



Scrip Dividends - Taxation

The precise tax consequences for a shareholder receiving a cash dividend or electing to receive new shares in lieu of a cash dividend will depend upon the shareholder's own individual circumstances. The following is a general outline of the tax consequences in the UK and overseas, based on current law and practice. This outline assumes that a holder of American Depository Shares ("ADSs") is the beneficial owner of the underlying ordinary shares for UK direct tax purposes. Based on published guidance by Her Majesty's Revenue and Customs it is expected that holders of ADSs should be treated as such by Her Majesty's Revenue and Customs. However, the guidance is not considered in any detail in this outline and holders of ADSs should consult their own professional advisors.

No tax is currently withheld from dividends paid by the Company. Such dividends carry a tax credit equal to one-ninth of the dividend.

(i) Cash dividends

UK resident individuals

Individual shareholders, who are resident in the UK for tax purposes, will generally be subject to income tax on the aggregate amount of the dividend and associated tax credit. For example, on a cash dividend of US\$90 an individual would be treated as having received dividend income equal to the sterling equivalent of both the US\$90 dividend received and the associated tax credit of US\$10 and as having paid income tax equal to the sterling equivalent of US\$10 (the associated tax credit).

Individual shareholders who are liable to income tax at the basic rate only will have no further tax to pay, as the tax liability will be fully extinguished by the associated tax credit.

Individual shareholders who are not liable to income tax are not able to recover the tax credit.

Individual shareholders subject to income tax at the higher rate of 40 per cent or the additional rate of 45 per cent will be liable to tax at the dividend upper rate of 32.5 per cent or the dividend additional rate of 37.5 per cent respectively on the aggregate of the dividend and the associated tax credit. For example, if a higher rate or additional rate tax payer were to receive a dividend of US\$90, he/she would for income tax purposes be treated as receiving dividend income equal to the sterling equivalent of both the US\$90 dividend received and the associated tax credit of US\$10. The related tax liability would be the sterling equivalent of US\$32.50 (for a higher rate tax payer) or US\$37.50 (for an additional rate tax payer). However, the associated tax credit equal to the sterling equivalent of US\$10 would be set against the tax liability, leaving the individual with net tax to pay of the sterling equivalent of US\$22.50 or US\$27.50 respectively.

UK resident trustees

Trustees of discretionary trusts, which are usually liable to pay income tax at the rate of 45 per cent, may be required to account for additional tax on UK dividend income at 37.5 per cent of the aggregate amount of dividend received and the associated tax credit, against which the effective 10 per cent tax credit may be offset.

UK resident companies

Corporate shareholders (other than certain insurance companies and companies which hold shares on trading account) are not liable to corporation tax or income tax in respect of dividends received from the Company.

UK resident gross funds/charities

There is no entitlement, for either a gross fund or charity, to a tax credit and consequently no claim to recover the tax credit will be possible.

US resident shareholders

The summary information on US federal income tax does not purport to be a comprehensive description of all the tax considerations that may be relevant to a holder of shares and must not be used for the purpose of avoiding US federal tax penalties.

Shareholders who are subject to US federal income taxation on a net income basis must include cash dividends in income on the date that such holder or the depository holder of the ADSs receives them.

Subject to certain exceptions for positions that are held for less than 61 days or are hedged, and subject to a foreign corporation being considered a 'qualified foreign corporation' (which includes not being classified for US federal income tax purposes as a passive foreign investment company), certain dividends ('qualified dividends') received by an individual US shareholder generally will be subject to US taxation at a maximum rate of up to 20 per cent. Based on the Company's audited financial statements and relevant market and shareholder data, HSBC does not anticipate being classified as a passive foreign investment company. Accordingly, dividends paid on the shares or ADSs generally should be treated as qualified dividends.

Distributions made on shares or ADSs and proceeds from the sale of shares or ADSs that are paid within the US, or through certain financial intermediaries to US shareholders, are subject to information reporting and may be subject to a US 'backup' withholding tax unless, in general, the US shareholder complies with certain certification procedures or is a corporation or other person exempt from such withholding tax.

Generally, US residents will not be subject to any UK taxation in respect of UK dividend income nor will they be able to recover the associated tax credit.

Other non-UK residents

Generally, non-UK residents will not be subject to any UK taxation in respect of UK dividend income nor will they be able to recover the associated tax credit.

Non-UK resident shareholders may be subject to tax on UK dividend income under any law to which that person is subject outside the UK. Non-UK resident shareholders should consult their own tax advisers with regard to their liability to taxation in respect of the cash dividend.

There are special rules which apply to non-UK resident discretionary trusts in receipt of UK dividends.

(ii) Scrip dividends

UK resident individuals

The tax consequences of electing to receive new shares in lieu of a dividend are similar to those of receiving cash dividends.

Individual shareholders who elect to receive new shares in lieu of a cash dividend will be treated as having received income of an amount which, when reduced by income tax at 10 per cent, is equal to the 'cash equivalent' which would have been received had they not elected to receive new shares. For example if a shareholder elected to receive new shares in lieu of a US\$90 cash dividend, they would for UK tax purposes be treated as receiving income of US\$100 and as having paid tax equivalent to US\$10.

Individual shareholders who are liable to income tax at the basic rate only will have no further tax to pay. Individual shareholders liable to tax at the higher rate of 40 per cent or the additional rate of 45 per cent will be liable to pay additional tax at the rate of 22.5 per cent or 27.5 per cent respectively of the aggregate of the cash equivalent and associated tax credit (which equates to the sterling equivalent of US\$22.50 or US\$27.50 respectively in the example above).

For income tax purposes, Her Majesty's Revenue and Customs will substitute the market value of the shares on the first day they are dealt in on the London Stock Exchange for the 'cash equivalent' if the difference between the cash dividend and the market value equals or exceeds 15 per cent of the market value.

For capital gains tax purposes the new shares will be treated as a separate holding. The base cost of these shares will equal the 'cash equivalent'. If the difference between the cash dividend and the market value equals or exceeds 15 per cent of the market value on the first day that the shares are dealt in on the London Stock Exchange, then the base cost will be the market value.

UK resident trustees

Trustees of discretionary trusts, which are liable to account for income tax on the income of the trust will be treated as having received gross income equal to the 'cash equivalent' as described above. Any tax liability will be calculated in line with the cash dividend treatment described above (tax at a rate of 37.5 per cent being partially offset by the effective 10 per cent tax credit).

UK resident companies

Corporate shareholders will not be liable to corporation tax on the receipt of new shares. For capital gains tax purposes the base cost of these shares will be nil.

UK resident gross funds/charities

There is no entitlement, for either a gross fund or charity, to a tax credit and consequently no claim to recover the tax credit will be possible.

US resident shareholders

The summary information on US federal income tax does not purport to be a comprehensive description of all the tax considerations that may be relevant to a

holder of shares and must not be used for the purpose of avoiding US federal tax penalties.

Shareholders who are subject to US federal income taxation on a net income basis and who elect to receive new shares in lieu of a cash dividend must include in income the fair market value of such shares on the dividend payment date, and the tax basis of those shares will equal such fair market value.

Subject to certain exceptions for positions that are held for less than 61 days or are hedged, and subject to a foreign corporation being considered a 'qualified foreign corporation' (which includes not being classified for US federal income tax purposes as a passive foreign investment company), certain dividends ('qualified dividends') received by an individual US shareholder generally will be subject to US taxation at a maximum rate of up to 20 per cent. Based on the Company's audited financial statements and relevant market and shareholder data, HSBC does not anticipate being classified as a passive foreign investment company. Accordingly, dividends paid on the shares or ADSs generally should be treated as qualified dividends.

Distributions made on shares or ADSs and proceeds from the sale of shares or ADSs that are paid within the US, or through certain financial intermediaries to US shareholders, are subject to information reporting and may be subject to a US 'backup' withholding tax unless, in general, the US shareholder complies with certain certification procedures or is a person exempt from such withholding tax that, if required, establishes its exemption.

Generally, US residents will not be subject to any UK taxation in respect of UK dividend income nor will they be able to recover the associated tax credit.

Other non-UK residents

Individual shareholders will be treated for UK tax purposes as having received income of an amount which, when reduced by income tax at 10 per cent, is equal to the 'cash equivalent' which would have been received had they not elected to receive new shares. No UK tax assessment will be made on such individuals, but the tax credit cannot be recovered.

However, a non-UK resident shareholder may be subject to tax on the new shares received under any law to which that person is subject outside the UK. Non-UK resident shareholders should consult their own tax advisers with regard to their liability to taxation in respect of the new shares.

Residual dividend entitlement

A UK resident shareholder will not be subject to UK tax on any amount carried forward as a residual dividend entitlement until either a new share or cash is received. The tax treatment of the new share will be the same as that of any other new ordinary share issued at the same time as a scrip dividend. Any payment in cash will be taxed as a cash dividend.

A non-UK resident shareholder may be subject to tax on any amount carried forward as a residual dividend entitlement under any law to which that person is subject outside the UK. Non-UK resident shareholders should consult their own tax advisers with regard to their liability to taxation in respect of the residual dividend entitlement.