account on page 5.

Principal activities and business review

The Group is engaged in financial, commercial, corporate finance, venture capital management and consulting services in Africa. It has offices in the United Kingdom, United States, Angola, Bahamas, Ghana, Kenya, Mozambique, South Africa, Uganda and Zambia. The Company's principal subsidiary, HSBC Equator Bank plc (the "Bank"), a merchant bank based in London, is authorized as a bank under the Banking Act 1987. The Bank is also authorized by the Securities and Futures Authority to provide investment advice to its customers. During 1998, the Group expects to continue to emphasize its investment banking initiative, expand commercial initiatives and diversify and grow its loan portfolio.

The share capital of the Company is 60% owned by HSBC Investment Bank plc, an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"), 20% owned by Equator Management Services, a United States partnership created to hold employee investments in the Company, and 20% owned by NedEurope S.A., a member of the Nedcor group of South Africa.

Directors

The directors who served during the year are as follows:

B. H. Asher	(Chairman)
K. G. Buchanan	(resigned 27 March 1997)
L. M. Friedman	
C. P. Gill	
R. K. G. Goodwin	
F. H. Kennedy	
D. S. G. Muller	
C. J. Newton	(alternate A.R.P. Affleck)
E. J. Sirleaf	(resigned 2 May 1997)
T. F. Wescott	

Equator Holdings Limited

Directors' interests

The only disclosable interests of those persons who were directors of the Company at 31 December 1997 were:

During the year, F. H. Kennedy, R.K. Goodwin, L.M. Friedman and T.F. Wescott each had a joint interest in 20,000 ordinary shares of the Company.

In addition, the directors had interests in the capital of HSBC Holdings plc, the ultimate parent company, as follows:

	HSBC Holdings plc	
	<u>1 January 1997</u>	<u>31 December 1997</u>
B. H. Asher		
Ordinary shares of HK\$10 each	2,100	2,100
During the year B.H. Asher exercised an option to acquire 12,613 ordinary shares of HK \$10 each		
C. P. Gill		
Ordinary shares of 75p each	280	442
11.69% Subordinated Bonds 2002	899	899
C.J. Newton		
Ordinary shares of HK \$10 each	165,512	139,112

During the year C.J. Newton exercised an option to acquire 1,440 HSBC Holdings plc ordinary shares of 75p each.

Save as stated above, none of the directors had an interest in any shares or debentures of any HSBC Group company at the beginning or the end of the year and none of the directors, or members of their immediate families, was awarded or exercised any right to subscribe for any shares or debentures during the year.

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

Supplier payment policy

The policy of the Group is to pay its suppliers within two weeks of receipt of invoice unless there is a dispute over the quantity or quality of the goods or services.

There were ten days purchases outstanding as at 31 December 1997.

Equator Holdings Limited

Donations

During the year, the Company made charitable donations amounting to \$19,000. Of this amount, \$282 was given for charitable purposes in the United Kingdom. No political donations were made during the year.

Auditors

A resolution proposing the reappointment of KPMG Audit Plc and giving authority to the directors to fix their remuneration will be submitted to the forthcoming annual general meeting.

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 in their report on page 4, 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.

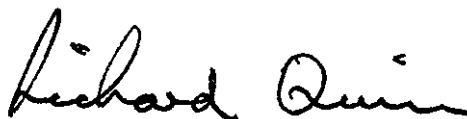
The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare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

The directors consider that in preparing the financial statements on pages 5 to 27, 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



Secretary

6 February 1998

Registered Office

66 Warwick Square

London, SW1V 2AL

Registered in England and Wales no. 3205201

Report of the Auditors, KPMG Audit Plc, to the members of Equator Holdings Limited

We have audited the financial statements on pages 5 to 27.

Respective responsibilities of directors and auditors

As described on page 3, 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 Group'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 affairs of the Company and of the Group as at 31 December 1997 and of the profit of the Group 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

6 February 1998

EQUATOR HOLDINGS LIMITED

Consolidated Profit and Loss Account

For the year ended 31 December 1997
(in thousands of United States dollars)

	Note	<u>1997</u>	<u>1996</u>
Interest receivable	\$	15,574	\$ 14,256
Interest payable	3	<u>(9,639)</u>	<u>(9,749)</u>
Net interest income		5,935	4,507
Fees and commissions receivable		13,218	11,925
Fees and commissions payable		(704)	(30)
Other operating income		<u>6,575</u>	<u>4,907</u>
Operating income		25,024	21,309
Administrative expenses	4	(17,403)	(16,102)
Depreciation and amortisation	14	<u>(567)</u>	<u>(671)</u>
Operating profit before provisions		7,054	4,536
Provisions for bad and doubtful debts	12	(367)	(76)
Fixed asset investment reserves no longer required		<u>994</u>	<u>-</u>
Profit on ordinary activities before tax	5	7,681	4,460
Tax on profit on ordinary activities	6	<u>(624)</u>	<u>557</u>
Profit on ordinary activities after tax	8	7,057	5,017
Dividends	7	<u>-</u>	<u>(1,785)</u>
Retained profit for the year	21	\$ <u><u>7,057</u></u>	\$ <u><u>3,232</u></u>

Statement of total recognised gains and losses

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

Continuing operations

All of the Company's activities in the year are continuing activities.

Movements in reserves are shown in note 21.

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.

EQUATOR HOLDINGS LIMITED

Consolidated Balance Sheet

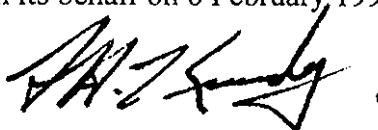
at 31 December 1997
(in thousands of United States dollars)

Assets	Note	<u>1997</u>	<u>1996</u>
Cash		\$ 11,138	\$ 3,995
Loans and advances to banks	9	109,785	193,703
Loans and advances to customers	10	94,061	41,673
Tangible fixed assets	14	882	1,088
Other assets		2,865	2,673
Prepayments and accrued income		4,546	5,744
Total assets	23	\$ <u>223,277</u>	\$ <u>248,876</u>
Liabilities			
Deposits by banks	16	\$ 159,262	\$ 196,333
Customer accounts	17	23,450	25,519
Other liabilities	18	5,848	6,868
Accruals and deferred income		7,727	5,473
Subordinated loan capital - dated	19	5,250	-
Called up share capital	20	100	100
Profit and loss account	21	<u>21,640</u>	<u>14,583</u>
Total shareholders' funds - equity	22	21,740	14,683
Total liabilities	23	\$ <u>223,277</u>	\$ <u>248,876</u>
Memorandum items			
Contingent liabilities:	24		
- acceptances and endorsements		\$ 7,038	\$ 10,889
- guarantees and irrevocable letters of credit		<u>76,162</u>	<u>59,645</u>
		<u>\$ 83,200</u>	<u>\$ 70,534</u>
Commitments:			
- other commitments	24	\$ <u>967</u>	\$ <u>-</u>

Approved by the board and signed on its behalf on 6 February 1998.



B. H. Asher
Chairman



F. H. Kennedy
Director

EQUATOR HOLDINGS LIMITED

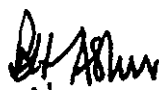
Balance Sheet

at 31 December 1997

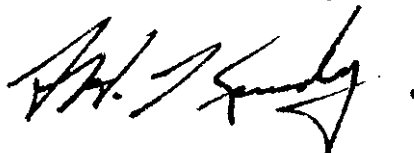
(in thousands of United States dollars)

	Note	<u>1997</u>	<u>1996</u>
Fixed Assets			
Investments			
Shares in group undertakings	15	\$ 15,798	\$ 15,798
Current Assets			
Other debtors		493	-
Amounts owed by group undertakings		-	1,375
Cash at banks with group undertakings		<u>7,311</u>	<u>2,474</u>
		<u>7,804</u>	<u>3,849</u>
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		(4,544)	-
Accrued liabilities		(3,416)	(1,779)
Proposed dividend	7	<u>-</u>	<u>(1,785)</u>
		<u>(7,960)</u>	<u>(3,564)</u>
Net Current (Liabilities) Assets		<u>(156)</u>	<u>285</u>
Total Assets Less Current Liabilities		<u>15,642</u>	<u>16,083</u>
Capital and Reserves			
Called up share capital		100	100
Profit and loss account	21	<u>15,542</u>	<u>15,983</u>
	22	\$ <u>15,642</u>	\$ <u>16,083</u>

Approved by the board and signed on its behalf on 6 February 1998.



B. H. Asher
Chairman



F. H. Kennedy
Director

EQUATOR HOLDINGS LIMITED

Consolidated Cash Flow Statement

For the year ended 31 December 1997
(in thousands of United States dollars)

	Note	<u>1997</u>	<u>1996</u>
Net cash (outflow)/inflow from operating activities	27	\$ (9,521)	\$ 257
Returns on investments and servicing of finance		-	-
Taxation paid		(100)	(628)
Investing Activities - Purchase of tangible fixed assets, net		(361)	(404)
Equity dividends paid		<u>(1,785)</u>	<u>(4,085)</u>
Net cash outflow before financing		(11,767)	(4,860)
Financing: - subordinated debt		<u>5,250</u>	<u>-</u>
Net cash inflow from financing		<u>5,250</u>	<u>-</u>
Decrease in cash and cash equivalents	28	\$ <u>(6,517)</u>	\$ <u>(4,860)</u>

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

1. Basis of preparation

The consolidated financial statements of Equator Holdings Limited and its subsidiary undertakings (the "Group") have been prepared under the historical cost convention and in accordance with applicable accounting standards, with the British Bankers Association Statements of recommended Accounting Practice and with the special provisions of Part VII Chapter II of the Companies Act 1985 ('the Act') relating to banking companies. Certain of the 1996 comparative figures have been reclassified to conform to the 1997 presentation.

As part of a group reorganisation during 1996, the Company was incorporated to take on the activities of Equator Holdings Limited, a Bahamian company. As permitted by the Act and Financial Reporting Standard 6 'Acquisitions and Mergers', this reorganisation was accounted for in the 1996 financial statements as a merger. In merger accounting the financial statements of the parties to the combination are aggregated and presented as though the combining entities had always been part of the same reporting entity. Accordingly, the 1996 comparative figures are prepared on this basis.

The accounting records are maintained in United States dollars as substantially all the Company's activities are conducted in dollars.

2. Principal accounting policies

(a) Income recognition

Interest receivable and payable are recognised in the profit and loss account as it accrues, except in the case of doubtful debts (note 2b). Fee and commission income is accounted for when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

(b) Loans and advances and doubtful debts

Specific 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. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

Interest receivable on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances. Interest is normally credited to the suspense account when any portion of interest or principal payments are overdue for more than one month.

(c) Tangible fixed assets

- (i) Leasehold improvements are stated at cost less accumulated amortisation calculated to write off the assets over the estimated term of the related lease. Leasehold improvements have remaining terms ranging from one to seventeen years.
- (ii) Equipment, furniture and fixtures are stated at cost less accumulated depreciation calculated on the straight line basis to write off the assets over their estimated useful lives, which are generally between one and five years.

(d) 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 Company is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in "Loans and advances to customers". Finance charges receivable are recognised over the periods of the lease in proportion to the funds invested.
- (ii) Rentals payable under operating leases are accounted for on the straight line basis over the years of the leases and are included in 'Administrative expenses'.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

(e) 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. Deferred tax assets are recognized when recovery is anticipated in the near future without replacement by equivalent assets.

(f) Pension and other post-retirement benefits

The Company operates a number of on-going defined contribution plans in the United States, Bermuda, Kenya, South Africa, United Kingdom and Zambia. Annual contributions are made to fund retirement benefits in order to build up reserves for each plan member during the employee's working life and to pay a pension to the employee or dependent after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis.

(g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rates of exchange ruling at the year end. The resulting exchange gains and losses are reported in the profit and loss account. Revenues and costs included in the profit and loss account are translated into U.S. dollars at the exchange rate in effect on the date of the transaction. Substantially all of the loans and advances are repayable in United States dollars and, accordingly, are not subject to changes in the value of other currencies, including the currencies of the countries where the borrowers are located and do business.

(h) Off-balance-sheet financial instruments

Off-balance-sheet financial instruments arise from forward and swap transactions undertaken by the Company in the foreign exchange and interest rate markets for non-trading purposes. The transactions are undertaken for hedging purposes as part of the Company's risk management strategy.

Transactions designated as hedges are accounted for on an equivalent basis to the underlying assets or liabilities. Any profit or loss arising is recognised on the same basis as that arising from the related assets or liabilities.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

(i) Fixed asset investments

The Company's investments in subsidiary undertakings are valued at cost.

3. Interest payable

Interest payable includes \$240,000 (1996 - nil) in respect of payments related to subordinated liabilities.

4. Administrative expenses (000's omitted):

	<u>1997</u>	<u>1996</u>
(a) Staff costs		
- wages and salaries provisions	\$ 9,146	\$ 7,982
- social security costs	447	440
- other pension costs (note 4b below)	<u>405</u>	<u>436</u>
	9,998	8,858
 Premises and equipment (excluding depreciation)	 1,006	 1,583
Other administrative expenses	<u>6,399</u>	<u>5,661</u>
 Total administrative expenses	 \$ <u>17,403</u>	 \$ <u>16,102</u>

The average number of persons employed by the Group for the year ended 31 December 1997 was 116 (1996 - 112).

(b) Retirement benefits

The Group maintains a number of on-going defined contribution retirement benefit plans, covering full time employees who meet certain age, service and minimum hours per year requirements. Retirement benefits expense for the year ended 31 December 1997 was \$405,000. Outstanding contributions at 31 December 1997 were \$44,000.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

(c) Directors' emoluments

The aggregate emoluments of the directors of the Company, computed in accordance with Part I of Schedule 6 to the Act were: (000's omitted)

	<u>1997</u>	<u>1996</u>
Fees	\$ 11	\$ 5
Salaries and other emoluments	2,475	2,013
Pension contributions	<u>104</u>	<u>134</u>
Total emoluments	\$ <u>2,590</u>	\$ <u>2,152</u>

Included in salaries and other emoluments are benefits related to cost of living differential for foreign service.

Remuneration of the highest paid director was: (000's omitted)

	<u>1997</u>	<u>1996</u>
Fees	\$ -	\$ -
Salaries and other emoluments	692	519
Pension contributions	<u>26</u>	<u>30</u>
Total emoluments	\$ <u>718</u>	\$ <u>549</u>

(d) Auditors' remuneration is analyzed below: (000's omitted)

	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Audit	\$ 129	\$ 149	\$ 8	\$ 10
Regulatory work	\$ 78	\$ -	\$ -	\$ -
Tax services	\$ 25	\$ 15	\$ -	\$ -
Other	\$ 45	\$ -	\$ -	\$ -

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

5. Profit on ordinary activities before tax

Profit on ordinary activities is stated after charging: (000's omitted)

	<u>1997</u>	<u>1996</u>
Rent payable on operating leases - land and buildings	\$ <u>832</u>	\$ <u>882</u>

6. Tax on profit on ordinary activities

The (charge)/credit for taxation comprises: (000's omitted)

	<u>1997</u>	<u>1996</u>
United Kingdom corporation tax charge	\$ (2,115)	\$ (654)
Overseas tax charge	(52)	(237)
Reversal of prior years tax provision, net	1,812	1,448
Deferred tax	<u>(269)</u>	<u>-</u>
	\$ <u>(624)</u>	\$ <u>557</u>

The U.K. tax resident subsidiaries of the Company provide for U.K. corporation tax at 31.5% (1996 - 33%). Overseas subsidiaries provide for taxation in the countries in which they operate at the appropriate rates. Deferred tax is provided for additional UK tax on profit remittances from overseas.

7. Dividends

The directors do not recommend the payment of a dividend for 1997. An interim dividend of \$1,785,000 was proposed in 1996 and paid in 1997.

8. Profit for the year

Of the profit for the year of \$7.1 million, a loss of \$441,000 has been dealt with in the accounts of the parent company.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

9. Loans and advances to banks

The remaining maturity of loans and advances to banks at 31 December is as follows: (000's omitted)

	<u>1997</u>	<u>1996</u>
Remaining maturity:		
- repayable on demand	\$ 25,043	\$ 22,388
- 3 months or less	68,233	134,249
- 1 year or less but over 3 months	16,987	35,552
- 5 years or less but over 1 year	-	1,803
General bad and doubtful debt provisions (Note 12)	(478)	(289)
Total loans and advances to banks	\$ <u>109,785</u>	\$ <u>193,703</u>

Loans and advances to banks include:

Amounts due from shareholders and their affiliates	\$ <u>52,424</u>	\$ <u>154,046</u>
--	------------------	-------------------

10. Loans and advances to customers

The remaining maturity of loans and advances to customers at 31 December is as follows: (000's omitted)

	<u>1997</u>	<u>1996</u>
Remaining maturity:		
- repayable on demand or at short notice	\$ 6,517	\$ 157
- 3 months or less but not repayable on demand or at short notice	55,736	21,461
- 1 year or less but over 3 months	17,072	18,185
- 5 years or less but over 1 year	15,169	2,170
General and specific bad and doubtful debt provisions (Note 12)	(433)	(300)
Total loans and advances to customers	\$ <u>94,061</u>	\$ <u>41,673</u>

Loans and advances to customers include \$1.9 million (1996 - \$863,000) net investment in finance leases. The cost of assets acquired during 1997 for letting to customers under finance leases by the Group amounted to nil (1996 - \$217,000).

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

11. Concentrations of exposure

The following industry concentrations, gross of specific provisions, are in excess of 10% of total gross loans and advances to banks and customers exclusive of members of the HSBC group and the Nedcor group of South Africa. (000's omitted)

	<u>1997</u>	<u>1996</u>
Public Sector	\$ 25,671	\$ 2,877
Agriculture	\$ 29,619	\$ 6,930
Central Banks	\$ 51,370	\$ 31,463
Financial Institutions	\$ 7,633	\$ 8,483
Mining	\$ 4,000	\$ 23,687

12. Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are included in loans and advances to banks and loans and advances to customers. The movement in the provision for bad and doubtful debts for the years ended 31 December 1997 and 1996 was comprised of the following: (000's omitted)

	<u>Specific</u>	<u>General</u>	<u>Total</u>
At 1 January 1997	\$ 102	\$ 487	\$ 589
Amounts written off	(45)	-	(45)
(Recovery)/charge to profit and loss account	<u>(41)</u>	<u>408</u>	<u>367</u>
At 31 December 1997	\$ <u>16</u>	\$ <u>895</u>	\$ <u>911</u>
Included in loans and advances to banks	\$ <u>-</u>	\$ <u>478</u>	\$ <u>478</u>
Included in loans and advances to customers	\$ <u>16</u>	\$ <u>417</u>	\$ <u>433</u>
At 1 January 1996	\$ 125	\$ 388	\$ 513
(Recovery)/charge to profit and loss account	<u>(23)</u>	<u>99</u>	<u>76</u>
At 31 December 1996	\$ <u>102</u>	\$ <u>487</u>	\$ <u>589</u>
Included in loans and advances to banks	\$ <u>-</u>	\$ <u>289</u>	\$ <u>289</u>
Included in loans and advances to customers	\$ <u>102</u>	\$ <u>198</u>	\$ <u>300</u>

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

The total advances on which interest is being placed in suspense, is as follows:
(000's omitted)

	<u>1997</u>	<u>1996</u>
Gross	\$ 2,575	\$ 89
Net of specific provisions	\$ 2,559	\$ -

Suspended interest at 31 December 1997 was \$7,523 (1996 - \$26,291).

13. Less developed countries exposure

A substantial portion of the Group's business is to provide financing to private and governmental entities in Africa. At 31 December 1997 the loans and advances are repayable in United States dollars and are all substantially current and performing according to their established terms. If necessary, the Company has various risk mitigants that it can exercise in the event of a default such as cash, rights to cash and commercial insurance. (000's omitted)

	<u>1997</u>	<u>1996</u>
Total less developed countries exposures to banks and customers	\$ 151,908	\$ 77,595
Accrued interest	<u>1,716</u>	<u>705</u>
	153,624	78,300
General provisions	<u>(911)</u>	<u>(487)</u>
Net exposure to less developed countries	\$ <u>152,713</u>	\$ <u>77,813</u>

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

14. Tangible fixed assets

Tangible fixed assets of the Group are comprised of the following: (000's omitted)

	Leasehold improve- ments	Equipment, furniture and fixtures	Total
Cost at 1 January 1997	\$ 695	\$ 3,118	\$3,813
Additions	95	309	404
Disposals	(12)	(468)	(480)
Foreign exchange adjustment	<u>(12)</u>	<u>(8)</u>	<u>(20)</u>
Cost at 31 December 1997	766	2,951	3,717
Accumulated depreciation at 1 January 1997	498	2,227	2,725
Charge for the year	95	472	567
Disposals	(2)	(435)	(437)
Foreign exchange adjustment	<u>(12)</u>	<u>(8)</u>	<u>(20)</u>
Accumulated depreciation at 31 December 1997	579	2,256	2,835
Net book value at 31 December 1997	\$ <u>187</u>	\$ <u>695</u>	\$ <u>882</u>
Net book value at 31 December 1996	\$ <u>197</u>	\$ <u>891</u>	\$ <u>1,088</u>

All fixed assets are for use in the Group's own business.

Equator Holdings Limited

Notes to the Consolidated Financial Statements

31 December 1997

15. Fixed asset investments - shares in group undertakings

Details of the principal subsidiary undertakings of the Company at 31 December 1997 are as follows:

<u>Interests in subsidiary undertakings</u>	<u>Description</u>	<u>Country of incorporation</u>	<u>Proportion of ordinary shares held %</u>
Equator U.S.A. Incorporated	Administration	USA	100
Equator Advisory Services Limited	Marketing	Bahamas	100
Equator Trade Services Limited	Trade	Bahamas	100
HSBC Equator Bank plc	Banking	England & Wales	100
Equator Africa Limited	Marketing	England & Wales	100
Equator Financial Services Limited	Marketing	Ghana	100
Equity Group of Kenya	Fund Management	Kenya	100
Equator Bank Limited	Banking	Bahamas	100

The aggregate amount of the total investment in the shares of subsidiary undertakings at 1 January and 31 December 1997 by way of the historical cost method of valuation is \$15,798.

16. Deposits by banks

(000's omitted)	<u>1997</u>	<u>1996</u>
Repayable on demand	\$ 85,355	\$ 79,633
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	72,059	114,914
- 1 year or less but over 3 months	1,848	-
- 5 years or less but over 1 year	-	1,786
	\$ <u>159,262</u>	\$ <u>196,333</u>
Deposits by banks include amounts due to:		
Affiliate of shareholder	\$ <u>2,180</u>	\$ <u>1,786</u>

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17. Customer accounts

(000's omitted)	<u>1997</u>	<u>1996</u>
Repayable on demand	\$ 22,869	\$ 24,413
With agreed maturity dates or periods of notice by remaining maturity:		
- 3 months or less but not repayable on demand	\$ <u>581</u>	\$ <u>1,106</u>
	\$ <u>23,450</u>	\$ <u>25,519</u>
Customer accounts include amounts due to:		
Associated undertakings	\$ <u>1,064</u>	\$ <u>1,209</u>

18. Other liabilities

Amounts included in other liabilities are comprised of the following at 31 December: (000's omitted)

	<u>1997</u>	<u>1996</u>
Taxation	\$ 2,525	\$ 2,001
Dividend payable	-	1,785
Other	<u>3,323</u>	<u>5,709</u>
Total other liabilities	\$ <u>5,848</u>	\$ <u>9,495</u>

19. Subordinated liabilities

At 31 December 1997 there was dated subordinated loan capital received from the Company's majority shareholder and maturing 2007 in the amount of \$5,250,000 (1996 - \$ nil). Interest rates are related to interbank offered rates.

20. Called up share capital

	<u>1997</u>	<u>1996</u>
Authorized:		
25,000,000 ordinary shares of \$1.00 each	\$ <u>25,000,000</u>	\$ <u>25,000,000</u>
Issued, allotted, and fully paid:		
100,000 ordinary shares of \$1.00 each	\$ <u>100,000</u>	\$ <u>100,000</u>

Equator Holdings Limited

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21. Reserves

(000's omitted)	<u>Group</u>	<u>Company</u>
Profit and loss account		
At 1 January 1997	\$ 14,583	\$ 15,983
Retained profit for the financial year	<u>7,057</u>	<u>(441)</u>
At 31 December 1997	\$ <u>21,640</u>	\$ <u>15,542</u>

22. Reconciliation of movements in shareholders' funds

(000's omitted)	<u>Group</u>		<u>Company</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Profit (loss) for the year attributable to shareholders	\$ 7,057	\$ 5,017	\$ (441)	\$ 9,663
Arising on group reorganisation	-	6,100	-	-
Share capital subscribed	-	100	-	-
Dividends declared	-	(1,785)	-	-
Shareholders' funds at 1 January	<u>14,683</u>	<u>5,251</u>	<u>16,083</u>	<u>6,420</u>
Shareholders' funds at 31 December	\$ <u>21,740</u>	\$ <u>14,683</u>	\$ <u>15,642</u>	\$ <u>16,083</u>

23. Analysis of total assets and total liabilities

(000's omitted)	<u>1997</u>	<u>1996</u>
Denominated in U.S. Dollars	\$ 214,675	\$ 202,921
Denominated in currencies other than U.S. Dollars	<u>8,602</u>	<u>45,955</u>
Total assets	\$ <u>223,277</u>	\$ <u>248,876</u>
Denominated in U.S. Dollars	\$ 213,567	\$ 205,769
Denominated in currencies other than U.S. Dollars	<u>9,710</u>	<u>43,107</u>
Total liabilities	\$ <u>223,277</u>	\$ <u>248,876</u>

Equator Holdings Limited

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24. Memorandum items and foreign exchange and interest rate contracts

(000's omitted)

	Contract amount	Credit equivalent amount	Risk weighted amount
<u>1997</u>			
Contingent liabilities:			
Acceptances	\$ 7,038	\$ 7,038	\$ 409
Guarantees and irrevocable letters of credit	<u>76,162</u>	<u>29,848</u>	<u>16,212</u>
	<u>\$ 83,200</u>	<u>\$ 36,886</u>	<u>\$ 16,621</u>
Commitments:			
Other commitments	<u>\$ 967</u>	<u>\$ 484</u>	<u>\$ 484</u>
Exchange rate contracts	\$ 11,520	\$ -	\$ -
Interest rate contracts	<u>\$ 6,450</u>	<u>\$ 33</u>	<u>\$ 7</u>
	<u>\$ 17,970</u>	<u>\$ 33</u>	<u>\$ 7</u>

(000's omitted)

	Contract amount	Credit equivalent amount	Risk weighted amount
<u>1996</u>			
Contingent liabilities			
Acceptances	\$ 10,889	\$ 10,889	\$ 4,232
Guarantees and irrevocable letters of credit	<u>59,645</u>	<u>23,702</u>	<u>10,903</u>
	<u>\$ 70,534</u>	<u>\$ 34,591</u>	<u>\$ 15,135</u>
Exchange rate contracts	\$ 2,919	\$ 56	\$ 11
Interest rate contracts	<u>6,023</u>	<u>46</u>	<u>9</u>
	<u>\$ 8,942</u>	<u>\$ 102</u>	<u>\$ 20</u>

All exchange rate and interest rate contracts are with HSBC group undertakings.

The table above gives the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance sheet transactions. The credit equivalent amounts are calculated for the purpose of deriving the risk weighted amounts. These are assessed in accordance with the Bank of England's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

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The risk weights used range from 0% to 100% for contingent liabilities and from 0% to 20% for exchange rate and interest rate contracts.

Contingent liabilities and commitments are credit-related instruments which for the Company include acceptances, letters of credit, guarantees, and commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. These arrangements and instruments, to varying degrees, involve elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. The majority of these require cash or other security before funds can be disbursed. Since a portion of the guarantees and commitments and letters of credit may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Off-balance-sheet financial instruments arise from both forward foreign exchange contracts and interest rate contracts undertaken by the Company in the foreign exchange and interest rate markets. The notional or contractual amounts of instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Replacement cost of contracts represents the mark-to-market assets on all contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts as at the balance sheet date. Credit risk is measured internally as the sum of the positive mark to market value and an estimate for the future fluctuation risk, using a future risk factor.

The table below provides the replacement cost of such contracts. (000's omitted)

	<u>1997</u>	<u>1996</u>
- Exchange rate contracts	\$ -	\$ 45
- Interest rate contracts	<u>3</u>	<u>27</u>
	\$ <u>3</u>	\$ <u>72</u>

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25. Capital commitments

There were no capital commitments at 31 December 1997 (1996 - nil).

26. Lease commitments

At the end of the year, annual commitments under non-cancellable operating leases were: (000's omitted)

	<u>1997</u>	<u>1996</u>
Leasehold land and buildings		
Operating leases which expire:		
- within one year	\$ 274	\$ 202
- two years to five years	\$ 481	\$ 805
- over five years	\$ 185	\$ 185

27. Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

(000's omitted)	<u>1997</u>	<u>1996</u>
Operating profit	\$ 7,057	\$ 5,017
Change in prepayments and accrued income	1,198	(1,984)
Change in accruals and deferred income	2,254	(1,678)
Depreciation and amortisation	567	671
Recovery of bad and doubtful debts	(45)	(1,360)
Net cash inflow from trading activities	<u>11,031</u>	<u>666</u>
Change in loans and advances to banks	63,681	(6,731)
Change in loans and advances to customers	(45,766)	(19,649)
Change in other assets	(192)	(797)
Change in deposits by banks	(37,071)	20,291
Change in customer accounts	(2,069)	8,353
Change in other liabilities	865	(1,876)
Net cash (outflow) inflow from operating activities	\$ <u>(9,521)</u>	\$ <u>257</u>

Equator Holdings Limited

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28. Analysis of cash and cash equivalents

(a) Changes in cash and cash equivalents during the year: (000's omitted)

	<u>1997</u>	<u>1996</u>
Balance at 1 January	\$ 26,540	\$ 31,361
Net cash outflow before the effect of foreign exchange movements	(6,517)	(4,860)
Effect of foreign exchange movements	-	39
Balance at 31 December	\$ <u>20,023</u>	\$ <u>26,540</u>

(b) Analysis of the balances of cash and cash equivalents as classified in the balance sheet: (000's omitted)

	<u>1997</u>	<u>1996</u>
Cash	\$ 11,138	\$ 3,995
Loans and advances to banks (Note 9)	2,368	22,388
Loans and advances to customers (Note 10)	<u>6,517</u>	<u>157</u>
	\$ <u>20,023</u>	\$ <u>26,540</u>

29. Litigation

The Group is party to various legal proceedings incidental to its business. Although the outcome of these proceedings is uncertain, based on discussions with legal counsel management believes that no material liability will result therefrom.

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30. Transactions, arrangements and agreements involving directors, officers, and related parties

Particulars of transactions, arrangements and agreements entered into by the Group with Directors and connected persons and companies controlled by them and with officers of the Group disclosed pursuant to section 232 of the Companies Act 1985 are as follows at 31 December:

(a) Directors

	<u>1997</u>		<u>1996</u>	
	<u>Number</u>	<u>\$000's</u>	<u>Number</u>	<u>\$000's</u>
Loans to, and guarantees on behalf of:				
Directors and connected persons and companies controlled by them:	<u>1</u>	<u>\$ 100</u>	<u>-</u>	<u>-</u>

The director to which the related party loan was made resigned on 2 May 1997. The loan was made after the director resigned.

(b) Related parties

In the normal course of business, the Group maintains on-balance-sheet and off-balance-sheet accounts and conducts transactions with other members of the HSBC group and the Nedcor group of South Africa. This business is conducted at prevailing market rates and terms and includes the maintenance of its correspondent cash accounts, deposits placed and interest rate swaps and foreign exchange spot and forward transactions. Cash and time deposits with affiliated banks were approximately \$56 million (1996 - \$157 million). Interest income on time deposits with affiliated banks was approximately \$5.4 million (1996 - \$6.2 million). Interest expense on balances owed to affiliated banks was \$410,000 (1996 - nil). All of the Group's interest rate and foreign exchange contracts as summarized in note 23 are with members of the HSBC group.

Included in administrative expenses is \$228,000 payable to an HSBC group undertaking by HSBC Equator Bank plc, for a guarantee that additional capital will be provided in the event that the capital of HSBC Equator Bank plc, a subsidiary of the Company falls below its regulatory requirements.

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The Group had loans outstanding to other related parties of \$5.1 million at 31 December 1997 (1996 - \$2.1 million) and had interest income on these loans of \$245,000 in 1997 (1996 - \$51,000). The Group maintains customer accounts for other related parties of \$587,000 at 31 December 1997 (1996 - nil) and had interest expense on these accounts of \$40,000 in 1997 (1996 - nil).

31. Contingencies

Under an HSBC Holdings plc ("HSBC") group registration, the Company is jointly and severally liable for value added tax due by other HSBC Group companies. No valuable security has been provided by the Company in respect of this contingency.

In 1996, steps were taken to liquidate Equator Holdings Limited (Bahamas). Certain technical issues have arisen which render the steps taken ineffective and application is now being made to restore the company to the register in the Bahamas after which formal liquidation will take place. There is potential tax exposure pending a determination by the UK tax inspector with respect to the transfer of assets to Equator Holdings Limited (UK). Management believes that the restoration of Equator Holdings Limited (Bahamas) and formal liquidation will resolve the technical issues and thus no taxation provision has been recorded in the accounts of Equator Holdings Limited (UK).

32. Parent and Ultimate Parent Company

The Company's share capital is 60% owned by HSBC Investment Bank plc (an indirect, wholly owned subsidiary of HSBC Holdings plc), 20% owned by Equator Management Services, a United States partnership created to hold employee investments in the Company and 20% owned by NedEurope S.A., a member of the Nedcor group of South Africa.

The Company's ultimate parent company is HSBC Holdings plc, which is incorporated in Great Britain and registered in England and Wales.

The results of the Company are included in the consolidated financial statements of HSBC Holdings plc. The consolidated financial statements of Equator Holdings Limited and HSBC Holdings plc are available from their registered offices at 66 Warwick Square, London SW1V 2AL and 10 Lower Thames Street, London EC3R 6AE, respectively.