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Hongkong and Shanghai Bank financial reporting practice 1865-1876

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Abstract

Accounting practices of Hongkong and Shanghai Bank from 1865 to 1876 fostered its repertoire of precocial identities. Hongkong and Shanghai bank used these identities to act opportunistically in commercial dealings with the British colonial administration of Hong Kong, the public of the United Kingdom, and the Emperor of China and his Chinese administration. This paper argues HSBC varied its financial reporting practices to manage its identities in public spaces in different cultural constituencies in order to ensure its longer term survival. The approach taken is to use the example of HSBC's Foochow loan to demonstrate its use of financial reporting to sustain its various identities. Documents pertaining to the published financial statements of Hongkong and Shanghai Bank between 1865 and 1876 are examined for the accounting practices and policies used. Secondary sources were also analysed. Hongkong and Shanghai Bank uniquely positioned itself to be simultaneously viewed as a conservative bank based on Scottish banking principles and a trusted local bank of the people of Hong Kong. It was the only bank acting in these three capacities. It achieved this by varying financial reporting practices to manage stakeholders' confidence. Only sources written in English were utilised in this study, as English texts dominate the historical records. However Chinese language representations are not present in this analysis. This study challenges meta-narrative explanations of the banking sector in colonization.

Keywords

Hongkong, Shanghai, Bank, Financial, Reporting, Practice, 1865, 1876

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Abstract

Accounting practices of Hongkong and Shanghai Bank from 1865 to 1876 fostered its repertoire of precocial identities. Hongkong and Shanghai bank used these identities to act opportunistically in commercial dealings with the British colonial administration of Hong Kong, the public of the United Kingdom, and the Emperor of China and his Chinese administration. This paper argues HSBC varied its financial reporting practices to manage its identities in public spaces in different cultural constituencies in order to ensure its longer term survival. The approach taken is to use the example of HSBC's Foochow loan to demonstrate its use of financial reporting to sustain its various identities. Documents pertaining to the published financial statements of Hongkong and Shanghai Bank between 1865 and 1876 are examined for the accounting practices and policies used. Secondary sources were also analysed. Hongkong and Shanghai Bank uniquely positioned itself to be simultaneously viewed as a conservative bank based on Scottish banking principles and a trusted local bank of the people of Hong Kong. It was the only bank acting in these three capacities. It achieved this by varying financial reporting practices to manage stakeholders' confidence. Only sources written in English were utilised in this study, as English texts dominate the historical records. However Chinese language representations are not present in this analysis. This study challenges meta-narrative explanations of the banking sector in colonization.

Key words: Banking, Financial Reporting, History

JEL classification: M49

1. Introduction

HSBC, the then Hongkong and Shanghai Bank, is a global bank with strong historical roots. Its viability as a trusted financial institution has depended upon its successful projection of images to satisfy both Eastern and Western cultures. It has been dually registered in both Hong Kong and London since its foundation. This paper demonstrates the longstanding proactive nature of financial reporting in creating diverse culturally acceptable images. Through the examination of a financial event the "Foochow Loan" from 1874 to 1876, the Orient's place in the development of Western financial practices in Hong Kong is acknowledged, and the construction of identities is explored. Documents pertaining to the published financial statements of Hongkong and Shanghai Bank between 1865 and 1876 are examined for the accounting practices and policies used. Secondary sources were also analysed.

An overview of Scottish banking and financial principles and reporting practices are first described. The second section examines the circumstances of how these were applied by Hongkong and Shanghai Bank in Hong Kong during the period 1865 to 1874. The events of the Foochow loan are then examined to critically evaluate the cultural complexities ensuing. The discussion section demonstrates the Hongkong and Shanghai Bank's use of different identities during this period to convey financial stability across East and West cultures. A conclusion is then offered, arguing its' banking and reporting principles and practices reflected the Occident – Orient divide, and in doing so HSBC needed to construct and project a contrasting image or idea of their invention to survive.

2. Scottish banking and financial principles and reporting practices

The formation of groups of professional accountants began in Scotland during the 1850s and in England from the 1870s (Mathews and Perera, 1996). At the beginning of the nineteenth century, accounting practices were unsystematic, with a variety of asset valuation methods and approaches to calculations of profits (Gordon and Gary, 1994). There was no requirement to conform to a uniform format of financial reporting (Brief, 1966; Edwards, 1980; Kedslie, 1990; Lee, 1979; Parker, 1991). The Scots were pioneers in developing conservative banking principles of the acceptance of deposits and the paying of interest. Traditional Scottish banking at this time paid the same interest on both fixed and current deposit accounts.

Scottish banking principles included joint stock, issue of bank notes, branching system, interest on current accounts, and lending on basis of cash credit (Munn, 1982). It was a tradition for Scottish financial institutions to issue bank notes during the 17th and 18th centuries. The first notes were issued by the Bank of Scotland in 1695. The issue of nites was vital to the success of banks which depended on the ability of banks to put their notes into circulation.

One of the influences of the Scottish Principle that can be seen in the financial statements was the introduction of cash credit. It was the forerunner of the modern overdraft. Cash credit accounts closely resembled what is today known as a line of credit. They were a popular lending device which offered advances to their customers and helped attract new customers. The bank introduced the "Discount, Loans, & Credits" accounts in its Statement of Liabilities and Assets in 1865. The British

Banking system of the nineteenth century concentrated chiefly on the provision of short-term loans for the purposes of working capital rather than long-term loans for fixed capital investment (Boyns *et al.,* 1997, 53). Therefore, this item was placed under cash balances on hand. However, it did not include any provision for bad debts. The bank had from time to time written off losses or made allowances for bad or doubtful debts before stating net profits. From the financial statements, these loans and credit were mainly financed by deposits. Therefore, a sound financial image was important to its ability to attract depositors and survive.

Apart from the cash credit accounts, the bank also had a “Branches and Agencies” account in the first year two years following the foundation of the bank in 1865. Establishing branches countrywide which provided accessible banking services to customers was another of the Scottish Principles that was influenced by the founder of the bank, the then Thomas Sutherland.

3. Historical Context of Banking in Hong Kong: HSBC 1865-1874.

Hongkong and Shanghai Bank was established in 1865 by Sir Thomas Sutherland, just two and a half decades after the first moves to form a group of professional accountants in Scotland during the 1850s, and before such professional accounting groups were being formed in England from the 1870s onwards (Mathew and Perera, 1996). It was listed in both London and Hong Kong. During that period Hong Kong did not have its own *Banking Ordinance* or accounting regulations. Most of the organizations just followed what had been done in England (King and Hongkong and Shanghai Banking Corporation, 1987). The bank retained the traditions of a British overseas bank. It was incorporated under the Colonial Banking Regulations of 1840, and reflected Scottish banking principles, and was formed as a joint stock company under the *Joint Stock Companies Act 1856.* It issued its own of bank notes, paid interest on current accounts, and lent on the basis of cash credit (Munn 1982).

The Joint Stock companies Act 1856 provided a standard form of balance sheet for the guidance of company directors and accountants (Chatfield, 1997, Chatfield and Vangermeerch, 1996). The HSBC’s first balance sheet, at 31 December 1865, was made available to shareholders on 12 February 1866 but does not appear to have been more widely published and an example of this is reproduced in *Figure 1*. It illustrates the way in which the Bank accounted for its financial position and makes evident the reliance on auditors to monitor financial affairs, which was not required by any regulations and so was a legitimizing strategy. As shown in *Figure 1*, the balance sheet was a simple statement prepared for the general meeting of shareholders. The balance sheet simply listed all assets in order of realisability and liabilities in order of repayment priority. Therefore there were no classifications and no corresponding period figures. Furthermore there were “no detailed notes to the accounts although the reserve fund was disclosed to be a separate statement from 1867 onwards” (Lee, 1983, 83). The format of the balance sheet in 1865, with assets on the right, equities on the left and permanent capital at the top, is a distinctive feature of the British balance sheet (Littleton and Zimmerman, 1962). HSBC financial reporting were similar to that of the UK railway companies (Bryer, 1991, McCartney and Arnold, 2000).

Take in Figure 1

During the early years, the bank had limited accounting and disclosure of information in its financial statements due to generally accepted bank accounting practice minimal legal requirements. HSBC was subject to the diminishing scope of British imperial banking policy due to the continued economic independence of its Eastern constituents and its policy of retaining a significant percentage of its shares on the Eastern registers. Hongkong and Shanghai Bank was incorporated with its own special ordinances[1] authorised by the Treasury in Hong Kong. The special ordinances mainly focused on limited liability issues and the note issues. They did not state a disclosure requirement. Therefore the bank's accounts "have never been made public, they have always been audited" (King, 1987, 35). The special ordinances stated that the bank was required to audit its accounts yearly. As shown in *Figure 1*, the annual report in 1866 was audited by two individuals, Rennie W.H. (the Colonial Auditor General) and Smith C.T. They stated in the report that they have examined and audited the accounts and found them correct. Financial reports were later become more informative, however they were being prepared in the context of an absence of legal and professional requirements for accounting measurement and disclosure.

The semi-annual accounts were not a statement of the position of the bank on the date stated, because various branches of the bank closed their books on different days to enable the information to reach Head Office. The auditors were concerned mostly about the dates at which these accounts were recorded, the time lag involved in their integration with the Head office accounts, the judgement of the status of non-performing loans, and the valuation of publicly quoted securities, a "routine verification" process (Chatfield, 1977, 120).

Lee (1983, 83) commented that "the profit statement was merely a report of recommended appropriations of figures, the balance sheet having been prepared excluding these appropriations". For the profit and loss account, expenses included dividends, amounts carried to the reserve fund, amounts written off for preliminary expenses, any bonus to constituents and depositors, and rebates on Bills not due. Moreover, the Scots were the pioneers in developing the acceptance of deposits and the paying of interest. Traditional Scottish banking paid the same interest on both fixed and current deposit account. Hongkong and Shanghai Bank on the other hand, paid 3% for 3 months, 5% for 6 months, and 6% for 12 months on fixed deposit and 2% on current deposit (King and Hongkong and Shanghai Banking Corporation, 1987). The bank deducted all the expenses and interest paid from the Gross profit. However, the bank did not disclose the detail of the expenses on the profit and loss account for the year end. The audience of the reports at this stage were more the Occident rather than the Orient.

The provisional committee was formed comprising 15 members, including Sir Thomas Sutherland and all the leading firms in Hong Kong except Jardine and Matheson. The composition of the committee reflected the international nature of the merchants of the Treaty Ports. It included British, American, German, Danish, Jewish

[1] The Hongkong and Shanghai Bank Ordinance (No. 5 of 1866). It was modelled after the charter of the Asiatic Banking Corporation but with exceptions appropriate for Hong Kong.

and Indian members. Most of them belonged to the firms established originally in Hong Kong (King and Hongkong and Shanghai Banking Corporation, 1987). However, no local Chinese participated in the formation of the bank. It may due to cultural differences and language barriers (Cheng, 1969).

The financial event of the Foochow loan is described, followed by an analysis of its associated transactions from the perspectives of the principles and conventions of the Scottish and British, contrasted with those of local Chinese perceptions

4. Foochow Loan (1874 – 1895)

Foochow is a province in mainland China. The Foochow loan occurred because of the pre-existing business relationship between the Chinese Superintendent of Trade for the North (Li Hung-chang[2]) who was located in the Peking Province, and the Hongkong and Shanghai Bank Chief Manager James Grieg[3] who was located in Hongkong. Li Hung-chang's office entitled both he and James Grieg access to the Emperor Mu-tsung (King 1983, King and Hongkong and Shanghai Banking Corporation 1987). Hongkong and Shanghai Bank negotiated a written agreement and in October 1874 committed to loan the Office of the Emperor in Peking a sum of £627,615. The contract was signed in two stages, the first tranche of the loan £539,748 was issued on 28 November 1874, while the second tranche was issued on 5 June 1875. The loan was made to "His Majesty Tung Chih, Emperor of China", which was a reign title (King and Hongkong and Shanghai Banking Corporation, 1987). The Foochow loan was recorded in the written contract for the sum of 2 million taels, at an agreed but arbitrary exchange rate for silver. However, when Hongkong and Shanghai Bank came to record the transaction in their records they converted the 2 million taels into British pounds using a floating exchange rate of gold based pound sterling. This meant that while the loan was recorded as the equivalent of 2 million taels in gold, the Chinese repaid correctly according to their contract the equivalent of 2 million taels in silver. Profit earned then was exposed to the fluctuation of the exchange rates. While the loan did attract interest, there was no fixed interest rate attached. It was in the terms of the contract that the loan was repaid monthly. There was no collateral required for the Foochow loan. It was regarded as a security because it was under the seal of the Emperor.

Upon signing the contract, the bank advanced 60,000 Taels immediately to the Chinese government. At the time, the bank did not have sufficient funds in their Cash Account to cover this advance, and so recorded the transaction against the Reserve Fund. For HSBC the purpose of the Reserve Fund is specifically stated for the equalization of dividends under the Acts of 1857 and 1858 (Article 122 of the deed of settlement). This urgent advance, while part of the total negotiated amount of 2 million taels, was not included in the terms of the contract with respect to its timing. This transgression may have been due to pressure from the Chinese government for immediate funds (Born, 1983; King, 1983; King and Hongkong and Shanghai Banking Corporation, 1987; Liu, 1979). The full amount of the loan to the Chinese

[2] Li Hung-chang was a leading statesman of the late Qing Dynasty and a Chinese general who ended many major rebellions (Liu, 1970).

[3] James Grieg was the chief manager of Hongkong and Shanghai Bank in 1871. He was forced to resign in 1876 because of the criticism from the bank and public from the accounting procedures of Foochow Loan (King and Hongkong and Shanghai Banking Corporation. 1987).

authorities was made on 19 December 1874. The total account was included in the December 1874 accounts under “discounts, loans and credits”. The contract was signed on the 28 November 1874, the first tranche amount was made available to the Chinese on the 19 December 1874. The total amount was included in the December 1874 accounts of Hongkong and Shanghai Banking Corporation under “discounts, loans and credits”. There is no record of the amount of the advance being reversed out of the Reserve Fund at a later date. This led to concern among the shareholders and a call for independent inspection of the bank’s accounts (King and Hongkong and Shanghai Banking Corporation, 1983).

In order to finance the Foochow loan, Hongkong and Shanghai Bank issued in their name in June 1875, six months after the first advance of the loan, a public loan (bond issue) on behalf of the Emperor and his government to fund the loan. These bonds with an interest rate of 8% fixed were sold in Hongkong and Shanghai (King and Hongkong and Shanghai Banking Corporation, 1987). There was no guarantee at the time that the public issue would be taken up. While the term of the loan was 20 years, the term of the bonds was only 10 years.

The bank recorded upfront in the profit and loss account at the end of 1874 a high proportion of the total profits on the loan, which they calculated to be approximately HK$125,000. This profit was recognised but not realized. This incident caused the shareholders to raise questions about the profitability of the loan and the accountability of the bank. The Foochow loan was eventually repaid in full, but not all the repayments were made on schedule.

The Foochow loan was noteworthy because it was not typical of contemporary lending practice. Examination of the events of the Foochow loan reveals the complexities that Hongkong and Shanghai Bank faced in operating in an eastern environment using western business conventions. In reconciling the two, this paper argues that the bank fostered dual of identities. HSBC used these opportunistically in commercial dealings with the British colonial administration of Hong Kong, the public of the United Kingdom, and the Emperor of China and his government. The next sections juxtapose two discerned identities used by Hongkong and Shanghai bank over the course of the Foochow loan, a Scottish and British identity, and a British Colonial Hong Kong identity.

5. Discussion

5.1 Hongkong and Shanghai Bank’s Scottish and British identity

Any founder has a great impact on the structure and accounting practices of the organization he or she establishes. Their characteristics and practices often become institutionalized in the organization’s culture. This can clearly be seen from HSBC’s founder, Sir Thomas Sutherland. His Scottish background and experience as the Hong Kong agent for the Peninsular and Oriental Steam Navigation Company (P&O) had an impact on the bank’s operation and financial practices (Napier, 1989). He realized that to be successful, a local bank would have to meet the diverse needs of the community and lure constituents from rival firms[4]. He believed that there was a

[4] The traditional rivalry between Jardine, Matheson and Co. and Dent and Co., between Russell and Co., and Augustine Heard and Co.

role for a locally based bank in Hong Kong, which could help to finance trade in East Asia and provide banking services to the local community.

Sutherland promoted Hongkong and Shanghai Bank as a bank to be operated on 'Scottish banking principles'[5], suggesting to stakeholders that the model for his bank would be banks such as the Bank of Scotland and the Royal Bank of Scotland, both of which were over 150 years old in 1865. The prospectus of the Hongkong and Shanghai Banking Company Limited (29 July 1864) stated that the establishment of a Mint in Hong Kong could provide an adequate supply of the proper currency (King and Hongkong and Shanghai Banking Corporation 1987, 73). The bank could also became the exclusive medium for the transaction of monetary operations connected with trade and replace the Compradoric system[6] (Collis, 1965). A locally-based bank could therefore offer the benefit of retaining profits within the local economy rather than remitting them back to Britain, and could also act as an issuer of bank notes. Sutherland's claim would have had particular significance, creating an aura of solidity, prudence and scrupulous attention to business.

The provisional committee was formed comprising 15 members, including Sir Thomas Sutherland and all the leading firms in Hong Kong except Jardine and Matheson. The composition of the committee reflected the international nature of the merchants of the Treaty Ports. It included British, American, German, Danish, Jewish and Indian members. Most of them belonged to the firms established originally in Hong Kong (King and Hongkong and Shanghai Banking Corporation, 1987). However, no local Chinese participated in the formation of the bank. It may due to cultural differences and language barriers (Cheng, 1969).

Hongkong and Shanghai Bank followed the influence of the Scottish practice of cash credit, a forerunner of the modern overdraft, where advances were given to their customers. In accordance with these principles, Hongkong and Shanghai Bank recorded such advances in "Discount, Loans, & Credits" account in its Statement of Liabilities and Assets from its foundation in 1865. A Scottish banking practice was also to set up a branch system, which Hongkong and Shanghai Bank adopted in its establishment of branches in both Hong Kong and Shanghai. This branch system facilitated the collection of the repayments of the Foochow loan, with a branch located in China.

The United Kingdom convention was to conduct all foreign business using a mutually accepted medium of exchange between the parties. The bank's convention was to record the Foochow loan in British pounds in the financial statements. With respect to the receipt of interest payments by the bank, these were also managed according to Scottish convention. The terms of the contract were that payments were to be made each month, which the Hongkong and Shanghai Bank interpreted to be a calendar month. The Banking convention of the west was stringent about repayment schedules and amounts. Failure to comply would indicate financial distress by the debtor. Hongkong and Shanghai Bank's receipt of some of the Foochow loan late, although not very often would have been frowned upon.

[5] The Scottish banking principles will be discussed later.
[6] Compradors were acted as financial intermediaries who worked with the local bank, remittance, merchants and officials, operating especially between the bank and their Chinese counterparts.

The British Banking system of the nineteenth century concentrated chiefly on the provision of short-term loans for the purposes of working capital rather than long-term loans for fixed capital investment (Boyns *et al*., 1997, 53). Loans and credit were mainly financed by deposits, and secured through lending against shares. Loans were usually made not for capital infrastructure, but for short term operating liquidity. This also was the general practice of Hongkong and Shanghai Bank, and it was a legitimate banking practice under the *General Companies Ordinance* (King and Hongkong and Shanghai Banking Corporation 1987).

The banks' issuing of the bonds had the consequence of transferring the risk away from the shareholders of Hongkong and Shanghai Bank to those investing in the bonds, and in doing so protecting its shareholders' profits. This is consistent with the proprietorship concept of the era. (Chatfield and Vangermeerch, 1996; Godfrey *et al*., 2000).

At this time the United Kingdom was developing principles of revenue recognition and revenue realisation through the British common law system. (Glover 1910). The upfront reporting of a profit of HK$125,000 did not contravene any formal compliance. It did breach the Scottish principle of conservatism.

5.2 Hongkong and Shanghai Bank's British Colonial Hong Kong Identity

Banks operating overseas retained the traditions of British overseas banks, traditions similar to those of Royally chartered banks, while maintaining vital regional associations. Hong Kong was a British colony and did not have significant banking laws until the late 1960s. Hongkong and Shanghai Bank was no different to other British banks operating overseas, being subjected through the provisions of the Colonial Banking Regulations to authorized regulatory supervision administered by the Governor of Hong Kong after consultation with or instructions from the Treasury through the Colonial Office (King, 1983). Although there was no specific banking law to govern the bank, it still had to comply with the *Joint Stock Companies Acts* of 1844 and 1856, and their financial reporting requirements. In these respects, the Hongkong and Shanghai Bank acted as an interface between the financial systems of the east and the west, and it is in this capacity that the Foochow loan arose.

Hongkong and Shanghai Bank in negotiating this loan contract were from an institutional and regulatory perspective aligned with the British legislation and convention. It was operating from the British concept of proprietorship, where reporting was done from the perspective of the owners, not the entity. This meant "control" i.e. management of the risk of the contract was afforded the investor through the regulations and principle of limited liability. In the writing of the contract an image of financial stewardship was conveyed, and at the same time constructed around the rights and responsibilities in the social contract of the legislation. An image of stability and probity is verified through the self imposition by Hongkong and Shanghai Bank of controls such as audits, annual reports and shareholder meetings.

However, despite this artefact of colonisation, Hongkong and Shanghai Bank was also encumbered by the cultural concept of "Guanxi"[7], requiring their image to be modified to accommodate a local identity. An example of this concerns the contractual requirement for monthly repayments of the loan. The Chinese did not work on a western calendar month, but rather operated by a lunar month. In the negotiations of the loan, while the condition monthly was inserted into the written contract, there was verbal acceptance that the payments were to be made in China to the Shanghai branch by lunar month (Collis 1965, King 1983, King and Hongkong and Shanghai Bank 1987). This arrangement, while fulfilling the local cultural norm, was highly irregular in terms of Scottish banking, and this information was never conveyed to London (as indicated by the matter never being raised by the stockholders in their annual general meetings). The concern of a few late payments inherent in United Kingdom conventions were not an issue for the bank's Chinese persona. The bank understood the physical and cultural context of the loan execution. The Chinese collected customs duties from vessels in arriving in their ports in the form of silver. The silver was used to repay the loan. This required relying on shipping and trading schedules and transporting the silver from two major ports, Foochow and Shanghai to Hong Kong. This required negotiating bad weather and long distances. The "Customs of Maritime" also delayed the payment process, as they first collected and sorted the silver received to its various destinations.

Hongkong and Shanghai Bank had to cultivate two images. In dealing with the Emperor and his government, the relationship had to be more than a commercial one, operating on a basis of trust. The Emperor and his government, not having concepts of limited liability and a legal person, understood the transaction as a relationship with Li Hung-chang and James Grieg who were a local part of Shanghai and Hong Kong. In this capacity, the bank was an agent of the Emperor and in honouring this relationship it would do nothing in violation of this trust. This meant that it would have been a cultural offence for the bank to request collateral for the loan from the Emperor. Their role of agent to sell the bonds on behalf of the Emperor protected the public image of the Emperor.

In the conduct of the bond issue, Hongkong and Shanghai Bank was projecting alternate images to the east and the west, while acting with duplicity as protectors to both parties. From the Western viewpoint their strategy removed risk of the loan from shareholders to the local investors in the bonds. From an Eastern perspective, they protected the pride of the Emperor, as they were issued in Hongkong and Shanghai Bank's name and did not give a public perception of the Emperor needing money. It removed the Emperor and Chinese government from appearing to beg the public for financial support, as would be the case in a government bond issue. Indeed, as this was the first loan, this problem of east and west cultural collision had not been encountered before in business.

The bank nurtured its construction of being a local bank in its policy of retaining a significant percentage of its shares on the Eastern registers. In the field in

[7] *Guānxi* describes the dynamic in the nature of personalized networks of social relationships in the Chinese society. It also used to describe a network of contacts, which an individual can exert influence on behalf of another when something needs to be done (Chen, 1995; Gold *et al.,* 2002).

executing the early advance of part of the loan, and contracting the loan six months prior to the issue of the bonds, Hongkong and Shanghai Bank had to compromise sound British business practice to maintain "Guanxi" with the Chinese government.

The juxtaposition inherent in the bank's position is evident through the recognition of the upfront profit of $125,000 on the loan. It was not until the *Companies Act of 1929* that it was required that a profit and loss account be laid before the company at a general meeting (Hein, 1978). The bank recorded estimated profits of the loan to the Profit and Loss in 1874 in order to pay out a dividend for the year and project a sound image of its financial position. From the Chinese perspective, the trust concept required no accountability and so none was required by the Emperor. However, curiously it must have had some significance to the local business community in Hong Kong. The cartoon published in 1875 in China Punch magazine [*see Figure 1]* showed the character Father Time (representing the timing of the accounting transaction) emerging from the gloom of 1874 bringing in the new year, a bag of silver dollars with legs and clearly marked "1875 loan"…£675,645" (King and Hongkong and Shanghai Banking Corporation, 1987) is Western in appearance, bringing the profits of 1875 to Hongkong and Shanghai Bank's representative (dressed in Chinese government uniform only allowed to be worn by official representatives of the Emperor) in 1874. This cartoon, published in an English language magazine, both expresses the accountability concerns of the predominately western shareholders and at the same time also confirms the identity of HSBC as being perceived as truly local to China.

Take in Figure 2

The Chairman explained the timing of the revenue recognition at the General Meeting was due to the poor performance of the half-year's result, and without the China Loan, there would be no profit available. This result can be seen from *Table I*. The directors explained the situation from the proprietary viewpoint, that is, regarding the assets and liability as those of the proprietor, with the potential use of the net worth unrestricted (Godfrey *et al.,* 2000).

Take in Table 1

The shareholders did not raise a point of significance at the annual meetings until 1875 because of their trust in the bank. They even criticized the directors for knowing the problems and withholding information. The directors defended themselves saying that the Chairman had informed the shareholders in a general way and raised the question of the auditors' inability to detect the unauthorized investments.

The bank was aware of these and other criticisms and sought to correct the impression at every opportunity. The bank's response was to present itself to the west as a financially reliable bank. As a result, a London Committee was set up to examine and inspect all the bill schedules and the problem of lending on the ultimate security of Bank shares. An internal inspection system was set up beyond the scrutiny of managers. Although no provisions were made at that time for auditing the accounts on which the statements were based, nor of the statements themselves, all the bank's accounts were to be audited under the terms of the British ordinance. The quick

response of Hongkong and Shanghai Bank was to present itself as a financially reliable organization.

6. Conclusion

The reason Hongkong and Shanghai bank succeeded in the loan was due to the connections and reputation of the bank (Jones, 1993), since its issue was a matter of confidence. With the founder's and its manager's personal experience of China and specialist knowledge of Chinese conditions, the bank was willing to accommodate the requirements of the Chinese Emperor. These requirements included a floating loan on its own terms, denominated in Chinese units of account (taels), with interest calculated on a lunar-month basis and payments at different intervals, which was different from the western loan calculation. With the connection of the British and Hong Kong Government, the bank was able to place the China loans on the London market without the help of other merchant banks.

Throughout this transaction it was necessary for the bank to project dual identities, beyond what it would do in the normal course of communicating with investors and clients in a mono-cultural setting. The duality of identity was necessary to make the loan. An analysis of this event questions the ability of accounting principles and conventions to be applied universally without contamination by cultures.

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FIGURE 1

HONGKONG & SHANGHAI BANKING COMPANY, LIMITED.

Report of the Court of Directors

General Meeting of Shareholders,
TO BE HELD AT THE BANKING HOUSE OF THE COMPANY,
WARDLEY HOUSE,
HONG KONG,
On Monday, the 12th of February, 1866.

To the Participator of the

Hongkong & Shanghai Banking Co., Limited.

GENTLEMEN – In accordance with the terms of the Deed of Settlement the Directors have now to submit to you their First annual Report on the Positions of the Company's affairs.

The first call of $25 per Share was made on the first of January 1865, and the Second call of $100 was due on the 31st of March; three payments were made with great promptness.

The Company's Offices at Hongkong & Shanghai were opened for the transaction of business in the month of April last, but were not in fair working order until the middle of May. The operations of the Bank to the 31st December have therefore extended over a period of less than eight months.

The following is the statement of accounts, which have been duly audited by the Honourable W.H. Rennie and Calab T. Smith, Esq.

Abstract Statement of Liabilities and Assets of the Hongkong and Shanghai Banking Company Limited, on the 31st December, 1865

LIABILITIES.		ASSETS.	
Paid up Capital (3125 on 20,000 shares)	$2,500,000.00	Cash Balances on hand and at Bankers	$1,250,388.78
Deposits and Notes in circulations	3,384,876.62	Discounts, Loans, credits, &c.,	3,144,446.75
Exchange acceptances, &c	5,731,434.62	Exchange Remittances, &c.,	5,554,279.13
Branches and Agencies	1,548,219.18	Branches and Agencies,	3,393,430.75
Profit and Loss Account	225,055.93	Preliminary Expenses,	32,827.62
Sundries	7,069.07	Sundries	21,322.39
Total	$13,396,655.42		$13,396,655.42

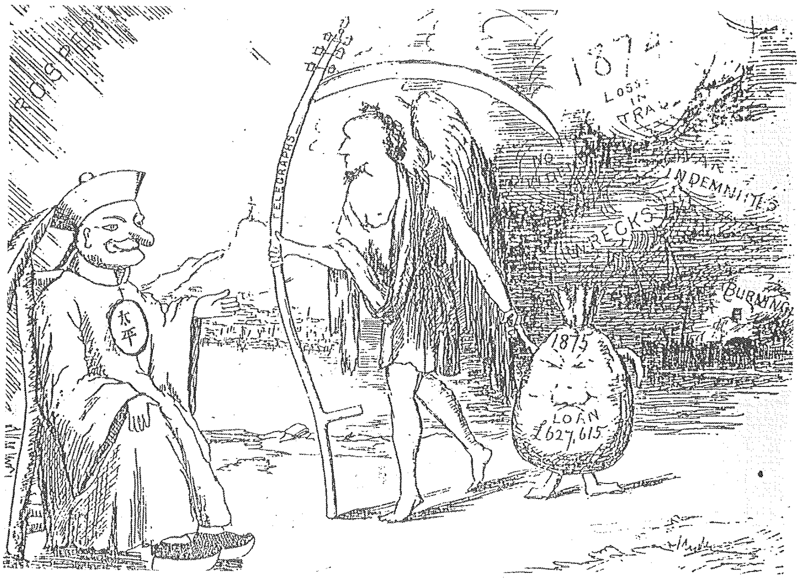
PROFIT AND LOSS ACCOUNT.

To Dividend at the rate of 8 per cent per annum, or $6.66 per share	$133,200.00	By amount of Profit for the Eight months ended 31st December 1865, after deducting all expense and interest paid and due	$225,055.93
Amount carried to Reserve Fund	33,300.00		
Amount written off Preliminary Expenses, Bonus to constituents and Depositors, &c.	14,577.97		
Rebate on Bills not due	31,696.66		
Balance being undivided profits carried forward to next half year	12,261.00		
	225,055.93		

We have examined and audited the above accounts and find them correct.

(signed) W.H. RENNIE,
C.T. SMITH,
Auditors.

FIGURE 2



6 Introducing the New Year, 1875, to Mr Punch in the dress of a Taiping Official – *China Punch*, 1875.

Figure 2 China Punch New Year's cartoon

TABLE 1

Assets and liabilities, 1867 – 1874

(in millions of HK dollars)	**1865**	**1866**	**1867**	**1868**	**1869**	**1870**	**1871**	**1872**	**1873**	**1874**	**1875**	**1876**	**1877**
Assets													
Cash on hand and with banks	1.25	1.94	3.95	4.23	4.25	10.18	9.35	8.1	11.26	8.55	4.36	4.45	5.72
Discounts, loans, credits	3.14	4.07	3.37	4.38	4.76	8.11	7.65	11.03	9.84	9.76	9.25	8.67	10.34
Exchange remittances	5.55	9.20	13.29	12	17.98	16.67	21.31	32.22	26.95	21.87	18.15	28.92	34.01
Branches and agencies	3.39												
Preliminary expenses	0.03	0.02											
Government securities			0.24	0.72	0.94	2.95	2.04	2.16	2.82	2.48	2.55	0.93	23.4
Other			0.11	0.12	0.13	0.14	0.15	0.16	0.26	0.32			
Buildings		0.06									0.23	0.22	0.21
Dead stock	0.01	0.03									0.09	0.1	0.1
Total Assets = liabilities	13.37	15.32	20.96	21.45	28.07	38.05	40.5	53.67	51.14	42.91	34.63	43.29	52.71
Liabilities													
Paid-up capital	2.5	2.5	2.5	2.5	2.5	2.5	2.5	5	5	5	5	5	5
+ Paid up (new shares)		0.39	0.5	0.5	1	1.5	2						
+Marine Insurance Account										0.03	0.05	0.07	0.07
+ Reserve Fund		0.1	0.25	0.5	0.7	0.8	0.9	1	1	0.1	0.1	0.2	0.65
= Shareholders' funds	2.5	2.99	3.25	3.5	4.2	1.8	5.4	6	6	5.13	5.15	5.27	5.72
Deposits and notes	3.38	4.13	6.28	7.06	7.81	11.11	12.58	16.07	18.77	19.8	13.41	13.07	22.36
of which :banknotes	0.8	0.93	1.22	1.11	1.76	1.71	1.52	2.37	1.96	2.24	1.88	1.31	2.04
Exchange acceptances	5.73	7.86	11.04	10.42	15.68	21.67	22.12	31.26	26.13	17.86	15.74	24.44	24.08
Branches and agencies	1.55												
Profit and loss			0.39	0.46	0.37	0.46	0.4	0.34	0.24	0.12	0.34	0.5	0.55
Profit and Loss													
(in thousands of dollars)							By amount from Reserve Fund			675			
By balance of undivided profits	0	45.7	14.2	70.7	116.8	99.4	31.3	122.8	36.8	7	106	38.1	14
By amount of profits	193.4	278.3	368.1	382.6	249.5	361.7	367	206.4	199.7	112.7	228.1	460.7	535
=Total funds to be allocated	193.4	324	382.3	453.2	366.3	461.1	398.3	329.2	236.3	794.8	334.1	498.8	549
To preliminary expenses	6.4	5	10			268.6							
To bonus to customers	8.2												
To Contingency Fund										781	145		
To dividend	132.2	180	180	180	210	160	270	300	200	0	150	177.78	177.78
To directors' remuneration		28	10	10	10	10	10	10	10	10.7	20	10	10
To reserves	33.3	75	125	200	100	0	100	0	0	0	0	300	350
To balance carried forward	12.3	35.9	57.3	63.2	46.3	22.6	18.3	19.2	26.3	3.1	19.1	11	11.2
Reserve Fund: new balance			375	700	800	800	1000	1000	1000	100	100	500	1000

Appendix

Summary of The Hongkong Bank's Ordinance of Incorporation

No. 5 of 1866

An Ordinance enacted by the Governor of Hongkong, with the Advice of the Legislative council thereof, for the Incorporation of the Hongkong and Shanghae Banking Company.

[14th August, 1866]

I. This Ordinance may be cited for all purposes as "The Hongkong and Shanghae Bank Ordinance."
II. The expression "The Governor" shall mean His Excellency the Governor of the colony of Hongkong. "the Company" shall mean "The Hongkong and Shanghae Banking Corporation". "The colony" shall mean the Colony of Hongkong and its Dependencies.
III. The proprietors shall be one body politic and corporate by the name of Hongkong and Shanghae Banking Corporation which may be sued.
IV. The company is established for the purpose of carrying on under the management of a Court of Directors.
V. The capital of the company shall consist of five millions of dollars divided into forty thousand shares of one hundred and twenty-five dollars.
VI. The paid up capital should be published in the Hong Kong Government Gazette.
VII. Unless the whole capital has been subscribed, the Governor could cease the grant of incorporation.
VIII. The company could not be entitled to hold out to the public that the amount of its capital has been increased until the notification was provided by the governor.
IX. The reminder of the instalments on the shares shall be made to appear to the satisfaction of the Governor to be evidenced.
X. The Deed of Settlement shall be contained provisions for:
    a. Holding general meetings at least once a year
    b. Holding extraordinary general meetings upon the requisition of 9 or more shareholders.
    c. For the management of the affairs of the company and the election and qualifications of the directors
    d. For the retirement of at least one-fourth of the directors of the company yearly
    e. For the yearly audit of the accounts of the company by two or more auditors, not being directors at the time.
    f. For the yearly communication of the auditors' report, and of a balance sheet, and profit and loss accounts to every shareholder.
XI. The provision of this ordinance shall be taken to be the existing rules and regulations of the company.

XII. Note issue: It shall be lawful for the company to issue notes or bills payable to bearer on demand in coin current in the colony.

XIII. The total amount of the bills of the company payable to bearer on demand shall not exceed the amount of the capital of the company paid up.

XIV. The total amount of the debts and liabilities of the company shall not exceed the aggregate amount of the existing bona fide assets of the company.

XV. Suspension of payment shall not be lawful to make any fresh issue of notes or bills.

XVI. Directors shall not be allowed to obtain credit on his own personal guarantee.

XVII. It shall be lawful for the company to purchase or sale property.

XVIII. The company shall be authorized to grant, sell alien and convey in mortmain unto the company and their successors.

XIX. It is illegal for the company to make any purchase of messuages and lands beyond the annual value of thirty thousand dollars.

XX. The company is not allow to invest, lay out, and advance any part of their capital or funds in the purchase of any lands or property

XXI. The company can sell any lands and property for cash and merchandize.

XXII. The company is legal to extend or increase their capital with the consent of a general meeting of the shareholders.

XXIII. The reminder of the instalments on the shares to be certified by the governor.

XXIV. The directors of the company shall be required to submit accounts and statements requested by the Governor.

XXV. If the company become insolvent, every proprietor will be liable to contribute to the payments of the debts.

XXVI. The deeds to be executed due provision shall accordingly be made for the payment by the shareholders.

XXVII. In the events of insolvency, the ordinance shall cease and become void.

XXVIII. The company may be wound up by the Supreme Court of Hong Kong.

XXIX. On the determination for the term of 21 years from the date of this ordnance the powers and privileges conferred on the company shall cease, unless the governor declare to authorize the company to continue incorporated.

XXX. The company shall not affect or prejudice the liability for the company to have enforced against its any debt or obligation incurred by the company.