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COMPANIES**

APPROVAL COPY

CQS Management Limited

Report and Financial Statements

Year Ended

31 December 2001



BDO

BDO Stoy Hayward
Chartered Accountants

CQS Management Limited

Annual report and financial statements for the year ended 31 December 2001

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Directors

M Hintze
P N Barbour
N Buhl

Secretary and registered office

P N Barbour, 20 Columbus Courtyard, Canary Wharf, London, E14 4DA

Company number

3691917

Auditors

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

CQS Management Limited

Report of the directors for the year ended 31 December 2001

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

Results and dividends

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

The directors are unable to recommend the payment of an ordinary or a preference dividend under Section 263 of the Companies Act 1985.

Principal activities, review of business and future developments

The company's principal activity during the year 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.

Directors

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

	Ordinary shares of £1 each	
	31 December 2001	31 December 2000
M Hintze	170	170
P N Barbour	-	-
N Buhl	-	-

At 31 December 2001, M Hintze also had an interest in the entire preference share capital of the company of £250,000 (2000 - £250,000).

CQS Management Limited

Report of the directors for the year ended 31 December 2001 (*Continued*)

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

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board


P N Barbour

Secretary

Date 26-3-2002

CQS Management Limited

Report of the independent auditors

To the shareholders of CQS Management Limited

We have audited the financial statements of CQS Management Limited for the year ended 31 December 2001 on pages 5 to 16 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.

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.

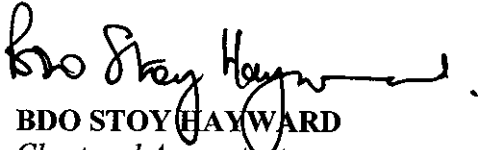
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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*)

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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BDO STOY HAYWARD
*Chartered Accountants
and Registered Auditors*
London

26 March 2002

CQS Management Limited**Profit and loss account for the year ended 31 December 2001**

	Note	2001 £	2000 £
Turnover	2	19,206,712	9,349,468
Administrative expenses		19,663,055	9,503,372
		<hr/>	<hr/>
Operating loss	3	(456,343)	(153,904)
Interest receivable		106,804	42,859
Interest payable and similar charges	6	(32,696)	(28,257)
		<hr/>	<hr/>
Loss on ordinary activities before and after taxation for the financial year		(382,235)	(139,302)
Accumulated loss brought forward		(1,473,479)	(1,334,177)
		<hr/>	<hr/>
Accumulated loss carried forward		(1,855,714)	(1,473,479)
		<hr/>	<hr/>

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 16 form part of these financial statements.

CQS Management Limited

Balance sheet at 31 December 2001

	Note	2001 £	2001 £	2000 £	2000 £
Fixed assets					
Tangible assets	8		28,998		275,896
Current assets					
Debtors	9	15,804,378		5,495,391	
Cash at bank and in hand		3,165,734		1,609,916	
		<u>18,970,112</u>		<u>7,105,307</u>	
Creditors: amounts falling due within one year	10	17,780,840		5,780,698	
Net current assets			<u>1,189,272</u>		<u>1,324,609</u>
Total assets less current liabilities			<u>1,218,270</u>		<u>1,600,505</u>
Creditors: amounts falling due after more than one year	11		<u>500,000</u>		<u>500,000</u>
			<u>718,270</u>		<u>1,100,505</u>
Capital and reserves					
Called up share capital	12		250,200		250,200
Other reserves - capital reserve	13		2,323,784		2,323,784
Profit and loss account	13		(1,855,714)		(1,473,479)
Shareholders' funds			<u>718,270</u>		<u>1,100,505</u>

Included within shareholders' funds is an amount of £250,000 (2000 - £250,000) in respect of non-equity interests.

The financial statements were approved by the Board on 26-3-2002

Paul Barbour

P N Barbour
Director

The notes on pages 8 to 16 form part of these financial statements.

CQS Management Limited**Cash flow statement for the year ended 31 December 2001**

	Note	2001 £	2000 £
Net cash inflow from operating activities	18	1,469,525	405,670
Returns on investment and servicing of finance	19	74,108	15,585
Capital expenditure and financial investment	19	12,185	(286,040)
		<hr/>	<hr/>
Cash inflow before financing		1,555,818	135,215
Financing	19	-	1,372,970
		<hr/>	<hr/>
Increase in cash	20	1,555,818	1,508,185
		<hr/>	<hr/>

The notes on pages 8 to 16 form part of these financial statements.

Notes forming part of the financial statements for the year ended 31 December 2001

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 (*Continued*)

3 Operating loss

	2001 £	2000 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	234,713	279,365
Audit services	21,240	9,083
Operating lease rentals	83,850	55,000
	<u> </u>	<u> </u>

4 Employees

Staff costs (including directors) consist of:

	2001 £	2000 £
Wages and salaries	18,217,880	7,701,198
Social security costs	116,843	164,901
Other pension costs	71,853	80,101
	<u> </u>	<u> </u>
	18,406,576	7,946,200
	<u> </u>	<u> </u>

The average number of employees (including directors) during the year was 15 (2000 - 11).

5 Directors' remuneration

	2001 £	2000 £
Directors' emoluments	454,752	738,480
Pension contributions	11,375	24,839
	<u> </u>	<u> </u>
	466,127	763,319
	<u> </u>	<u> </u>

The total amount payable to the highest paid director in respect of emoluments was £210,916 (2000 - £412,159).

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 (*Continued*)

6 Interest payable and similar charges

	2001 £	2000 £
Bank loans and overdrafts	28	50
Other loans	32,668	28,207
	<hr/>	<hr/>
	32,696	28,257
	<hr/>	<hr/>

7 Taxation on loss on ordinary activities

There is no UK corporation tax charge for the year due to the availability of losses brought forward.

8 Tangible fixed assets

	Computer equipment £
<i>Cost</i>	
At 1 January 2001	623,390
Disposals	(12,185)
	<hr/>
At 31 December 2001	611,205
	<hr/>
<i>Depreciation</i>	
At 1 January 2001	347,494
Provided for the year	234,713
	<hr/>
At 31 December 2001	582,207
	<hr/>
<i>Net book value</i>	
At 31 December 2001	28,998
	<hr/>
At 31 December 2000	275,896
	<hr/>

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 *(Continued)*

9 Debtors

	2001	2000
	£	£
Other debtors	15,786,588	5,307,405
Prepayments and accrued income	17,790	187,986
	<hr/>	<hr/>
	15,804,378	5,495,391
	<hr/>	<hr/>

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

10 Creditors: amounts falling due within one year

	2001	2000
	£	£
Trade creditors	3,162	31,548
Taxation and social security	42,459	33,167
Other creditors	17,110,458	5,156,247
Accruals and deferred income	624,761	559,736
	<hr/>	<hr/>
	17,780,840	5,780,698
	<hr/>	<hr/>

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 (*Continued*)

11 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Subordinated loan	500,000	500,000

Maturity of debt:

	Other debt 2001 £	Other debt 2000 £
In more than two years but not more than five years	500,000	500,000

The loan is from Credit Suisse First Boston (Europe) Limited. The loan is unsecured and interest is payable at a rate of LIBOR plus 1% per annum. The loan is repayable, with the prior consent of the Financial Services Authority, on or after 23 March 2005.

12 Share capital

	2001 £	Authorised 2000 £	Allotted, called up and fully paid 2001 £	2000 £
<i>Equity share capital</i>				
Ordinary 'A' shares of £1 each	400,000	400,000	200	200
Ordinary 'B' shares of £1 each	600,000	600,000	-	-
<i>Non-equity share capital</i>				
Preference shares of £1 each	250,000	250,000	250,000	250,000
	<u>1,250,000</u>	<u>1,250,000</u>	<u>250,200</u>	<u>250,200</u>

The preference shares carry no voting rights and, in the event of the company being wound up, the assets remaining after payment of all debts 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.

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 *(Continued)*

13 Reserves

	Capital reserve £	Profit and loss account £
At 1 January 2001	2,323,784	(1,473,479)
Loss for the year	-	(382,235)
	<hr/>	<hr/>
At 31 December 2001	2,323,784	(1,855,714)
	<hr/>	<hr/>

The capital contribution was received from Credit Suisse First Boston (Europe) Limited.

14 Reconciliation of movements in shareholders' funds

	2001 £	2000 £
Loss for the year	(382,235)	(139,302)
New share capital subscribed	-	250,199
Capital contribution	-	622,771
	<hr/>	<hr/>
Net (deduction from) / addition to shareholders' funds	(382,235)	733,668
Opening shareholders' funds	1,100,505	366,837
	<hr/>	<hr/>
Closing shareholders' funds	718,270	1,100,505
	<hr/>	<hr/>

15 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £71,853 (2000 - £80,101). Contributions amounting to £10,216 (2000 - £6,374) were payable to the fund and are included in other creditors.

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 (*Continued*)

16 Commitments under operating leases

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

	2001 Land and buildings £	2000 Land and buildings £
Operating leases which expire:		
Within one year	90,172	65,625

17 Related party disclosures

Related party transactions and balances

At 31 December 2001, a balance was due from CQS International Limited, a company owned by M Hintze, amounting to £30,000 (2000 - £3,000). This is included within other debtors.

Loans and transactions concerning directors and officers of the company

During the year a loan was made to N Buhl, a director, amounting to £15,000 (2000 - £7,000). This is included within other debtors at 31 December 2001. The balance was fully repaid by 21 March 2002.

18 Reconciliation of operating loss before exceptional items to net cash inflow from operating activities

	2001 £	2000 £
Operating loss before exceptional items	(456,343)	(153,904)
Depreciation of tangible fixed assets	234,713	279,365
Increase in debtors	(10,308,987)	(5,069,680)
Increase in creditors	12,000,142	5,349,889
Net cash inflow from operating activities	1,469,525	405,670

CQS Management LimitedNotes forming part of the financial statements for the year ended 31 December 2001 *(Continued)***19 Analysis of cash flows for headings netted in the cash flow statement**

	2001 £	2000 £
Returns on investment and servicing of finance		
Interest received	106,804	42,859
Interest paid	(32,696)	(27,274)
	<u>74,108</u>	<u>15,585</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	-	(286,040)
Receipts from softable assets	12,185	-
	<u>-</u>	<u>-</u>
Financing		
Share capital issued	-	250,199
New loans	-	500,000
Capital contribution received	-	622,771
	<u>-</u>	<u>1,372,970</u>

20 Reconciliation of net cash flow to movement in net funds

	2001 £	2000 £
Increase in cash	1,555,818	1,508,185
Cash inflow from changes in debt	-	(500,000)
	<u>1,555,818</u>	<u>1,008,185</u>
Movement in net funds	1,555,818	1,008,185
Opening net funds	1,109,916	101,731
	<u>2,665,734</u>	<u>1,109,916</u>

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2001 *(Continued)*

21 Analysis of net funds

	At 1 January 2001 £	Cash flow £	At 31 December 2001 £
Cash at bank and in hand	1,609,916	1,555,818	3,165,734
Debt due after one year	(500,000)	-	(500,000)
	<hr/>	<hr/>	<hr/>
Total	1,109,916	1,555,818	2,665,734
	<hr/>	<hr/>	<hr/>

22 Ultimate controlling party

The ultimate controlling party is M Hintze, a director and majority shareholder of the company.