

Directors' Report and Financial Statements

HSBC PRIVATE EQUITY LIMITED

31 December 2000



Registered No. 2781154

DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2000

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2000 are incorporated within the accompanying profit and loss account.

An interim dividend of £8,000,000 was paid during the year.

The directors propose a further dividend of £18,000,000

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activity of the company is to act as an investment holding company. The principal activities of its subsidiary companies are investment in the equity share capital of, and provision of related term finance for, companies.

Details of the subsidiary undertakings are set out in note 10 to these accounts.

SUBSEQUENT EVENTS AND FUTURE DEVELOPMENTS

It is the intention of the company to continue to act in its current capacity.

DIRECTORS

Listed below are the names of all the directors who served on the board during the year under review.

I.C. Cotterill	(Chairman)
C.M. Masterson	(Managing Director)
C.F. Corby	(resigned 20 <sup>th</sup> September 2000)
M.P. Dunfoy	(appointed 11 <sup>th</sup> April 2000)
I. M. Forrest	(resigned 2 <sup>nd</sup> May 2000)
C.P. Gill	
P.W. Goodwin	
N.D. Hammond	
V.G. O'Brien	
S.F. Pooler	(appointed 20 <sup>th</sup> November 2000)
G.A. Raffini	
A.G. Shinder	
A.L. Thesen	

## DIRECTORS' INTERESTS

The directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, as required to be disclosed under the Companies Act 1985, are set out in Note 16.

## SUPPLIER PAYMENT POLICY

The company subscribes to the Better Payment Practice Code, the four principles of which are to agree payment terms at the outset and stick to them; explain payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; and tell suppliers without delay when an invoice is contested and settle disputes quickly.

The amount due to the company's trade creditors at 31 December represents 14 days average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the Auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the directors are satisfied that the company has resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The directors consider that in preparing the financial statements, the company has used appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the Board



S.M. Haworth  
Secretary

Vintners Place  
68 Upper Thames Street  
London  
EC4V 3BJ

## AUDITORS' REPORT TO THE MEMBER OF HSBC PRIVATE EQUITY LIMITED

We have audited the financial statements on pages 4 to 13.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

9 July 2001

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 £000	1999 £000
Fee Income		27,081	14,521
Income from shares in subsidiary undertakings		8,625	39,150
		<hr/>	<hr/>
OPERATING PROFIT		35,706	53,671
Other interest receivable and similar income	2	347	569
Interest payable and similar charges	3	(17)	(4)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		36,036	54,236
Tax on profit on ordinary activities	4	(8,223)	(4,564)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		27,813	49,672
Dividend - paid		(8,000)	(10,000)
- proposed		(18,000)	(38,500)
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR		1,813	1,172
		<hr/>	<hr/>
STATEMENT OF RETAINED PROFIT			
Balance at beginning of year		11,327	10,155
Retained profit for year		1,813	1,172
		<hr/>	<hr/>
Balance at end of year		13,140	11,327
		<hr/>	<hr/>

There were no recognisable gains for the year other than the retained profit for the year and for the preceding year.



## BALANCE SHEET - 31 DECEMBER 2000

	Note	2000 £000	1999 £000
FIXED ASSETS			
Investments:			
Shares in subsidiary undertakings	9	16,794	16,794
CURRENT ASSETS			
DEBTORS - amounts falling due within one year	5	167,658	117,309
CREDITORS - amounts falling due within one year	6	(134,185)	(85,578)
NET CURRENT ASSETS		33,473	31,731
TOTAL ASSETS LESS CURRENT LIABILITIES		50,267	48,525
PROVISIONS FOR LIABILITIES AND CHARGES	7	(12,127)	(12,198)
		38,140	36,327
CAPITAL AND RESERVES			
Called-up share capital	8	25,000	25,000
Profit and loss reserves	12	13,140	11,327
Shareholders' funds		38,140	36,327

Approved by the board and signed on its behalf on 9 July 2001

C.M. Masterson

V.G. O'Brien

) Directors

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000

## 1. ACCOUNTING POLICIES

## (a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

## (b) Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transactions.

## 2. OTHER INTEREST RECEIVABLE &amp; SIMILAR INCOME

	2000 £000	1999 £000
Interest receivable from group companies	347	569
	—	—

## 3. INTEREST PAYABLE &amp; SIMILAR CHARGES

	2000 £000	1999 £000
Interest payable to group companies	17	4
	—	—

## 4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises:-

	2000 £000	1999 £000
UK Corporation tax at 30% (1999 – 30.25%)	8,223	4,564
	—	—
	8,223	4,564
	—	—

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 - Continued

## 5. DEBTORS - amounts falling due within one year

	2000 £000	1999 £000
Amounts owed by subsidiary undertakings	148,156	49,390
Amounts owed by parent undertaking	6,885	22,933
Other debtors	3,992	5,836
Dividends due from subsidiary undertakings	8,625	39,150
	<hr/>	<hr/>
	167,658	117,309
	<hr/>	<hr/>

## 6. CREDITORS - amounts falling due within one year

	2000 £000	1999 £000
Amounts owed to subsidiary undertakings	14,801	42,421
Amount owed to parent undertaking	93,000	-
Other creditors including taxation and social security		
Current taxation	8,223	4,564
Other Creditors	161	93
Proposed dividend	18,000	38,500
	<hr/>	<hr/>
	134,185	85,578
	<hr/>	<hr/>

## 7. PROVISIONS FOR LIABILITIES AND CHARGES

	£000
Balance at beginning of year	12,198
Release for the year	(71)
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Balance at end of year	12,127
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Provisions relate to amounts set aside against warranties given on disposal of two investments. The directors believe that additional disclosure of the nature of the warranties could be seriously prejudicial to the company.



## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 - Continued

## 8. CALLED-UP SHARE CAPITAL

	Authorised		Allotted, called-up and fully paid	
	2000 £000	1999 £000	2000 £000	1999 £000
Ordinary shares of £1 each	50,000	50,000	25,000	25,000
Preference shares of £1 each	270,000	270,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	320,000	320,000	25,000	25,000
	<hr/>	<hr/>	<hr/>	<hr/>

## 9. SHARES IN SUBSIDIARY UNDERTAKINGS

	2000 £000	1999 £000
Shares at cost	16,794	16,794
	<hr/>	<hr/>

The main activity of the subsidiary companies is to invest in the equity share capital of, and the provision of related term finance for, companies.

In the opinion of the directors, the aggregate value of the assets of the company consisting of shares in, or amounts owing from the company's subsidiary undertakings is not less than the aggregate of the amounts at which those assets are stated or included in the company's balance sheet.

Interest of company at  
31 December 2000

The subsidiaries are:-

Directly held:

HSBC Equity (UK) Limited	100% Ordinary shares
HPE G.P. Limited	100% Ordinary shares
HPE G.P. (Scotland) Limited	100% Ordinary shares
HSBC Private Equity (Deutschland) GmbH	100% Ordinary shares
The Venture Catalysts Limited	100% Ordinary shares
HSBC Private Equity Spain SA	100% Ordinary shares

Indirectly held:

HSBC Smaller Investments (UK) Limited	100% Ordinary shares
HSBC Private Equity Investments (UK) Limited	100% Ordinary shares
HSBC Private Equity (Netherlands) BV	100% Ordinary shares
Moracrest Investments Limited	100% Ordinary shares

All these companies are registered in England and Wales with the exception of HSBC Private Equity (Netherlands) BV which is incorporated in the Netherlands, HSBC Private Equity Spain SA which is incorporated in Spain, HSBC Private Equity (Deutschland) GmbH which is incorporated in Germany, and HPE G.P. (Scotland) Limited which is incorporated in Scotland.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 - Continued

## 10. INVESTMENTS

The share holdings in which the company's indirect interest at 31 December 2000 exceeded 20% of the allotted share capital of any class were as follows:-

Company	Class of shares held	2000 % of Class of Shares	1999 % of class of Shares
Abbey Hospitals (Holdings) Limited	Cumulative convertible participating preferred	50.0	50.0
	redeemable ordinary Deferred Ordinary	50.0	-
Alfa Fininter SGPS SA (registered in Portugal)	Ordinary	27.5	27.5
Auto Windscreens Group Limited	Ordinary A	33.9	31.9
Broomco (1714) Limited	Ordinary A	35.0	17.5
Elevenacres Limited	Cumulative participating preferred ordinary	48.2	48.2
Granelli McDermott Limited	Ordinary A	30.0	30.0
	Cumulative Redeemable Preference	12.0	12.0
HCT Finance SA (registered in Switzerland)	Ordinary A	41.4	41.4
Manro Holdings Limited	Ordinary A	43.7	43.7
Midland Montagu Investissement (registered in France)	Ordinary 'A'	38.2	38.2
	Ordinary 'B'	38.2	38.2
	Ordinary 'C'	38.2	38.2
PJH Holdings Limited	Cumulative participating preferred ordinary	59.3	59.3
	Cumulative redeemable preference	59.3	59.3
Rhineranch Limited	Cumulative participating preferred ordinary	100.0	100.0
Technology Management Group plc	Cumulative participating preferred ordinary	100.0	100.0
Thomas Carr Limited	Cumulative preferred ordinary	70.0	70.0

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 - Continued

## 10. INVESTMENTS (Continued...)

The aggregate capital and reserves and results for the year of the investments in which the company's indirect interest at 31 December 2000, exceeded 20% of the allotted share capital of any class were as follows:-

Company	Year ended	Aggregate capital and reserves £000	Pre-tax profit/(loss) £000
Abbey Hospitals (Holdings) Limited	30.09.99	(3,468)	(1,062)
Auto Windscreens Group Limited	31.12.99	40,278	3,248
Elevenacres Limited	31.01.99	(3,129)	(2,310)
HCT Finance SA	21.01.99	CHF(65,530)	CHF 1,121
Manro Group Holdings Limited	31.12.99	(6,456)	(2,500)
PJH Holdings Limited	31.12.99	9,411	3,164
Rhineranch Limited	31.01.00	1,228	(293)
Technology Management Group plc	30.11.99	802	390
Thomas Carr Limited	30.06.99	4,555	27

All the companies are registered in England and Wales, except as noted.

The first period's accounts for Broomco (1714) Limited are not yet available.

## 11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £000	1999 £000
Balance at beginning of year	36,327	35,155
Retained profit for the year	1,813	1,172
Balance at end of year	38,140	36,327

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 - Continued

## 12. RESERVES

	Profit and Loss Reserve £000
At beginning of year	11,327
Transfer from profit and loss account for the year	1,813
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Balance at end of year	13,140
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## 13. GROUP ACCOUNTS

The company is a wholly-owned subsidiary and therefore has not prepared group accounts under the exemption allowed by section 228 Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The results of the company are included in the group financial statements of the ultimate holding company, HSBC Holdings plc., which is registered in England and Wales. Copies of the group financial statements may be obtained from:-

HSBC Holdings plc  
10 Lower Thames Street  
London  
EC3R 6AE

## 14. RELATED PARTY TRANSACTIONS

A subsidiary undertaking together with certain directors and key management of the company have an indirect interest in the management agreements between the company and the investors in the HSBC Private Equity Partnership Scheme ("the Scheme"). Under these agreements carried interest of £2,073,000 was received by these parties, as partners in the MPE Discretionary Management Partnership, due to the realisation of certain investments within the Scheme.

As the company is a wholly owned subsidiary of HSBC Holdings plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of HSBC Holdings plc, within which this company is included, can be obtained from the address given in note 13.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 – Continued

## 15. EMOLUMENTS OF DIRECTORS

	2000 £000	1999 £000
Directors' emoluments	5,996	5,669
Amounts receivable under long term incentive schemes	10,703	2,912
	<u>16,699</u>	<u>8,581</u>
 Company contributions to money purchase pension schemes	 3,000	 4,410
	<u>19,699</u>	<u>12,991</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £6,519,450 (1999 £2,590,312), and pension contributions of £3,000,000 (1999 £4,410,000) were made to a money purchase scheme on his behalf. He is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end, was £49,680 (1999 £42,000)

Compensation paid to Directors for loss of office amounted to £12,995,000 (1999 £nil)

	Number of Directors	
	2000	1999
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
Defined benefit schemes	10	10

In addition to the above emoluments HSBC Private Equity Limited made a contribution to an employee benefit trust in respect of services performed in the year ended 31 December 2000. Certain directors may, in the future, be entitled to receive additional remuneration at the discretion of the Trustees.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 – Continued

## 16. DIRECTORS' INTERESTS

All the directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, and its subsidiaries, as required to be disclosed under the Companies Act 1985, are set out below

Ordinary shares of US\$0.50 each	<u>As at 1 Jan 2000*</u>	<u>As at 31 Dec 2000</u>
M P Dunfoy*	139,450	143,556
C P Gill	4,348	8,217
P W Goodwin	35,303	179,294
N D Hammond	46,336	154,913
C M Masterson	75,035	223,883
V G O'Brien	35,303	100,671
S F Pooler*	63,661	63,661
G A Raffini	-	-
A G Shinder	26,478	77,290
A L Thesen	26,478	113,027

*\*or date of appointment*

During the year options over ordinary shares of US\$0.50 each were granted/exercised as follows:

	<u>Granted</u>	<u>Exercised</u>
C P Gill	8,119	3,819
C M Masterson	7,000	3,819
M P Dunfoy	7,000	
P W Goodwin	7,000	
N D Hammond	7,000	
V G O'Brien	7,000	
S F Pooler	7,000	
G A Raffini	7,000	
A G Shinder	7,000	
A L Thesen	7,000	

C P Gill had an interest in 899 HSBC Holdings plc 11.69% Subordinated Bonds 2002 of £1 throughout the year.