



The Global Leader

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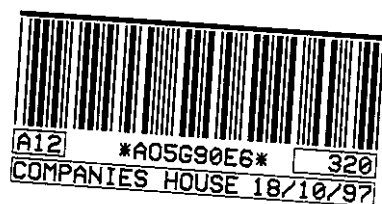
EQUATOR HOLDINGS LIMITED

Directors' Report and Financial Statements

Year Ended 31 December 1996

(With Report of the Auditors to the Shareholders' Thereon)

Registration number 3205201



EQUATOR HOLDINGS LIMITED

Report of the Directors

For the year to 31 December 1996

RESULTS FOR 1996. The profit for the year attributable to the shareholders of Equator Holdings Limited ("Holdings") was USD 9,663,000. The directors have resolved to pay an interim dividend for 1996 of USD 1,785,000 on the ordinary share capital.

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW. Holdings was incorporated in England and Wales on 23 May 1996. It is the successor to Equator Holdings Limited, a Bahamian company that was dissolved on 9 December 1996.

Holdings and its subsidiaries ("Equator") are engaged in financial, trade, 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. Holdings began operations in the United Kingdom on 1 August 1996. Its principal subsidiary, HSBC Equator Bank plc, a merchant bank based in London, is authorized as a bank under the Banking Act 1987. During 1997, Equator expects to continue its investment banking initiative, expand trade opportunities and diversify and grow its loan portfolio.

DIRECTORS. The directors who served during the period are as follows:

B. H. Asher	(Chairman) (appointed 1 August 1996)
K. G. Buchanan	(appointed 1 August 1996)
L. M. Friedman	(appointed 1 August 1996)
C. P. Gill	(appointed 28 October 1996)
R. K. G. Goodwin	(appointed 1 August 1996)
F. H. Kennedy	(appointed 1 August 1996)
D. S. G. Muller	(appointed 1 August 1996)
C. J. Newton	(appointed 1 August 1996)(alternate A.R.P. Affleck)
E. J. Sirleaf	(appointed 1 August 1996)
T. F. Wescott	(appointed 1 August 1996)

In addition, the following also served as directors during the period:

N. C. Adams	(first director - resigned 16 July 1996)
C. H. Weston	(first director - resigned 16 July 1996)
R. W. Quin	(appointed 16 July 1996 - resigned 1 August 1996)
I. C. Cotterill	(appointed 16 July 1996 - resigned 27 December 1996)

EQUATOR HOLDINGS LIMITED

DIRECTORS' INTERESTS. The only disclosable interests of those persons who were directors of Equator Holdings Limited at 31 December 1996 were:

Equator Holdings Limited - Directors' Interest

F.H. Kennedy each had a joint interest in 20,000 ordinary shares US \$1 each of Holdings at 1 August 1996 and at 31 December 1996.

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

	HSBC Holdings plc	
	At date of	
	<u>appointment</u> <u>31 December 1996</u>	
B.H. Asher		
Ordinary shares of HK \$10 each	2,100	2,100
C.P. Gill		
Ordinary shares of 75p each	280	280
11.69% Subordinated Bonds 2002	899	899
C.J. Newton		
Ordinary shares of HK \$10 each	165,512	165,512

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 at the end of the period 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 period.

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

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 Holdings 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.

EQUATOR HOLDINGS LIMITED

The directors consider that in preparing the financial statements on pages 5 to 14, Holdings has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and that all accounting standards which they consider to be applicable have been followed.

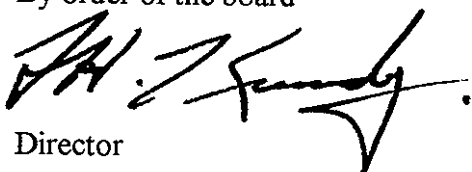
The directors have responsibility for ensuring that Holdings keep accounting records which disclose with reasonable accuracy the financial position of Holdings and which enable them to ensure that the financial statements comply with the Companies Act 1985.

FIXED ASSETS. Further details are provided in Note 6.

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

AUDITORS. In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of Holdings is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'A.H. J. Kennedy', written over the printed name 'Director'.

Director

27 January 1997

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

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of Directors and Auditors

As described on pages 2 and 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 judgments 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants/Registered Auditor
London

27 January, 1997

EQUATOR HOLDINGS LIMITED
Profit and Loss Account

For the year ended 31 December 1996
(in thousands of United States dollars)

		Continuing Operations	
	Note	<u>1996</u>	<u>1995</u>
Administrative expenses	3	\$ (524)	\$ (1,017)
Operating loss		<u>(524)</u>	<u>(1,017)</u>
Income from shares in Group undertakings		17,534	4,084
Amounts written off fixed asset investments	6	(5,347)	-
Profit on ordinary activities before tax		<u>11,663</u>	<u>3,067</u>
Tax on profit on ordinary activities	4	(215)	-
Profit for the financial year on ordinary activities tax attributable to shareholders'		<u>11,448</u>	<u>3,067</u>
Dividends	5	(1,785)	(4,084)
Retained profit (loss) for the financial year		\$ <u>9,663</u>	\$ <u>(1,017)</u>

Statement of Total Recognised Gains and Losses

There were no recognised gains or losses other than those shown in the profit and loss account.

Movements in reserves are shown in note 9.

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

Balance Sheet

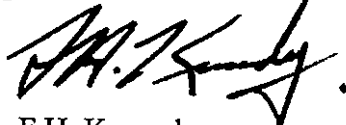
at 31 December 1996
(in thousands of United States dollars)

	Note	<u>1996</u>	<u>1995</u>
Fixed Assets			
Investments			
Shares in group undertakings	6	\$ <u>15,798</u>	\$ <u>14,576</u>
Current Assets (Liabilities)			
Other debtors		-	1,037
Amounts owed by group undertakings		1,375	-
Cash at banks with group undertakings		<u>2,474</u>	<u>-</u>
		<u>3,849</u>	<u>1,037</u>
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		-	(4,609)
Accrued liabilities		(1,779)	(500)
Proposed dividend	5	<u>(1,785)</u>	<u>(4,084)</u>
		<u>(3,564)</u>	<u>(9,193)</u>
Net Current Assets (Liabilities)		<u>285</u>	<u>(8,156)</u>
Total Assets Less Current Liabilities		<u>16,083</u>	<u>6,420</u>
Capital and Reserves			
Called up share capital	7	100	100
Other reserves	8	-	5,850
Profit and loss account	8	<u>15,983</u>	<u>470</u>
		\$ <u>16,083</u>	\$ <u>6,420</u>

Approved by the board and signed on its behalf on 27 January 1997



B.H. Asher
Director



F.H. Kennedy
Director

EQUATOR HOLDINGS LIMITED

Cash Flow Statement

Year ended 31 December 1996
(in thousands of United States dollars)

	Note	<u>1996</u>	<u>1995</u>
Net cash (outflow)/inflow from operating activities	10	\$ (4,407)	\$ 3,723
Returns on investments and servicing of finance			
Income from shares in Group undertakings		17,534	-
Return of capital from subsidiary undertakings		<u>9,008</u>	<u>-</u>
Net cash inflow from returns on investments and servicing of finance		<u>26,542</u>	<u>-</u>
Investing Activities			
Additional capital invested in subsidiary undertaking		(5,347)	-
Subscription for shares in subsidiary undertakings		(10,079)	-
Foreign exchange adjustment		(7)	-
Additional investment in subsidiary undertakings		<u>(144)</u>	<u>(150)</u>
Net cash outflow from investing activities		(15,577)	3,573
Net cash inflow before financing		<u>6,558</u>	<u>-</u>
Equity dividends paid		(4,084)	(3,573)
Increase in cash		\$ <u>2,474</u>	\$ <u>-</u>

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

Note 1 - Basis of Preparation

The financial statements of Equator Holdings Limited ("the Company") have been prepared using the unmodified historical cost convention and in accordance with applicable accounting standards. The financial statements comply with Schedule 4 to the Companies Act 1985 (the 'Act').

As part of a group reorganisation during the year, the Company was incorporated to take on the activities of Equator Holdings Limited, a Bahamian company. The Bahamian company has been dissolved. As permitted by the Act and Financial Reporting Standard 6 'Acquisitions and Mergers', this reorganisation has been accounted for 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.

The Company complies with the requirements of Financial Reporting Standard 8 'Related Party Transactions' which is effective for transactions between the Company and its related parties during 1996. The Company has also adopted in 1996, Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements', for which early implementation is encouraged.

In accordance with S228 of the Companies Act 1985 the Company is not required to publish group financial statements as the information is included in the consolidated group financial statements of the ultimate parent company.

The accounting records are maintained in United States dollars as the majority of the transactions of the Company and its subsidiary undertakings are in dollars.

Note 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. Deferred tax assets are recognised when recovery is anticipated in the near future without replacement by equivalent assets. Currently, the Company has no deferred tax assets or liabilities.

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

b. 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.

c. Fixed Asset Investments

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

Note 3 - Administrative Expenses

- a. As in 1995, the Company had no staff costs.
- b. Certain expenses, including auditors' remuneration, have been borne by other Group undertakings.
- c. Directors' emoluments

The aggregate emoluments of the Directors of the Company, computed in accordance with Part I of Schedule 6 of the Act were:

	<u>1996</u>	<u>1995</u>
Fees	£ -	£ -
Salaries	400,375	181,631
Other emoluments	276,404	279,518
Pension contributions	<u>51,674</u>	<u>20,232</u>
Total	£ <u>728,453</u>	£ <u>481,381</u>

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

The emoluments of the highest paid director, excluding pension contributions amounted to £306,611 and £461,149 in 1996 and 1995 respectively. The chairman received no emoluments. The table below shows the numbers of directors whose emoluments, excluding pension contributions, fell within the bands stated. The table does not include information in respect of directors who perform their duties as such wholly or mainly outside the U.K.

£	<u>1996</u>	<u>1995</u>
180,001 - 185,000	1	
185,001 - 190,000	1	
305,001 - 310,000	1	
460,001 - 465,000		1

In 1996 and 1995, all the directors' costs were borne by subsidiary undertakings.

Note 4 - Tax on Profit on Ordinary Activities

The charge for taxation comprises:

	<u>1996</u>
U.K. taxation	\$ 15,000
Overseas taxation	<u>200,000</u>
	\$ <u>215,000</u>

The Company provides for U.K. corporation tax at 33%. Overseas taxation consists of United States withholding tax on a return of capital. There was no tax charge in 1995.

Note 5 - Dividends

	<u>1996</u>		<u>1995</u>	
	<u>Per share</u>	<u>Total</u>	<u>Per share</u>	<u>Total</u>
Proposed	\$ 17.85	\$ 1,785,000	\$ 11.67	\$ 4,084,500

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

Note 6 - Fixed Assets Investments - Shares in Group Undertakings

On 1 August 1996, the Company issued 100,000 ordinary shares of nominal value U.S. \$1 each in exchange for the 350,000 outstanding shares of Equator Holdings Limited, a Bahamian company. The transaction was accounted for using merger accounting. Details of the principal subsidiary undertakings of the Company at 31 December 1996 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	Kenya	100
Equator Bank Limited	Management Banking	Bahamas	100

The following table provides the aggregate amount of the total investment in the shares of subsidiary undertakings by way of the historical cost method of valuation: (000's omitted)

Subsidiary undertakings at 1 January 1996	\$ 14,576
Subscription for shares in HSBC Equator Bank plc on 1 August 1996	10,078
Subscription for shares in Equator Africa Limited on 1 August 1996	1
Additional investment in subsidiary undertakings	144
Return of capital from subsidiary undertakings	(9,008)
Additional capital invested in subsidiary undertakings	5,347
Amount written off investment in subsidiary undertakings	(5,347)
Foreign exchange movements	<u>7</u>
Subsidiary undertakings at 31 December 1996	\$ <u>15,798</u>

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

Note 7- Called Up Share Capital

	<u>1996</u>	<u>1995</u>
Authorized:		
25,000,000 ordinary shares of \$1.00 each	\$ <u>25,000.00</u> 0	\$ <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>

The 2 ordinary shares of \$1.00 each were issued on 23 May 1996 and the 99,998 ordinary shares of \$1.00 each were issued on 1 August 1996 and are presented here in accordance with FRS6 'Acquisitions and Mergers'.

Note 8 - Reserves

<u>Other reserves (000's omitted)</u>	<u>1996</u>	<u>1995</u>
At 1 January	\$ 5,850	\$ 5,850
Transfer to profit and loss account	<u>(5,850)</u>	<u>-</u>
At 31 December	\$ <u>-</u>	\$ <u>5,850</u>

The transfer to profit and loss account represents the release of other reserves on the dissolution of Equator Holdings Limited, Bahamas.

<u>Profit and Loss account (000's omitted)</u>	<u>1996</u>	<u>1995</u>
At 1 January	\$ 470	\$ 1,487
Transfer from other reserves	5,850	-
Retained profit (loss) for the financial year	<u>9,663</u>	<u>(1,017)</u>
At 31 December	\$ <u>15,983</u>	\$ <u>470</u>

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

Note 9 - Reconciliation of Movements in Shareholders' Funds

Movements on shareholders' funds were as follows for the year ended 31 December: (000's omitted)

	<u>1996</u>	<u>1995</u>
Profit (loss) for the financial year attributable to shareholders	\$ 9,663	\$ (1,017)
Shareholders' funds at 1 January	<u>6,420</u>	<u>7,437</u>
Shareholders' funds at 31 December	\$ <u>16,083</u>	\$ <u>6,420</u>

Note 10 - Reconciliation of Operating Profit to Net Cash (Outflow)/Inflow from Operating Activities

(000's omitted)

	<u>1996</u>	<u>1995</u>
Operating loss	\$ (524)	\$ (1,017)
Decrease/(increase) in other debtors	1,037	(53)
Increase in accrued liabilities	1,064	4,566
Decrease in amounts owed by group undertakings	(1,375)	-
Increase/(decrease) in amounts owed to group undertakings	<u>(4,609)</u>	<u>227</u>
Net cash (outflow)/inflow from operating activities	\$ <u>(4,407)</u>	\$ <u>3,723</u>

Note 11 - Transactions, Arrangements and Agreements Involving Directors, Officers, and Related Parties

A) Director and Officers.

There are no related party transactions involving directors or officers.

B) Related Parties.

The Company maintains its cash account at HSBC Equator Bank plc, a wholly owned subsidiary. In addition, the Company has intercompany balances with certain of its subsidiary undertakings. These intercompany balances are interest bearing at prevailing market rates.

EQUATOR HOLDINGS LIMITED

Notes to Financial Statements

31 December 1996

Note 12 - Litigation

The Company is not a party to any legal proceedings. Some subsidiary undertakings are 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.

Note 13 - 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.

Note 14 - 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 Plc Group.

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 group financial statements of the ultimate parent company. The consolidated financial statements of HSBC Holdings plc are available to the public and may be obtained from the Secretary, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE.