

**REGISTRAR OF  
COMPANIES**

**CQS Management Limited**

Report and Financial Statements

Year Ended

31 December 2003

3691917



**BDO**  
BDO Stoy Hayward  
Chartered Accountants

**CQS Management Limited**

**Report and financial statements for the year ended 31 December 2003**

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**Directors**

Michael Hintze  
Mark Conway  
Gary McConnell  
David Swain  
Giles Vardey

**Secretary and registered office**

Kam Lynn Wong, 5<sup>th</sup> Floor, 33 Chester Street, London, SW1X 7BL

**Company number**

3691917

**Auditors**

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

## **CQS Management Limited**

### **Report of the directors for the year ended 31 December 2003**

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The directors present their report together with the audited financial statements for the year ended 31 December 2003.

#### **Results and dividends**

The profit and loss account is set out on page 5 and shows the profit for the year.

The directors do not recommend the payment of a dividend (2002 - \$Nil).

#### **Principal activities, trading review and future developments**

The company's principal activity was the management of third party monies using a broad range of financial instruments.

The directors are satisfied with the results for the year.

There have been no events since the balance sheet date which materially affect the position of the company.

#### **Charitable and political contributions**

During the year the company made charitable contributions of \$32,294 (2002 - \$161). There were no political contributions.

#### **Directors and their interests**

The directors of the company during the year and their interests in the ordinary share capital of the company were:

		<b>Ordinary shares of £1 each</b>	
		<b>2003</b>	<b>2002</b>
Michael Hintze		200	200
Mark Conway	(appointed 29 January 2003)	-	-
Gary McConnell		-	-
David Swain		-	-
Giles Vardey		-	-
Niels Buhl	(resigned 9 January 2003)	-	-

At 31 December 2003, M. Hintze also had an interest in the entire preference share capital of the company of £250,000.

## **CQS Management Limited**

### **Report of the directors for the year ended 31 December 2003 (*Continued*)**

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#### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

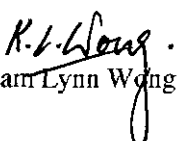
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Auditors**

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. The company have dispensed with the obligation to appoint auditors annually. BDO Stoy Hayward LLP have expressed their willingness to continue in office.

#### **By order of the Board**

  
Kam Lynn Wong

#### **Secretary**

Date *22 March 2004*

## **CQS Management Limited**

### **Report of the independent auditors**

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#### **To the shareholders of CQS Management Limited**

We have audited the financial statements of CQS Management Limited for the year ended 31 December 2003 on pages 5 to 15 which have been prepared under the accounting policies set out on page 8.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### *Basis of audit opinion*

We conducted our audit in accordance with United Kingdom 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.

**CQS Management Limited**

**Report of the independent auditors (*Continued*)**

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*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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**BDO STOY HAYWARD LLP**

*Chartered Accountants  
and Registered Auditors  
London*

22 March 2004

**CQS Management Limited****Profit and loss account for the year ended 31 December 2003**

	Notes	2003 \$	2002 \$
<b>Turnover</b>	2	<b>56,852,736</b>	22,837,740
Administrative expenses		(56,796,458)	(21,640,699)
<b>Operating profit</b>	5	<b>56,278</b>	1,197,041
Interest receivable on similar income		<b>97,919</b>	108,683
Interest payable and similar charges	6	(41,199)	(40,911)
<b>Profit on ordinary activities before taxation</b>		<b>112,998</b>	1,264,813
Taxation on profit on ordinary activities	7	<b>12,616</b>	(12,800)
<b>Profit on ordinary activities after taxation</b>		<b>125,614</b>	1,252,013
<b>Accumulated loss brought forward</b>		<b>(1,735,686)</b>	(2,987,699)
<b>Accumulated loss carried forward</b>		<b>(1,610,072)</b>	(1,735,686)

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 8 to 15 form part of these financial statements.

**CQS Management Limited**

**Balance sheet at 31 December 2003**

	Notes	2003 \$	2003 \$	2002 \$	2002 \$
<b>Fixed assets</b>					
Tangible assets	8		405,741		879,999
<b>Current assets</b>					
Debtors	9	32,841,495		13,168,631	
Cash at bank and in hand		6,146,294		5,079,931	
		<u>38,987,789</u>		<u>18,248,562</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>35,966,588</u>		<u>15,915,133</u>	
Net current assets			<u>3,021,201</u>		<u>2,333,429</u>
<b>Total assets less current liabilities</b>			<u>3,426,942</u>		<u>3,213,428</u>
<b>Creditors: amounts falling due after more than one year</b>	11		<u>892,900</u>		<u>805,000</u>
			<u>2,534,042</u>		<u>2,408,428</u>
<b>Capital and reserves</b>					
Called up share capital	12		402,822		402,822
Other reserves – capital reserve	13		3,741,292		3,741,292
Profit and loss account	13		(1,610,072)		(1,735,686)
<b>Shareholders' funds</b>			<u>2,534,042</u>		<u>2,408,428</u>

Included within shareholders' funds is an amount of \$402,500 (2002 - \$402,500) in respect of non-equity interests.

The financial statements were approved by the Board on 22 March 2004

 2  
Director

The notes on pages 8 to 15 form part of these financial statements.



**CQS Management Limited**

**Cash flow statement for the year ended 31 December 2003**

	<b>Note</b>	<b>2003</b> \$	<b>2003</b> \$	<b>2002</b> \$	<b>2002</b> \$
<b>Net cash inflow from operating activities</b>	17		<b>1,473,187</b>		<b>795,327</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>97,919</b>		<b>108,683</b>	
Interest paid		<b>(41,199)</b>		<b>(40,912)</b>	
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>			<b>56,720</b>		<b>67,771</b>
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets			<b>(463,544)</b>		<b>(879,998)</b>
<b>Increase/(decrease) in cash</b>	19		<b>1,066,363</b>		<b>(16,900)</b>

The notes on pages 8 to 15 form part of these financial statements.

## CQS Management Limited

### Notes forming part of the financial statements for the year ended 31 December 2003

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#### 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

##### *Functional currency*

The company converted to a US Dollar functional currency for accounting and reporting purposes from 1 January 2003. Prior year comparatives are converted at the rate of £1:\$1.61 at 31 December 2002.

##### *Turnover*

Turnover represents amounts (excluding value added tax) charged for acting as investment adviser of third party monies.

##### *Depreciation*

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, over their expected useful lives. It is calculated at the following rate:

Vehicles	2 years straight line
Fixtures and fittings	1-2 years straight line
Computer equipment	1 year straight line
Leasehold improvements	1 year straight line

##### *Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

##### *Foreign currencies*

Foreign currency transactions are translated into US dollars at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

##### *Leased assets*

Operating lease charges are expensed to the profit and loss account on a straight line basis over the period of the lease.

##### *Pension costs*

The company makes contributions to employees' personal pension plans and these are charged to the profit and loss account in the year in which they become payable.

**CQS Management Limited****Notes forming part of the financial statements for the year ended 31 December 2003 (Continued)****2 Turnover**

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

**3 Employees**

	2003 \$	2002 \$
Staff costs consist of:		
Wages and salaries	99,625	2,933,946
Social security costs	17,808	323,737
Other pension costs	-	159,181
	<u>117,433</u>	<u>3,416,864</u>

The average number of employees during the year was 5 (2002 - 25).

**4 Directors**

	2003 \$	2002 \$
Directors' remuneration consist of:		
Emoluments	86,102	1,173,189
Payments to defined contribution pension scheme	-	51,083
	<u>86,102</u>	<u>1,224,272</u>

**5 Operating profit/(loss)**

	2003 \$	2002 \$
This has been arrived at after charging/(crediting):		
Depreciation	937,801	46,686
Auditors' remuneration - audit services	50,491	49,396
- non audit services	-	25,510
Operating lease rentals	<u>674,327</u>	<u>352,292</u>

**CQS Management Limited**

Notes forming part of the financial statements for the year ended 31 December 2003 (*Continued*)

**6 Interest payable and similar charges**

	2003 \$	2002 \$
Subordinated debt	41,199	40,912

**7 Taxation on profit/(loss) on ordinary activities**

	2003 \$	2002 \$
<i>UK Corporation tax</i>		
Current tax (credit)/charge on profits of the year	(12,616)	12,800

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2003 \$	2002 \$
Profit on ordinary activities before tax	112,998	1,264,813
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2002 - 19%)	21,470	240,315
Effects of:		
Expenses not deductible for tax purposes and other timing differences	(2,546)	29,445
Depreciation for year in excess of capital allowances	127,184	(17,655)
Tax losses	(146,108)	(239,305)
Over provision in respect of prior year	(12,616)	-
Current tax (credit)/charge for year	(12,616)	12,800

*Factors that may affect future tax charges*

At 31 December 2003, the company had deferred tax asset of \$246,286 (2002 - \$308,643). In accordance with the company's accounting policy, the deferred asset has not been reflected within the balance sheet.

**CQS Management Limited**

**Notes forming part of the financial statements for the year ended 31 December 2003 (Continued)**

**8 Tangible assets**

	<b>Vehicles</b>	<b>Fixtures and fittings</b>	<b>Computer equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Cost</i>					
At 1 January 2003	-	169,016	984,040	710,982	1,864,038
Additions	82,834	51,026	-	329,684	463,544
	<u>82,834</u>	<u>220,042</u>	<u>984,040</u>	<u>1,040,666</u>	<u>2,327,582</u>
At 31 December 2003					
<i>Depreciation</i>					
At 1 January 2003	-	-	984,040	-	984,040
Provided for the year	6,903	104,971	-	825,927	937,801
	<u>6,903</u>	<u>104,971</u>	<u>984,040</u>	<u>825,927</u>	<u>1,921,841</u>
At 31 December 2003					
<i>Net book value</i>					
At 31 December 2003	<u>75,931</u>	<u>115,071</u>	<u>-</u>	<u>214,739</u>	<u>405,741</u>
At 31 December 2002	-	169,016	-	710,982	879,998

**9 Debtors**

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
Prepayments and accrued income	324,554	73,438
Other debtors	32,516,941	13,095,193
	<u>32,841,495</u>	<u>13,168,631</u>

All amounts shown under debtors fall due for payment within one year.

**Notes forming part of the financial statements for the year ended 31 December 2003 (Continued)**

<b>11</b>	<b>Creditors: amounts falling due after more than one year</b>	<b>2003</b>	<b>2002</b>
		<b>\$</b>	<b>\$</b>
	Subordinated loan	<b>892,900</b>	805,000
		<u>          </u>	<u>          </u>
	Maturity of debt:		
	In more than one year but not more than five years	<b>892,900</b>	805,000

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**CQS Management Limited****Notes forming part of the financial statements for the year ended 31 December 2003 (Continued)****12 Share capital (Continued)**

The preference shares carry no voting rights and, in the event of the company being wound up, the assets remaining after payment of all debtors and liabilities of the company and the costs of the liquidation shall be applied first in repaying the amounts paid up on the preference shares and the amount of any accruals of preferential dividends up to the winding up of the company.

**13 Reserves**

	<b>Capital reserve \$</b>	<b>Profit and loss account \$</b>
At 1 January 2003	3,741,292	(1,735,686)
Profit/(loss) for the year	-	125,614
	<hr/>	<hr/>
At 31 December 2003	<b>3,741,292</b>	<b>(1,610,072)</b>
	<hr/>	<hr/>

**14 Capital commitments**

	<b>2003 \$</b>	<b>2002 \$</b>
Contracted but not provided for	-	297,438
	<hr/>	<hr/>

**15 Commitments under operating leases**

The company had annual commitments under non-cancellable operating leases as set out below:

	<b>2003 Land and buildings \$</b>	<b>2002 Land and buildings \$</b>
Operating leases which expire:		
After more than one year	<b>997,181</b>	1,114,366
	<hr/>	<hr/>

**CQS Management Limited****Notes forming part of the financial statements for the year ended 31 December 2003 (Continued)****16 Related party disclosures***Related party transactions and balances*

During the year, management charges were payable to CQS (Global Services) Limited, a company owned by M Hintze, amounting to \$53,677,563 (2002 - \$14,038,525). A balance of \$35,006,459 was outstanding in respect of this charge at 31 December 2003 and is included within other creditors.

At the balance sheet date a balance of \$nil (2002 - \$Nil) was due from CQS International Limited, a company owned by M Hintze. During the year a strategic advisory fee of \$213,394 (2002 - \$Nil) was paid to the company.

**17 Reconciliation of operating profit to net cash inflow from operating activities**

	2003 \$	2002 \$
Operating profit	56,278	1,197,041
Depreciation of tangible fixed assets	937,801	46,687
(Increase)/decrease in debtors	(19,672,846)	12,276,417
Increase/(decrease) in creditors	20,151,954	(12,724,818)
	<hr/>	<hr/>
Net cash inflow from operating activities	1,473,187	795,327
	<hr/>	<hr/>

**18 Reconciliation of net cash inflow to movement in net funds**

	2003 \$	2002 \$
Increase/(decrease) in cash in the period	1,066,363	(16,900)
Foreign exchange loss on subordinated debt	(87,900)	-
	<hr/>	<hr/>
Movement in net funds	978,463	(16,900)
Opening net funds	4,274,931	4,291,831
	<hr/>	<hr/>
Closing net funds	5,253,394	4,274,931
	<hr/>	<hr/>



**CQS Management Limited**Notes forming part of the financial statements for the year ended 31 December 2003 (*Continued*)**19 Analysis of net funds**

	At 1 January 2003 \$	Cash flow \$	Other non-cash changes \$	At 31 December 2003 \$
Cash in hand and at bank	5,079,931	1,066,363	-	<b>6,146,294</b>
Debt due after one year	(805,000)	-	(87,900)	<b>(892,900)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Total	4,274,931	1,066,363	(87,900)	<b>5,253,394</b>
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**20 Ultimate parent company**

The ultimate controlling party is Mr M Hintze a director and the sole shareholder of the company.