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Letter to the Editor

Bank's move seen as bid to preserve its standing

Dear Sir,

MUCH has been written on the Hongkong Bank's proposed Scheme of Arrangement to exchange its currently-issued shares for those of a UK-incorporated but HK-managed company.

The analyses, it seems to me, are somewhat superficial, rather politicised, and neglect the essentials.

I have to declare an interest as a director of the Bank, although this letter is written as a purely personal comment.

The first point is that the Bank is *not* moving away from Hongkong: it remains incorporated here and continues to have its management and its operations here.

Assets would be unaffected. This is different from a company which incorporates in another jurisdiction and then takes over the assets of the old Hongkong company and winds up the latter.

The second point is that a company's "domicile" is defined by its place of incorporation, not by the nationality or residence of its shareholders (or even its majority shareholders).

In today's world of global businesses and cross-border investments, the use of a shareholding criterion for the "domicile" of a company would be particularly difficult and largely meaningless.

The third point I would make is connected with the second. The Bank might have proposed, instead of the scheme now contemplated, to remove the current restrictions on the size of individual shareholdings by any one party.

This would allow the shareholding control to alter, say, in favour of Japanese insurance companies, American conglomerates, or British banks which may be interested in buying a majority of the Bank's stock.

Were this to happen, could the critics then claim that the Bank "was turning its back on Hongkong" or "no longer showed confidence in Hongkong" or "was getting a foreign passport" as we have heard lately?

What is the legal difference between a single UK shareholder and, say, a majority Japanese shareholder, in terms of the corporate domicile of the Bank itself or its commitment to Hongkong?

The fourth point is obvious. If by reason of its Hongkong base, the Bank's affiliates or subsidiaries around the world have greater difficulty doing business, raising new capital, or having to pay more for the privilege of being market players, would this be good for the Bank and its shareholders?

Would it be good for Hongkong as a major financial centre if the Bank started to slip in the ranking of the largest international banks, could not expand further by taking advantage of commercial opportunities overseas, and as a result faced an increase in risk, and a reduction in its credit rating and its profitability?

I am also a shareholder of the Bank as well as a supporter of Hongkong. I know how I am going to vote my shares at the extraordinary general meeting.

HELMUT SOHMEN,
chairman,
World-wide Shipping Agency Ltd.