HSBC HOLDINGS PLC:
THE RIGHTS ISSUE IS HISTORY …
WHAT NOW ?

Now that the road shows and the hoopla are relegated to history and HSBC Holdings plc () (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd) has been able to *'strengthen capital ratios'*, it is, perhaps, time for reflection as to what, really, has taken place.

First, in **TARGET**'s opinion, HSBC Holdings plc has been able to extricate itself from one of its potentially, worst-financial situations of many a decade – if not the worst situation, during its entire corporate history as a modern-banking institution.

HSBC Holdings plc had stated, publicly and in a stentorian manner on numerous occasions, that it does not need any financial assistance from the Government of the **U**nited **K**ingdom (UK) in the manner of many other UK banks, however, at the same time, it would like to give its shareholders the rare opportunity to purchase more shares in this huge banking institution, the largest in Europe, in fact, at a substantial discount to the market price of its shares.

HSBC Holdings plc, therefore, pitched the largest, cash-raising exercise in the corporate history of UK.

It asked its shareholders for about $US17.70 billion (about $HK138 billion) and clinched 96.60 percent of that sum of money from its shareholders.

That left about 3.40 percent of the Rights Shares, unsubscribed.

Some people, clearly, did not want to subscribe to the Rights Shares.

The exhalations of relief from senior management of HSBC Holdings plc must have been heard, reverberating from one corporate boardroom to another, no doubt, from London, England, to every capital city of Europe and North and South America and throughout every country of the Middle East and Asia.

The culmination of the Rights Issue was exemplified by the HSBC's Group Chairman, determining, on behalf of the bank, to take out full-page advertisements in a number of newspapers, thanking shareholders for their money.

It was the first time in living memory that such a thing had ever been done.

It, also, underlined the importance, placed by senior management of HSBC Holdings plc, on collecting such a massive sum of money from the best part of some 210,000, existing shareholders.

If one had, in the past, any doubts as to the importance to HSBC Holdings plc of the Rights Issue, the statements of the Chairman of this bank put paid to that doubt.

Now, although 3.40 percent of the unsubscribed Rights Shares might appear as a relatively small number of shareholders that determined not to take up the offer of getting more shares in HSBC Holdings plc on the cheap, it still represents about $HK4.65 billion in cold, hard cash.

This amount of money could hardly be considered an insubstantial sum in anybody's books.

So, it could be held that HSBC Holdings plc came up shy of $HK4.65 billion in its attempt to tap the market for cash.

Nevertheless, to the credit of the financial advisers to HSBC Holdings plc, they have accomplished that which a number of other banks, around the world, had been unable to accomplish: Get fresh funding from its shareholders.

In July, last year, as an example of such a failure of a well-known, UK bank to win the hearts, minds and the pockets of investors, HBOS plc, a banking and insurance group in the UK, now a subsidiary of Lloyds Bank plc (taken over in January 2009), pitched a £4-billion Rights Issue (about $HK45.20 billion at today's foreign-exchange, translation level), but its then shareholders only subscribed for about 8.30 percent of the Rights Shares.

A number of other UK banks, knowing fully well that a Rights Issue would not wash with its shareholders, went cap in hand to the UK Government for money.

The global recession has hit nearly every economy of the world and many a bank is desperate for cash.

One must never forget for a millisecond that banks do not give away money: Banks are in the business lending money at acceptable usury rates of interest, according to the law of the land at a specific time.

Second, the suggestion by senior Management of HSBC Holdings plc that the Rights Issue was affording the bank's shareholders an opportunity to stock up on its shares at a cheap price, in **TARGET**'s opinion, was an affront to the intelligent of any right-minded person.

Self-serving parties in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), some of whom agreed to underwrite part of the Rights Issue, went along with the logical garbage and parroted the party line.

Mr Stephen Green, Group Chairman of HSBC Holdings plc, in his unprecedented public statement, after the bank had cashed shareholders' cheques and deposited the funds into Treasury, said, inter alia:

> *'I would like to thank shareholders for their support in this successful Rights Issue. This underlines our determination that HSBC should maintain its signature financial strength which has served us so well over HSBC's long history. We remain confident that HSBC is well-placed in today's environment and that our strength leads to opportunity.'*

This is the first time that **TARGET ()** has, ever, heard of a chairman of a publicly listed company, thanking his shareholders for giving the company money.

From the point of view of HSBC Holdings plc, the 3, most-wonderful aspects of this successful, massive Rights Issue are that HSBC Holdings plc does not:

(a) Have to return the money to its shareholders in any manner or form if it determines not so to do;
(b) Have to open its books to the UK Government or any other governmental agency as did other banks in order to pass round the begging bowl to Number 10, Downing Street; and,
(c) Have to be concerned that any member of the senior management of the bank is in danger of losing his/her job due to the real, perceived or suspected, financial problems at the bank.

Perhaps, most importantly, for shareholders and many governments of the world, is that there will continue to be confidence in the solvency of HSBC Holdings plc.

As **TARGET** wrote on March 6, 2009, nobody would have thought, in 2007, that the then largest bank in the world, Citigroup Incorporated, could have been in such a position as requiring to be bailed out by the US Government.

But, today, the US Government owns nearly 40 percent of Citigroup Incorporated.

The share price of Citigroup Incorporated has fallen about 98 percent from its 2007 high of $US55.25.

Investors in today's world cannot help but be somewhat cynical about the financial future of quite a number of publicly listed companies, be they banking/financial institutions or companies, producing talcum powder for ladies, noting, as they must, that which has taken place on the world stage over the past 18 months or so.

Detroit is in shambles; many Wall Street institutions are held out to be suspect; shipping companies are known to be on their proverbial knees; residential, industrial and commercial property prices, around the world, continue to crumble; and, the number of investors who have lost all of their savings is legend.

The share price of HSBC Holdings plc, today, is about $HK50 and people are speculating whether or not it could go back to the zenith price of October 15, 2007, of $HK152.80.

In this medium's view, it is not bloody likely.

Management of HSBC Holdings plc has been honest in stating that the bank is facing hard times.

So are many, if not most, other banks of the world.

Management of HSBC Holdings plc would be irresponsible if it tried to suggest its likely financial results for the next 9 months because there are so many imponderables.

In all likelihood, the 2009 Financial Year will see more problems unfold and more requirements for bad and doubtful debts.

It is only too obvious, also, that the economies of the world are not yet out of the woods and, as such, one cannot see the horizon in order to know whether or not another financial storm is approaching.

For More About HSBC Holdings plc, Please Refer To:

TARGET Intelligence Report, Volume XI, Number 43,

Published On Friday, March 6, 2009, Headlined:

**'*HSBC HOLDINGS PLC:
OF GURUS AND GA-GAS*'**

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