

HSBC Investment Company Limited

Registration No: 4308091

**Annual Report and Financial Statements for the year
ended 31 December 2019**



Annual Report and Financial Statements for the year ended 31 December 2019

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Strategic Report

Principal activities

HSBC Investment Company Limited¹ ('the Company') is domiciled and incorporated in England and Wales as a private company, limited by shares. Its trading address is 8 Canada Square, United Kingdom, London E14 5HQ.

During the year ended 31 December 2019, HSBC Investment Company Limited¹ continued to be an investment holding company. In October 2019, the Company changed sole ownership from HSBC Holdings B.V. to HSBC Holdings plc.

(1 The Company name was changed from HSBC Asia Holdings (UK) Limited to HSBC Investment Company Limited on 24 October 2019).

Review of the Company's business

The business is funded principally by its parent, HSBC Holdings plc.

During the year ended 31 December 2019, the Company continued to be an investment holding company.

The reserves available for distribution as at 31 December 2019 are \$68m (2018: \$83m).

Performance

The performance and position of the Company for the year ended 31 December 2019 and the state of the Company's financial affairs at that date are set out on pages 7 to 20.

The results of the Company show a loss before tax of \$15m for the year (2018: profit before tax of \$4,981m). There is a significant decrease in 2019 dividend income as prior year amounts include income received from subsidiaries in relation to the 2018 restructure of HSBC Group's Asia operations (Note 10). The Company also recognised during the year an impairment of \$16.4m in its investment of Serai Limited (2018: nil).

The Company received the following dividends from other group undertakings:

	2019 \$'000	2018 \$'000
Dividends from ordinary shares		
HSBC Asia Holdings B.V.	—	4,980,000

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As a Group, HSBC considers its stakeholders to be the people who work for us, bank with us, own us, regulate us and live in the societies we serve. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

As a non-trading, intermediate holding company, the principal stakeholder of the Company is the Company's parent entity. No decision were taken by the Board during the year other than those of a routine nature.

Stakeholder engagement

The Board understands the importance of effective engagement with all of its stakeholders to the long-term success of the Company. For further information on the Company's key stakeholders and the manner in which the Board takes their interests into consideration when making decisions, see the section 172 statement above.

Key performance indicators

As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Holdings plc. Ongoing review of the performance of the Company is carried out by monitoring the subsidiary performance, including cash flows from and to each subsidiary.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company together with its financial risk management objectives and policies, and an analysis of the exposure to such risks, are set out in Note 14 on the financial statements.

Being an investment holding company, the Company is subject to the risks of the performance of its subsidiaries which could result in impairment of these investments. The Company's accounting policy for impairment of investments in subsidiaries is set out in Note 1.2 on the Financial Statements.

The Company's exposures to credit, liquidity and market risks (including foreign currency risks and interest rate risk) are limited due to the nature of its business, which is predominantly investing in or financing of subsidiaries. These transactions are generally funded by way of capital or debt obtained from the parent or other group companies.

COVID-19 event has been covered separately under "Significant events since the end of the financial year" section within the Report of the Directors.

On behalf of the Board



I F MacKinnon
Director

21 September 2020

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Name	Appointed	Resigned
G A Francis	01 September 2014	26 June 2020
R J Hennity	30 September 2011	31 March 2020
I F MacKinnon	16 September 2011	
J Bingham	26 June 2020	
R Boyns	26 June 2020	
D Millar	26 June 2020	

The Articles of Association of the Company contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006.

Indemnity provisions of this nature have been in place during the financial year and up to the date of approval of the financial statements but have not been utilised by the Directors. Additionally, all Directors have the benefit of Directors' and officers' liability insurance.

Dividends

No dividends were declared or paid during the year (2018: \$31,320m).

Significant events since the end of the financial year

The Company made a further investment in Serai Limited of \$10m in May 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy.

An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

No other significant events affecting the Company have occurred since the end of the financial year.

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy.

An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 14 of the Notes on the financial statements.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC Group to provide necessary capital resources which are therefore managed on a group basis.

The Company defines capital as total shareholders' equity. It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Company's approach to capital management during the year.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP ('PwC') will therefore continue in office.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



I F MacKinnon
Director
21 September 2020

Registered Office
8 Canada Square
United Kingdom
London E14 5HQ

Independent auditors' report to the members of HSBC Investment Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Investment Company Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

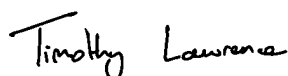
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 September 2020

Financial statements

Income statement for the year ended 31 December 2019

		2019	2018
	Notes	\$'000	\$'000
Interest income		64,873	124,782
Interest expense		(63,448)	(123,949)
Net interest income		1,425	833
Dividend income		—	4,980,000
Net operating income		1,425	4,980,833
General and administrative expenses		(2)	(1)
Impairment charge on investments in subsidiaries	10	(16,356)	—
Total operating expenses		(16,358)	(1)
(Loss)/profit before tax		(14,933)	4,980,832
Tax expense	5	(270)	(158)
(Loss)/profit for the year		(15,203)	4,980,674

Statement of comprehensive income for the year ended 31 December 2019

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (31 December 2018: nil).

Balance sheet at 31 December 2019

Registration No: 4308091

	Notes	2019 \$'000	2018 \$'000
Assets			
Cash and cash equivalents	6	49,752	85,824
Loans and advances to other group undertakings	9	—	2,685,005
Investments in subsidiaries	10	18,884	—
Total assets		68,636	2,770,829
Liabilities and equity			
Liabilities			
Loans from other group undertakings	11	—	2,687,238
Accruals, deferred income and other liabilities		158	22
Current tax liabilities		270	158
Total liabilities		428	2,687,418
Equity			
Called up share capital ¹	13	—	—
Retained earnings		68,208	83,411
Total equity		68,208	83,411
Total liabilities and equity		68,636	2,770,829

¹ Called up share capital is \$28 (2018: \$28) (Note 13) but has been rounded down to nil in the disclosure above, which displays all balances in \$000s.

The financial statements and its accompanying notes on pages 11 to 20 were approved by the Board of Directors on 21 September 2020 and signed on its behalf by:



I F MacKinnon
Director

Statement of cash flows for the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
(Loss)/profit before tax		(14,933)	4,980,832
Adjustments for:			
Non-cash items included in profit before tax		16,356	—
Tax paid		(22)	(2)
Net cash generated from operating activities		1,401	4,980,830
Cash flows from investing activities			
Net loans and advances from other group undertakings	9	5,005	26,627
Increase in investments in subsidiaries	10	(35,240)	—
Net cash (used in)/generated from investing activities		(30,235)	26,627
Cash flows from financing activities			
Loan repayments to other group undertakings	11	(7,238)	(24,394)
Dividends paid		—	(4,910,000)
Net cash used in financing activities		(7,238)	(4,934,394)
Net (decrease)/increase in cash and cash equivalents		(36,072)	73,063
Cash and cash equivalents brought forward		85,824	12,761
Cash and cash equivalents carried forward	6	49,752	85,824

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Share Premium	Retained earnings	Other reserves Capital contribution reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 01 Jan 2019	—	—	83,411	—	83,411
Loss for the year	—	—	(15,203)	—	(15,203)
Total comprehensive expense for the year	—	—	(15,203)	—	(15,203)
At 31 Dec 2019	—	—	68,208	—	68,208

	Called up share capital	Share Premium	Retained earnings	Other reserves Capital contribution reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 Dec 2017	—	7,574,802	18,688,238	160,000	26,423,040
Impact on transition to IFRS 9	—	—	—	—	—
At 01 Jan 2018	—	7,574,802	18,688,238	160,000	26,423,040
Profit for the year	—	—	4,980,674	—	4,980,674
Total comprehensive income for the year	—	—	4,980,674	—	4,980,674
Share premium conversion to distributable reserves	—	(7,574,802)	7,574,802	—	—
Dividends to shareholders	—	—	(31,160,303)	(160,000)	(31,320,303)
At 31 Dec 2018	—	—	83,411	—	83,411

Called up share capital

Called up share capital is \$28 (2018: \$28) (Note 13) but has been rounded down to nil in the disclosure above, which displays all balances in \$'000s.

Equity is wholly attributable to equity shareholders of HSBC Investment Company Limited.

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

Notes on the financial statements

1 Basis of preparation and significant accounting policies

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRSs'). The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

On 1 January 2019, Company adopted the requirements of IFRS 16 retrospectively. The Company does not hold any leases and therefore, there was no impact on the Company financial statements from this standard.

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

Amendments to IFRS 9 and IAS 39 issued in September 2019 modify specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform.

These amendments apply from 1 January 2020 with early adoption permitted. HSBC Holdings plc (ultimate parent company) has adopted the amendments that apply to IAS 39 from 1 January 2019 and has made the additional disclosures as required by the amendments.

The Company does not carry out hedge accounting and there was no impact on the financial statements from the adoption of this standard.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

IFRS 17 'Insurance Contracts'

The IASB has published IFRS 17 'Insurance Contracts'. IFRS 17 has not yet been endorsed but as the Company holds no insurance contracts, there will be no impact on the Company financial statements from this standard.

There are no other new IFRSs published by the IASB effective from 1 January 2020 that will have an impact on the financial statements of the Company.

(c) Foreign currencies

The functional currency of the Company is US dollars, which is also the presentational currency of the financial statements of the Company. Unless otherwise specified, all \$ symbols represent US dollars.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by section 400 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, modified by the revaluation of financial assets designated fair value.

All amounts have been rounded to the nearest thousand unless otherwise stated.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Management's selection of the Company's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy.

An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

Dividend income : At 30 June 2019, the Company changed its accounting practice on the recognition of dividends, to recognise them on the date of payment rather than the date of declaration, in line with generally accepted accounting practice. Prior periods have not been restated as all the relevant amounts are clearly disclosed, and the change is not considered material.

(b) Investments in subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. For the purpose of determining this classification, the Company is considered to have control of an entity when it is exposed, or has rights to variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

The Company's investments in subsidiaries are stated at cost less impairment losses.

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out and the valuation inputs become observable or the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

(d) Financial instruments measured at amortised cost

Loans and advances to other group undertakings

Loans and advances to other group undertakings are those that have not been classified either as held-for-trading or designated at fair value. These loans are recognised when cash is advanced and are derecognised when the undertakings repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Loans from other group undertakings

Loans from other group undertakings are recognised when cash is advanced or contractual arrangements are entered into, which is generally on the trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

HSBC Investment Company Limited

Financial liabilities

Amounts owed to other group undertakings represent financial liabilities and are included within trade and other payables. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provision of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(e) Impairment of amortised cost financial assets

Expected credit losses ('ECL') are recognised for loans and advances to other group undertakings and other financial assets held at amortised cost. At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

All of the Company's exposures are with other HSBC group undertakings. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the group company's customer risk rating ('CRR'). The CRR of group companies have been virtually the same over the past few years, therefore the exposures are in stage 1. No ECL is recognised as no loss was expected for HSBC group undertakings.

(f) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(g) Called up share capital

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(h) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

2 Employee compensation and benefits

The Company has no employees and hence no staff costs (2018: nil).

3 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2018: nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

4 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by HSBC Holdings plc and are therefore not charged in arriving at profit before tax. Audit fees are disclosed in the financial statements of HSBC Holdings plc. The amount incurred in respect of the audit of these financial statements was \$8k (2018: \$19k).

There were no other audit procedures, tax and non-audit services provided where fees were incurred during the year (2018: nil).

5 Tax

Tax expense

	2019 \$'000	2018 \$'000
Current tax		
- For this year	270	158
Year ended 31 Dec	270	158

The UK corporation tax rate applying to the Company was 19.00% (2018: 19.00%)

A reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020 was enacted in the Finance (No2) Act 2016 on 6 September 2016. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will not occur and the UK Corporation Tax Rate will instead remain at 19%.

Tax reconciliation

	2019		2018	
	\$'000	(%)	\$'000	(%)
Profit before tax	(14,933)		4,980,832	
Tax at 19.00% (2018: 19.00%)	(2,837)	19.00	946,358	19.00
Expenses not deductible	3,107	(20.81)	—	—
Non-taxable income and gains	—	—	(946,200)	(19.00)
Year ended 31 Dec	270	(1.81)	158	—

6 Reconciliation of (loss)/profit before tax to net cash flow from operating activities

	2019 \$'000	2018 \$'000
(Loss)/profit before tax	(14,933)	4,980,832
Non-cash item included in profit and loss		
Impairment of investments	16,356	—
	16,356	—
Cash and cash equivalents comprise		
Cash and balances held with other group undertakings	49,752	85,824
Interest and dividends		
Interest paid	(56,210)	(148,343)
Interest received	69,878	151,409
Dividends received	—	4,980,000

7 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

	Amortised cost \$'000	Total \$'000
At 31 Dec 2019		
Assets		
Cash and cash equivalents	49,752	49,752
Total financial assets	49,752	49,752
Total non-financial assets	—	18,884
Total assets		68,636
Liabilities		
Total financial liabilities	—	—
Total non-financial liabilities	—	428
Total liabilities		428

HSBC Investment Company Limited

	Amortised cost	Total
	\$'000	\$'000
At 31 Dec 2018		
Assets		
Cash and cash equivalents	85,824	85,824
Loans and advances to other group undertakings	2,685,005	2,685,005
Total financial assets	2,770,829	2,770,829
Total non-financial assets		—
Total assets		2,770,829
Liabilities		
Loans from other group undertakings	2,687,238	2,687,238
Total financial liabilities	2,687,238	2,687,238
Total non-financial liabilities		180
Total liabilities		180

8 Fair value of financial instruments not carried at fair value

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2019.

	Carrying amount	Fair values			Total
		Valuation techniques			
		Quoted price	Using observable	With significant	
		Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 Dec 2018					
Assets					
Loans and advances to other group undertakings	2,685,005	—	2,846,151	—	2,846,151
Liabilities					
Loans from other group undertakings	2,687,238	—	2,846,151	—	2,846,151

9 Loans and advances to other group undertakings

	Nominal interest rate	Maturity date	2019	2018
	%		\$'000	\$'000
HSBC Asia Holdings B.V.	LIBOR +2.65	25/11/2025	—	180,000
HSBC Asia Holdings B.V.	LIBOR +2.48	02/03/2027	—	725,000
HSBC Asia Holdings B.V.	LIBOR +2.46	25/09/2026	—	630,000
HSBC Asia Holdings B.V.	LIBOR +2.31	26/09/2023	—	575,000
HSBC Asia Holdings B.V.	LIBOR +1.97	24/09/2021	—	570,000
Accrued interest receivable			—	5,005
At 31 Dec			—	2,685,005

During 2019, all loans and advances to HSBC Asia Holdings B.V. were net cash settled with loan and advances from HSBC Holdings B.V. (Note 11).

The loans are denominated in US dollars and the effective interest based in LIBOR rates is accrued. The nominal rate is equal to the effective rate of interest as there have been no fees charged on these loans.

10 Investments in subsidiaries

Movements on investments

	2019 \$'000	2018 \$'000
Cost		
At 1 Jan	—	26,410,303
Additions	35,240	—
Disposals	—	(26,410,303)
At 31 Dec	35,240	—
Accumulated impairment		
At 1 Jan	—	—
Impairment loss	16,356	—
At 31 Dec	16,356	—
Net book/carrying value at 31st Dec	18,884	—

Additions to investments

During the year, the Company made investments of \$35m in Serai Limited (formerly named Jasmine22 Limited).

Also during the year, the Company invested \$0.12m in HSBC Insurance SAC 1 (Bermuda) Limited and \$0.12m in HSBC Insurance SAC 2 (Bermuda) Limited respectively.

Disposals of investments

There were no disposals of investments during the year.

Prior year disposals were as a result of restructuring HSBC Group's Asia operations to meet resolution and recovery requirements. The Company disposed of its investment in HSBC Asia Holdings B.V. by transferring ownership to HSBC Finance (Netherlands) via distributions in-specie, which was net settled.

Impairment testing of investment in subsidiaries

The carrying amount of investments in subsidiaries are assessed annually for any indication of impairment. Impairment would be recognised where the recoverable amount of the investment is determined to be less than the carrying amount.

At 31 December 2019, the recoverable amount of Serai Limited was determined based on its fair value less costs to sell, calculated as \$18.6m, representing the tangible net assets held in Serai Limited. This has led to an impairment of \$16.4m. No impairment was recognised at 31 December 2018.

The principal subsidiary undertakings of the Company as at 31 December 2019 are set out below.

Serai Limited¹ was the only principal subsidiary undertaking of the Company at 31 December 2018.

	Country of incorporation	Interest in equity capital (%)	Share class
HSBC Insurance SAC 1 (Bermuda) Limited	Bermuda	100.00	—
HSBC Insurance SAC 2 (Bermuda) Limited	Bermuda	100.00	—
Serai Limited ¹	Hong Kong	100.00	—

¹ The company name was changed during the year from Jasmine22 Limited to Serai Limited.

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set in Note 18.

11 Loans from other group undertakings

	Nominal interest rate	Maturity date	2019 \$'000	2018 \$'000
HSBC Holdings B.V.	LIBOR+2.65	25/11/2025	—	180,000
HSBC Holdings B.V.	LIBOR+2.48	02/03/2027	—	725,000
HSBC Holdings B.V.	LIBOR+2.46	25/09/2026	—	630,000
HSBC Holdings B.V.	LIBOR+2.31	26/09/2023	—	575,000
HSBC Holdings B.V.	LIBOR+1.97	24/09/2021	—	570,000
Accrued interest payable			—	7,238
At 31 Dec			—	2,687,238

During 2019, all loans and advances from HSBC Holdings B.V. were net cash settled with loan and advances repaid by HSBC Asia Holdings B.V. (Note 9).

The loans are denominated in US dollars and the effective interest based in LIBOR rates is accrued. The nominal rate is equal to the effective rate of interest as there have been no fees charged on these loans.

12 Maturity analysis of assets and liabilities

The following is an analysis of assets and liabilities by residual contractual maturities at the balance sheet date.

	On demand \$'000	Due within 3 months \$'000	Due between 3 - 12 months \$'000	Due between 1 - 5 years \$'000	Due after 5 years \$'000	Undated \$'000	Total \$'000
Assets							
Cash and cash equivalents	49,752	—	—	—	—	—	49,752
Non-financial assets	—	—	—	—	—	18,884	18,884
At 31 Dec 2019	49,752	—	—	—	—	18,884	68,636
Liabilities and Equity							
Accruals and other financial liabilities	—	158	—	—	—	—	158
Non financial liabilities	—	—	270	—	—	—	270
Equity	—	—	—	—	—	68,208	68,208
At 31 Dec 2019	—	158	270	—	—	68,208	68,636

	On demand \$'000	Due within 3 months \$'000	Due between 3 - 12 months \$'000	Due between 1 - 5 years \$'000	Due after 5 years \$'000	Undated \$'000	Total \$'000
Assets							
Cash and cash equivalents	85,824	—	—	—	—	—	85,824
Loans and advances to other group undertakings	—	5,005	—	1,145,000	1,535,000	—	2,685,005
At 31 Dec 2018	85,824	5,005	—	1,145,000	1,535,000	—	2,770,829
Liabilities and Equity							
Loans from other group undertakings	—	7,238	—	1,145,000	1,535,000	—	2,687,238
Non financial liabilities	—	—	158	—	—	—	158
Equity	—	—	—	—	—	83,411	83,411
At 31 Dec 2018	—	7,260	158	1,145,000	1,535,000	83,411	2,770,829

13 Called up share capital

			2019	2018
	Nominal value per share \$	Number of issued and fully paid shares	Issued share capital \$'000	Issued share capital \$'000
Ordinary shares of \$1 each	1	28	—	—
Balance as at 31 Dec		28	—	—

Called up share capital is \$28 (2018: \$28) but has been rounded down to nil in the disclosure above, which displays all balances in \$000s.

14 Management of financial risk

Systems and procedures are in place in the HSBC Group to identify, control and report on the major risks associated with financial instruments which include credit, liquidity and market risk. A Risk Management Meeting of the Group Management Board, chaired by the Group Chief Risk Officer, is held each month to address asset, liability and risk management issues for the HSBC Group. Exposure to these risks is monitored by HSBC Holdings plc's Asset and Liability Committee.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Company fails to meet a payment obligation under a contract.

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and portfolio basis. The Directors are responsible for the quality of credit portfolios and follow a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products. Credit risk is managed at a group level by business sector, rather than in respect of individual undertakings and it is therefore not considered appropriate to disclose quantitative data about exposure to that risk.

The Company exposure to credit risk in relation to cash and cash equivalents to group undertakings that are wholly-owned subsidiaries of HSBC Holdings plc. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable. Credit risk arising from default on other loans is not expected to have a material impact on the Company's net assets.

Maximum exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

	2019		
	Maximum exposure \$'000	Offset \$'000	Net \$'000
Cash and cash equivalents	49,752	—	49,752
At 31 Dec	49,752	—	49,752

	2018		
	Maximum exposure \$'000	Offset \$'000	Net \$'000
Cash and cash equivalents	85,824	—	85,824
Loans and advances to other group undertakings	2,685,005	—	2,685,005
At 31 Dec	2,770,829	—	2,770,829

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost. The risk arises from mismatches in the timing of cash flows.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings. The Company also has a line of credit with HSBC Bank plc which can be used for liquidity purposes.

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

	On Demand \$'000	Due within 3 months \$'000	Due between 3-12 months \$'000	Due between 1-5 years \$'000	Due after 5 years \$'000	Total \$'000
Accruals, deferred income and other liabilities	—	158	—	—	—	158
At 31 Dec 2019	—	158	—	—	—	158

	On Demand \$'000	Due within 3 months \$'000	Due between 3-12 months \$'000	Due between 1-5 years \$'000	Due after 5 years \$'000	Total \$'000
Loans from other group undertakings	—	34,343	103,030	1,625,302	1,764,233	3,526,908
At 31 Dec 2018	—	34,343	103,030	1,625,302	1,764,233	3,526,908

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce income values. Exposure to these risks arises from short-term cash balances and funding positions with other group undertakings. The objective of the Company risk management strategy is to reduce exposure to these risks and minimise volatility in economic income, cash flows and distributable reserves. The principal tool for managing this is sensitivity analysis of changes in profit before tax to future changes in the exchange rates or interest rate.

Foreign exchange risk

The Company has no significant exposure to foreign currency risk on assets and liabilities that are denominated in a currency other than the US dollars.

Interest rate risk

The Company held assets of \$49.8m (2018: \$85.8m) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 100 basis points increase/(decrease) in LIBOR on these net liabilities would be a (decrease)/increase of profit before tax of \$0.5m (2018: \$0.9m).

15 Related party transactions

Transaction with other related parties

Balances and transactions with other related parties can be summarised as follows:

	2019		2018	
	Highest balance during the year \$'000	Balance at 31 December \$'000	Highest balance during the year \$'000	Balance at 31 December \$'000
Assets				
Cash and cash equivalents ¹	85,824	49,752	183,325	85,824
Loans and advances to other group undertakings ¹	2,705,094	—	6,461,632	2,685,005
Liabilities				
Loans from other group undertakings ³	2,705,094	—	6,461,632	2,687,238
Accruals, deferred income and other liabilities ¹	158	158	22	22
			2019*	2018
			\$'000	\$'000
Income statement				
Interest income ¹			64,873	124,782
Interest expense ³			(63,448)	123,949
Dividend income ²			—	4,980,000

¹ These balances are with other related parties comprising of other HSBC Group Companies which are not a parent nor subsidiary of the Company.

² These balances are with subsidiaries of the Company.

³ These balances are with the parent of the Company.

The above outstanding balances arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

16 Parent undertakings

The immediate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements.

HSBC Holdings plc is incorporated in England and Wales.

Copies of HSBC Holdings plc consolidated financial statements can be obtained from:

HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom
www.hsbc.com

17 Events after the balance sheet date

The Company made a further investment in Serai Limited of \$10m in May 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy.

An assessment of the potential financial impact of COVID-19 on the Company has been carried out, and it was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

Management consider COVID-19 to be a non-adjusting event for the Company.

No other significant events affecting the Company have occurred since the end of the financial year.

18 HSBC Investment Company Limited's subsidiary undertakings

In accordance with section 409 of the Companies Act 2006 a list of the Company's subsidiaries, the country of incorporation and the effective percentage of equity owned at 31 December 2019 is disclosed below.

Subsidiaries	Interest (%)	Footnotes
HSBC Insurance SAC 1 (Bermuda) Limited	100	1,4
HSBC Insurance SAC 2 (Bermuda) Limited	100	2,5
Serai Limited	100	3,6

Reference	Description of Shares
1	Ordinary Shares
2	Ordinary Shares
3	Ordinary Shares
Reference	Registered Office
4	37 Front Street Hamilton Bermuda HM 11
5	37 Front Street Hamilton Bermuda HM 11
6	1 Queen's Road Central Hong Kong