HSBC Private Equity Investments (UK) Limited

Registration No: 1440338

Annual Report and Financial Statements for the year ended 31 December 2019

HSBC

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Contents

Strategic Report

Principal activities

HSBC Private Equity Investments (UK) Limited ('the Company') is a limited company domiciled and incorporated in England and Wales. Its trading address is 8 Canada square, London E14 5HQ, United Kingdom.

The principal activity of the Company is to act as an investment company in unlisted companies, by direct investment or through managed funds. No change in the Company's activities is anticipated.

Review of the Company's business

During the year, the Company received distributions from its investment in respect of realisations and other receipts from the underlying investments.

No new investment commitments were made during the year. Impairments of financial investments amounted to nil in the financial year (2018: nil).

Support services for the Company were provided by HSBC Bank plc. These services included the maintaining of accurate accounting and other records such as cash management and the collection and settlement of receivables and payables as they became due.

The Company has no employees, and all the related services are provided by the parent company, HSBC Bank plc.

The Company's shareholders are limited to its parent company.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As a Group, HSBC considers its stakeholders to be the people who work for us, bank with us, own us, regulate us and live in the societies we serve. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

As a non-trading, investment company, the principal stakeholder of the Company is the Company's parent entity. No decisions were taken by the Board during the year other than those of a routine nature.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 7 of these financial statements.

Key performance indicators

As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Bank plc. Ongoing review of the performance of the Company is carried out by comparing actual performance against annually set budgets.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company together with an analysis of the exposures to such risks are set out in Note 18 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of the UK leaving the EU commencing on 29 March 2017. The UK left the EU on 31 January 2020 and entered into a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage the ultimate economic effect of the UK leaving the EU is uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates. As described in Note 18, foreign exchange and interest rate risks are managed by the Company in the ordinary course of business and so any increased volatility as a result of the UK leaving the EU is not expected to have a material effect on the results and net assets of the Company. Additionally, any general adverse consequences for credit risk at a UK or EU macroeconomic level that may arise as a consequence of the UK leaving the EU is not expected to translate into a material increase in credit risk for the Company given the nature of the Company's transactions, its counterparties and available security.

In addition to the above, since early January 2020, COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many other countries to protect their economies. The principal risk to the Company is the valuation of its investments in external parties. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the impact of the COVID-19 outbreak is being actively monitored by the Company.

On behalf of the Board

C R J Irvin
Director
11 November 2020

Registered office
8 Canada square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Name	Appointed	Resigned
M J Kershaw		7 August 2020
C R J Irvin		
E Murphy	30 September 2020	

The Articles of Association of the Company contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year and up to the date of approval of the financial statements but have not been utilised by the Directors. Additionally, all Directors have the benefit of Directors' and officers' liability insurance.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: nil).

Significant events since the end of the financial year

Since early January 2020, COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many other countries to protect their economies. The principal risk to the Company is the valuation of its investments in external parties. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the impact of the COVID-19 outbreak is being actively monitored by the Company.

The COVID-19 outbreak represents a non-adjusting post balance sheet event and therefore it remains appropriate that the measurement of the Company's assets and liabilities as at 31 December 2019 reflects only the conditions that existed at that date.

In July 2020, distributions amounting to £4,875k were received from the proceeds of liquidation relating to investments held by the Company.

No other significant events affecting the Company have occurred since the end of the financial year.

Future developments

No change in the Company's activities is expected.

Going concern basis

The Company had net current liabilities of £21,172,000 as at 31 December 2019. HSBC Bank plc, a parent undertaking, has committed to ensuring the provision of sufficient funds to enable the company to meet its liabilities as they fall due. As a result of this, together with the considerations in respect of the impact of the COVID-19 outbreak referred to above, the Directors have prepared the financial statements on a going concern basis.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 18 of the Notes on the financial statements.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC Group to provide necessary capital resources which are therefore managed on a group basis.

The Company defines capital as total shareholders' equity. It is HSBC Group's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Company's approach to capital management during the year.

Independent auditors

PricewaterhouseCoopers LLP ('PwC') are external independent auditors to the Company. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's independent auditors.

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

C R J Irvin
Director
11 November 2020

Registered office
8 Canada square
London E14 5HQ
United Kingdom

Independent auditors' report to the member of HSBC Private Equity Investments (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Private Equity Investments (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Financial Statements* (the "*Annual Report*"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes on the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the *Annual Report* other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Harry Armour

Harry Armour (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 November 2020

Financial statements

Income statement for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Gains less losses from financial investments	2	–	5
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	2	4,812	109
Net operating income		4,812	114
Profit before tax		4,812	114
Tax expense	6	(819)	(22)
Profit for the year		3,993	92

Statement of comprehensive income for the year ended 31 December 2019

There has been no comprehensive income or expense other than the profit for the year as shown above (2018: nil).

Balance sheet at 31 December 2019
Registration No: 1440338

	Notes	2019 £'000	2018 £'000
Assets			
Trade and other receivables	13	**–**	2
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	12	**4,896**	192
Current tax assets	7	**2**	3
Total assets		**4,898**	197
Liabilities and equity			
Liabilities			
Bank loans and overdrafts	15	**21,174**	21,281
Deferred tax liabilities	8	**829**	14
Total liabilities		**22,003**	21,295
Equity			
Called up share capital	17	**5,000**	5,000
Accumulated losses		**(22,105)**	(26,098)
Total equity		**(17,105)**	(21,098)
Total liabilities and equity		**4,898**	197

The accompanying notes on pages 11 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 11 November 2020 and signed on its behalf by:

C R J Irvin
Director

Statement of cash flows for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit before tax	**4,812**	114
Adjustments for:		
Net loss on investing activities	**(4,702)**	(104)
Tax paid	**(3)**	(3)
Net cash generated from operating activities	**107**	7
Cash flows from investing activities		
Cash flows from financing activities		
Movements in inter-company funding	**(107)**	(7)
Net cash used in financing activities	**(107)**	(7)
Cash and cash equivalents brought forward	**–**	–
Cash and cash equivalents carried forward	**–**	–

Statement of cash flows for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit before tax	**4,812**	114
Adjustments for:		
Net loss on investing activities	**(4,702)**	(104)
Tax paid	**(3)**	(3)
Net cash generated from operating activities	**107**	7
Cash flows from investing activities		
Cash flows from financing activities		
Movements in inter-company funding	**(107)**	(7)
Net cash used in financing activities	**(107)**	(7)
Cash and cash equivalents brought forward	**–**	–
Cash and cash equivalents carried forward	**–**	–

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Accumulated losses	Other reserves Financial assets at FVOCI reserve	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2019	**5,000**	**(26,098)**	**–**	**(21,098)**
Profit for the year	–	3,993	–	3,993
Total comprehensive income for the year	**–**	**3,993**	**–**	**3,993**
At 31 Dec 2019	**5,000**	**(22,105)**	**–**	**(17,105)**

	Called up share capital	Accumulated losses	Other reserves Financial assets at FVOCI reserve	Total equity
	£'000	£'000	£'000	£'000
As at 31 Dec 2017	5,000	(26,214)	24	(21,190)
Impact on transition to IFRS 9	–	24	(24)	–
At 1 Jan 2018	5,000	(26,190)	–	(21,108)
Profit for the year	–	92	–	92
Total comprehensive income for the year	–	92	–	92
At 31 Dec 2018	5,000	(26,098)	–	(21,098)

Notes on the financial statements

1 Basis of preparation and significant accounting policies

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRSs'). The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

The Company has adopted the requirements of IFRS 16 'Leases' with effect from 1 January 2019. Adoption has had no impact on the results or net assets of the Company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

There are no new IFRSs published by the IASB which are effective from 1 January 2020 that are expected to have a significant impact on the financial statements of the Company.

(c) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by section 400 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, modified by revaluation of financial assets designated at fair value.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Management's selection of the Company's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

The Company had net current liabilities of £21,172,000 as at 31 December 2019. HSBC Bank plc, a parent undertaking, has committed to ensuring the provision of sufficient funds to enable the company to meet its liabilities as they fall due. As a result of this, together with the considerations in respect of the impact of the COVID-19 outbreak, the Directors have prepared the financial statements on a going concern basis.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

Dividend income is recognised when the right to receive a payment is established. This is the ex-dividend date for listed equity securities and usually the date when the shareholders approve the dividend for unlisted equity securities.

(b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out and the valuation inputs become observable or the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements

- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs.
- Unobservable' in this context means that there is little of no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(c) Financial instruments measured at amortised cost

Trade and other receivables

These include trade and other receivables originated by the Company, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the receivables are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance.

Financial liabilities

Amounts owed to other group undertakings represent financial liabilities and are included within trade and other payables. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provision of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(d) Financial instruments designated at fair value through profit or loss ('FVPL')

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets, liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contain one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial assets are recognised when the Company enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis', including related derivatives, measured at fair value through profit or loss.

(e) Impairment of amortised cost financial assets

Expected credit losses are recognised for loans and advances to other group undertakings and other financial assets held at amortised cost. At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'.

All the Company's exposures are within HSBC group undertakings. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the group company's customer risk rating ('CRR'). The CRR of group companies have been virtually the same over the past few years, therefore the exposures are in stage 1. No ECL is recognised as no loss was expected for HSBC group undertakings.

(f) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(g) Called up share capital

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(h) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

2 Net operating income

	2019 £'000	2018 £'000
Gains less losses from financial investments	—	5
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	4,812	109
Year ended 31 Dec	**4,812**	114

3 Employee compensation and benefits

The Company has no employees and hence no staff costs (2018: nil).

4 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2018: nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

5 Auditors' remuneration

Certain expenses including auditors; remuneration have been borne by a fellow group undertaking and are therefore not charged in arriving at the profit before tax. The auditors' remuneration borne on behalf of the Company by HSBC Bank plc amounted to £8,400 (2018: £8,000).

There were no non-audit fees incurred during the year (2018: nil).

6 Tax

Tax expense

	2019 £'000	2018 £'000
Current tax		
UK Corporation tax		
- For this year	(2)	(4)
- Adjustments in respect of prior years	6	4
Total current tax	**4**	—
Deferred tax		
- For this year	916	24
- Effects of changes in tax rates	(96)	(2)
- Adjustments in respect of prior years	(5)	—
Total deferred tax	**815**	22
Year ended 31 Dec	**819**	22

The UK corporation tax rate applying to the Company was 19.00% (2018: 19.00%).

A reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020 was enacted in the Finance (No2) Act 2016 on 6 September 2016. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to reflect the planned rate reduction. If the deferred tax liability as at 31 December 2019 were re-measured at 19% it would increase by £97,528.

Tax reconciliation

	2019		2018	
	£'000	(%)	£'000	(%)
Profit before tax	4,812		114	
Tax at 19.00 % (2018: 19.00%)	914	19.0	22	19.0
Adjustment in respect of prior years	1	–	3	3.0
Impact due to changes in tax rates	(96)	(2.0)	(2)	(1.9)
Non-taxable income and gains	–	–	(1)	(0.8)
Year ended 31 Dec	819	17.0	22	19.3

7 Current tax asset

	2019	2018
	£'000	£'000
Current tax receivable	2	3

8 Deferred tax

The following table shows the gross deferred tax assets/(liabilities) recognised in the balance sheet and the related amounts recognised in the income statement:

	AFS transitional adjustment	Available-for-sale investments
	2019	2018
	£'000	£'000
At 1 Jan	(14)	8
Deferred tax charge to I/S for the period	(820)	(22)
Adjustment in respect of prior years	5	–
At 31 Dec	(829)	(14)

A deferred tax asset of £2k (2018: £5k) is recognised in respect of AFS reserve transitional adjustments and also the liability in respect of fair value of financial investments of £831k (2018: £19k) is recognised.

The related tax benefit is to be realised through the creation of future taxable profits within the Company.

9 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

	FVPL	Amortised cost	Total
At 31 Dec 2019	£'000	£'000	£'000
Assets			
Trade and other receivables	–	–	–
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	4,896	–	4,896
Total financial assets	4,896	–	4,896
Total non-financial assets			2
Total assets			4,898
Liabilities			
Bank loans and overdrafts	–	21,174	21,174
Total financial liabilities	–	21,174	21,174
Total non-financial liabilities			829
Total liabilities			22,003

	FVPL	Amortised cost	Total
At 31 Dec 2018	£'000	£'000	£'000
Assets			
Trade and other receivables	–	2	2
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	192	–	192
Total financial assets	192	2	194
Total non-financial assets			3
Total assets			197
Liabilities			
Bank loans and overdrafts	–	21,281	21,281
Total financial liabilities	–	21,281	21,281
Total non-financial liabilities			14
Total liabilities			21,295

10 Fair value of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

(a) Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

(b) Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Recurring fair value measurements at 31 Dec				
Assets				
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	–	4,896	4,896

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Recurring fair value measurement at 31 Dec				
Assets				
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	–	192	192

Fair value adjustments

Fair value adjustments are adopted when the Company determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

Fair valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs - Level 3

	Financial investments	
	2019	2018
	£'000	£'000
Private equity including strategic investment	**4,896**	192

Private equity including strategic investments

The investment's fair value is estimated: on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar quoted in an active market, or the price at which similar companies have changed ownership.

Reconciliation of fair value measurements in Level 3 financial instruments

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments:

	Financial investments	
	2019	2018
	£'000	£'000
At 1 Jan	**192**	83
- Changes in fair value of Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**4,812**	109
-Distributions received during the year	**(108)**	–
At 31 Dec 2019	**4,896**	192

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs at 31 December 2019 The core range of inputs is the estimated range within which 90% of the inputs fall.

Quantitative information about significant unobservable inputs in level 3 valuations

	Fair value		
	Assets	**Valuation technique**	**Key unobservable inputs**
	£'000		
Private equity including strategic investments	**4,896**		**Fund Valuation**
At 31 Dec 2019	**4,896**		
Private equity including strategic investments	192		Fund Valuation
At 31 Dec 2018	192		

11 Fair value of financial instruments not carried at fair value

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2019 and 31 December 2018.

12 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2019	2018
	£'000	£'000
Equity instruments		
At 1 Jan	**192**	–
Transfer from financial investments	–	83
Distributions received during the year	**(108)**	–
Changes in fair value of Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**4,812**	109
At 31 Dec	**4,896**	192

During 2019, distributions amounting to £108k were received from HSBC Private Equity Portfolio (Investment) LP Incorporated. Furthermore, during the year, the Company was notified that distributions were due from other investments held by the Company and indications were provided that these were expected to be received in 2020. The distribution amounts advised less costs estimated by the Company, amounted to £4,804k and are included in Changes in fair value of Financial assets designated and otherwise mandatorily measured at fair value through profit or loss.

Financial assets designated and otherwise mandatorily measured at fair value through profit and loss account

	2019			2018		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Securities						
- Equity instruments	—	4,896	4,896	—	192	192
At 31 Dec	—	4,896	4,896	—	192	192

The Company's principal investments as at 31 December 2019 are listed below:

	Country of incorporation	Interest in equity capital (%)	Share class
HSBC Private equity Portfolio (Investment) LP incorporated	Guernsey	100.00	Partnership equity
HSBC Private equity European (No.2) LP	UK	99.98	Partnership equity
HSBC Private Equity European LP	UK	1.02	Partnership equity

A subsidiary is a company that is controlled by another company, where control is accepted as the power to govern the financial and operating policies so as to obtain benefits from its activities. As the Company has no control over the investments, they do not meet the criteria of a subsidiary and are therefore accounted for as financial investments.

13 Trade and other receivables

	2019	2018
	£'000	£'000
Amounts due from other group undertakings	—	2

14 Financial investments

	2019	2018
	£'000	£'000
At 1 Jan	—	83
Revaluation	—	—
Disposals	—	—
Transfer to financial assets designated at fair value		(83)
At 31 Dec	—	—

15 Bank loans and overdraft

	2019	2018
	£'000	£'000
Amounts due to other group undertakings	21,174	21,281

Amounts owed to other group undertakings are non-interest bearing, have no fixed date for repayment and are therefore technically repayable on demand.

16 Maturity analysis of assets and liabilities

The following is an analysis of assets and liabilities by residual contractual maturities at the balance sheet date.

	On demand	Undated	Total
	£'000	£'000	£'000
Assets			
Trade and other receivables	—	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	4,896	4,896
Non-financial assets	—	2	2
At 31 Dec 2019	—	4,898	4,898
Liabilities and Equity			
Bank loans and overdrafts	21,174	—	21,174
Non-financial liabilities	—	829	829
Equity	—	(17,105)	(17,105)
At 31 Dec 2019	21,174	(16,276)	4,898

	On demand	Undated	Total
	£'000	£'000	£'000
Assets			
Trade and other receivables	2	–	2
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	192	192
Non-financial assets	–	3	3
At 31 Dec 2018	2	195	197
Liabilities and Equity			
Bank loans and overdrafts	21,281	–	21,281
Non-financial liabilities	–	14	14
Equity	–	(21,098)	(21,098)
At 31 Dec 2018	21,281	(21,084)	197

17 Called up share capital

	2019		2018	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £1 each	**5,000,000**	**5,000**	5,000,000	5,000
As at 1 Jan and 31 Dec	**5,000,000**	**5,000**	5,000,000	5,000

18 Management of financial risk

Exposure to liquidity risk and market risk arises in the normal course of the Company's business. The Company's risk management policies are consistent with the HSBC Group's risk management policies.

As part of that process, the Business' management will review the monthly management accounts of the Business. There were no changes n the Company's approach to risk management during the year.

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost. The risk arises from mismatches in the timing of cash flows.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from parent undertakings.

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

	On Demand	**Total**
	£'000	**£'000**
Bank loans and overdrafts	**21,174**	**21,174**
At 31 Dec 2019	**21,174**	**21,174**

	On Demand	Total
	£'000	£'000
Bank loans and overdrafts	21,281	21,281
At 31 Dec 2018	21,281	21,281

Market risk management

Market risk is the risk that movements in market factors including interest rates and investment values will impact the Company's income. The Company's exposure to market risk is not significant.

19 Related party transactions

Transactions with other related parties

	2019		2018	
	Highest balance *during the year*	**Balance at 31 December**	Highest balance *during the year*	Balance at 31 *December*
	£'000	**£'000**	£'000	£'000
Assets				
Trade and other receivables [1]	–	–	2	2
Liabilities				
Bank loans and overdrafts[2]	**21,174**	**21,174**	21,294	21,281

1 These balances are held with other group undertakings.
2 These balances are held with HSBC Bank plc and are non-interest bearing.

20 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Equity (UK) Limited. All companies are registered in England and Wales

The results of the Company is included in the group financial statements of HSBC Holdings plc and HSBC Bank plc.

Copies of HSBC Holdings plc's and HSBC Bank plc's consolidated financial statements can be obtained from:

HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom
www.hsbc.com

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom
www.hsbc.com

21 Events after the balance sheet date

Since early January 2020, COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing global disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many other countries to protect their economies. The principal risk to the Company is the valuation of its investments in external parties. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the impact of the COVID-19 outbreak is being actively monitored by the Company.

The COVID-19 outbreak represents a non-adjusting post balance sheet event and therefore it remains appropriate that the measurement of the Company's assets and liabilities as at 31 December 2019 reflects only the conditions that existed at that date.

In July 2020, distributions amounting to £4,875k were received from the proceeds of liquidation relating to investments held by the Company.

There are no other significant events after the balance sheet date.