

Directors' Report and Financial Statements

HSBC PRIVATE EQUITY EUROPE LIMITED

31 December 1998

Registered No. 2781154



DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £45,463,000. A dividend of £30,000,000 was paid during the year. The Directors propose a further dividend of £9,000,000.

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.

K. R. Harris	(Chairman)
I. M. Forrest	(Managing Director)
R.A. Connell	(resigned 30 th September 1998)
C.F. Corby	
I.C. Cotterill	
Sir Archibald Forster	(resigned 27 th May 1998)
P.W. Goodwin	
C.M. Masterson	
V.G. O'Brien	
D.F. J. Paterson	(resigned 28 th February 1998)
G.A. Raffini	(appointed 1 st June 1998)
A.G. Shinder	
A.L. Thesen	

DIRECTORS' INTERESTS

The interests of Mr. I.C. Cotterill and Mr. K.R. Harris are set out in the Directors' report of HSBC Investment Bank Holdings plc.

SUPPLIER PAYMENT POLICY

The company has subscribed to the Confederation of British Industry Prompt Payers code for all supplies. Information about the code may be obtained from the CBI. The number of days' credit included in year end trade creditors is Nil, as costs are borne by a subsidiary company.

YEAR 2000 COSTS

The company adopts the Year 2000 conformity requirements issued by the British Standards Institution ("BSI") as its definition of Year 2000 compliance.

The company has assessed the impact of Year 2000 and does not expect its operations to be disrupted up to, during and after the turn of the millennium, as a result of the company's systems not being Year 2000 compliant.

The Year 2000 compliance programme involves testing all relevant systems to ensure that they are Year 2000 compliant. The costs incurred are small in relation to the size of HSBC Private Equity Europe Group's activities and have not been separately identified.

The Directors are satisfied with the overall progress to date.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Statement of Auditors' Responsibilities set out on page 4, 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 the financial statements on the going concern basis unless it is not appropriate.

The Directors consider that in preparing the financial statements on pages 5 to 14 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

Vintner's Place
68 Upper Thames Street
London
EC4V 3BJ

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

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1998 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

19 February 1999

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £000	1997 £000
Fee Income		7,755	5,791
Income from shares in subsidiary undertakings		38,000	66,500
		<hr/>	<hr/>
OPERATING PROFIT		45,755	72,291
Other interest receivable and similar income	3	647	770
Interest payable and similar charges	4	(450)	(549)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		45,952	72,512
Tax on profit on ordinary activities	5	(489)	(3,876)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		45,463	68,636
Dividend - paid		(30,000)	(60,000)
- proposed		(9,000)	(12,000)
		<hr/>	<hr/>
RETAINED PROFIT/(LOSS) FOR THE YEAR		6,463	(3,364)
		<hr/>	<hr/>
STATEMENT OF RETAINED PROFIT			
Balance at beginning of year		(2,022)	(1,342)
Retained profit/(loss) for year		6,463	(3,364)
		<hr/>	<hr/>
Balance at end of year		4,441	(2,022)
		<hr/>	<hr/>
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year		45,463	68,636
Currency translation differences on foreign currency net investments		(995)	2,515
		<hr/>	<hr/>
Total recognised gains and losses		44,468	71,151
		<hr/>	<hr/>

BALANCE SHEET - 31 DECEMBER 1998

	Note	1998 £000	1997 £000
FIXED ASSETS			
Investments:			
Shares in subsidiary undertakings	10	16,794	16,798
CURRENT ASSETS			
DEBTORS - amounts falling due within one year	6	55,646	40,513
CREDITORS - amounts falling due within one year	7	(24,970)	(15,187)
NET CURRENT ASSETS		30,676	25,326
TOTAL ASSETS LESS CURRENT LIABILITIES		47,470	42,124
PROVISIONS FOR LIABILITIES AND CHARGES	8	(12,315)	(12,437)
		35,155	29,687
CAPITAL AND RESERVES			
Called-up share capital	9	25,000	25,000
Profit and loss reserves	13	10,155	4,687
Shareholders' funds		35,155	29,687

Approved by the board and signed on its behalf on 12 February 1999

I.M. Forrest

V.G. O'Brien

)
) Directors
)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998

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. EMOLUMENTS OF DIRECTORS

	1998 £000	1997 £000
Directors' emoluments	7,389	6,215
Amounts receivable under long term incentive schemes	1,317	374
	<u>8,706</u>	<u>6,589</u>
 Company contributions to money purchase pension schemes	 4,133	 3000
	<u>12,839</u>	<u>9,589</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £2,751,209 (1997 £2,447,491), and pension contributions of £4,133,450 (1997 £3,000,000) 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 £ 38,000(1997 £33,000)

	Number of Directors	
	1998	1997
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
Defined benefit schemes	9	9
	<u>10</u>	<u>10</u>

In addition to the above emoluments HSBC Private Equity Europe Limited made a contribution to an employee benefit trust in respect of services performed in the year ended 31 December 1998. 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 1998 - Continued

3. OTHER INTEREST RECEIVABLE & SIMILAR INCOME

	1998 £000	1997 £000
Interest receivable from group companies	647	770
	<hr/>	<hr/>

4. INTEREST PAYABLE & SIMILAR CHARGES

	1998 £000	1997 £000
Interest payable to group companies	450	549
	<hr/>	<hr/>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises:-

	1998 £000	1997 £000
UK Corporation tax at 31% (1997 – 31½%)	2,448	2,686
Adjustment relating to prior year	(1,959)	1,190
	<hr/>	<hr/>
	489	3,876
	<hr/>	<hr/>

6. DEBTORS - amounts falling due within one year

	1998 £000	1997 £000
Amounts owed by subsidiary undertakings	41,276	22,520
Amounts owed by parent undertaking	3,757	7,115
Other debtors	1,613	878
Dividend due from subsidiary	9,000	10,000
	<hr/>	<hr/>
	55,646	40,513
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 - Continued

7. CREDITORS - amounts falling due within one year

	1998 £000	1997 £000
Amounts owed to subsidiary undertakings	13,522	501
Other creditors including taxation and social security		
Current taxation	2,448	2,686
Proposed dividend	9,000	12,000
	<hr/>	<hr/>
	24,970	15,187
	<hr/>	<hr/>

8. PROVISIONS FOR LIABILITIES AND CHARGES

	£000
Balance at beginning of year	12,437
Release for the year	(122)
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Balance at end of year	12,315
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Provisions relate to amounts set aside against warranties given on disposal of two investments.

9. CALLED-UP SHARE CAPITAL

	Authorised		Allotted, called-up and fully paid	
	1998 £000	1997 £000	1998 £000	1997 £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/>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 - Continued

10. SHARES IN SUBSIDIARY UNDERTAKINGS

Shares at cost	£000
Balance at beginning of year	16,798
Currency translation	(4)
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Balance at end of year	16,794
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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 1998

The subsidiaries are:-

Directly held:

HSBC Equity Limited	100% Ordinary shares
HPE G.P. Limited	100% Ordinary shares
HSBC Private Equity GmbH	100% Ordinary shares
Management Buy-Ins Limited	100% Ordinary shares
The Venture Catalysts Limited	100% Ordinary shares
HSBC Private Equity Spain SA	100% Ordinary shares

Indirectly held:

HSBC Smaller Investments Limited	100% Ordinary shares
HSBC Private Equity Investments Limited	100% Ordinary shares
HSBC Private Equity 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 BV which is incorporated in the Netherlands, HSBC Private Equity Spain SA which is incorporated in Spain and HSBC Private Equity GmbH which is incorporated in Germany.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 - Continued

11. INVESTMENTS

The share holdings in which the company's indirect interest at 31 December 1998 exceeded 20% of the allotted share capital of any class were as follows:-

Company	Class of shares held	1998 % of Class of shares	1997 % of class of Shares
Abbey Hospitals (Holdings) Limited	Cumulative convertible participating preferred redeemable ordinary	50.0	50.0
Alfa Fininter SGPS SA (registered in Portugal)	Ordinary	27.5	27.5
AM Paper Group Limited (previously Pinco 967 Limited)	Ordinary A	30.8	40.0
ANC Group Limited	Cumulative convertible participating preferred ordinary	33.7	33.7
Auto Windscreens Group Limited	Ordinary A	31.9	-
AVF Holdings Limited	Ordinary	30.0	30.0
Black Gauntlet Limited	Ordinary A Cumulative redeemable preference	40.0 40.0	40.0 40.0
CCA Group Limited	Cumulative participating preferred ordinary Cumulative redeemable preference	25.1 35.8	25.1 35.8
Comer (Holdings) Limited	Cumulative convertible participating preferred ordinary	32.1	32.1
CRP Group Limited	Ordinary A	35.0	-
Cygnat Health Care plc	Cumulative convertible redeemable preference Cumulative convertible redeemable preference B Redeemable preference Ordinary	40.0 40.0 25.0 11.0	40.0 40.0 25.0 11.0
Edgmond Group Limited	Cumulative participating preferred ordinary Cumulative redeemable preference	39.4 39.4	39.4 39.4

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 - Continued

11. INVESTMENTS (Continued)

Company	Class of shares held	1998 % of class of shares	1997 % of class of Shares
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	-
Inenco Limited	Ordinary A	50.0	50.0
	Cumulative redeemable preference	50.0	50.0
Lyndale Foods Limited	Cumulative participating preferred ordinary	50.0	50.0
Manro Holdings Limited	Ordinary A	43.7	43.7
Metric Group Holdings Limited	Ordinary A	40.0	40.0
	Cumulative redeemable preference	40.0	40.0
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
Priceacre Limited	Ordinary	34.5	34.5
	Ordinary A	100.0	100.0
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
Warrior Group Limited	Cumulative participating preferred ordinary	37.2	37.2
	Cumulative redeemable preference	37.2	37.2

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 - Continued

11. 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 1998, exceeded 20% of the allotted share capital were as follows:-

Company	Year ended	Aggregate capital and reserves £000	Pre-tax profit/(loss) £000
Abbey Hospitals (Holdings) Limited	30.09.97	598	(360)
Alfa Fininter SGPS SA	31.12.96	ESC1,219m	ESC(339)m
ANC Group Limited	31.12.97	7,343	3,823
AVF Holdings Limited	31.07.97	5,692	1,565
Black Gauntlet Limited	31.12.97	6,276	3,107
CCA Group Limited	01.09.97	4,207	1,227
Comer (Holdings) Limited	31.12.97	IP12,105	IP2,377
Cygnat Health Care plc	31.10.97	4,398	900
Edgemond Group Limited	30.04.97	4,130	(165)
Elevenacres Limited	31.01.98	5,824	1,976
Inenco Limited	30.04.98	5,135	1,145
Lyndale Foods Limited	31.12.97	5,222	2,253
Manro Group Holdings Limited	31.12.97	(276)	(816)
Metric Group Holdings Limited	31.12.97	1,378	825
PJH Holdings Limited	31.12.97	10,844	2,901
Priceacre Limited	31.03.98	12,360	(606)
Rhineranch Limited	31.01.98	1,494	82
Technology Management Group plc	30.11.97	1,192	244
Thomas Carr Limited	30.06.98	4,177	(456)
Warrior Group Limited	30.04.98	(10,948)	(2,510)

Information for the following investments has not been included since their first annual accounts are not yet available.

AM Paper Group Limited, Auto Windscreens Group Limited, CRP Group Limited, HCT Finance SA.

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

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £000	1997 £000
Balance at beginning of year	29,687	30,536
Retained profit/(loss) for the year	6,463	(3,364)
Currency translation differences on foreign currency net investments	(995)	2,515
Balance at end of year	35,155	29,687

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 – Continued

13. RESERVES

	Profit and Loss Reserve £000
At beginning of year	4,687
Transfer from profit and loss account for the year	6,463
Currency translation differences on foreign currency net investments	(995)
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Balance at end of year	10,155
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14. 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

15. 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 £6,063,926 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 14.