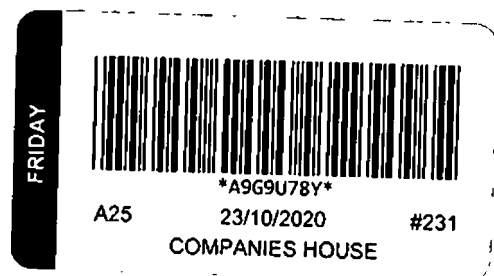


HSBC (BGF) Investments Limited

Registration No:5229587

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



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

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Strategic Report

Principal activities

The principal activity of HSBC (BGF) Investments Limited (the 'Company') is to hold the HSBC Group's investment in BGF Group plc ('BGF plc').

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 business is funded principally by borrowings. The Company has no employees. Services required are provided by fellow HSBC Group companies.

The Company is limited by shares.

Review of the Company's business

The Company continues to exercise significant influence over BGF plc, as a consequence of representation on BGF plc's Board and in conjunction with the significant voting rights on key decisions.

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. As part of the Company's deliberations and decision making process, the Board also takes into account the (i) likely consequences of any decision in the long term; (ii) the interests of the company's employees; (iii) the need to foster the company's business relationships with suppliers, customers and others; (iv) the impact of the company's operations on the community and the environment; and (v) the desirability of the company maintaining a reputation for high standards of business conduct.

The Board 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. During 2019, the directors gave careful consideration to the factors set out above in discharging their duties under section 172. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values, and operate the business in a sustainable way.

The Board is committed to effective engagement with its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Company's engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision-making. The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

During the year, the Board received business updates on BGF Group plc's financial performance and progress with strategy execution. The Board considered shareholder funding requirements and the expected timelines for the payment of dividends. It reviewed and commented on the BGF plc budget. The Board also kept the Company's money market facility under review.

The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis.

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.

No income has yet been earned from BGF plc.

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 monitoring the subsidiary performance, including cash flows from and to each subsidiary.

Principal risks and uncertainties

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 11 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 11, 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, the 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 investment in an associate, BGF plc. During 2020, there has been a reduction in the net asset value of BGF plc due to reduced revenues and cash flows from its investments. As a result of a reduction in net asset value, there will be an increase in the risk of impairment for the investment held by the Company. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, management continue to monitor the situation closely and the effect on financial performance.

On behalf of the Board



J L Chew
Director

24 September 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
J L Chew
T Wood
L Curtis
J Cundy

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, the 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 investment in an associate, BGF plc. During 2020, there has been a reduction in the net asset value of BGF plc due to reduced revenues and cash flows from its investments. As a result of a reduction in net asset value, there will be an increase in the risk of impairment for the investment held by the Company. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, management continue to monitor the situation closely and the effect on financial performance.

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.

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 £409,913,307 as at 31 December 2019. HSBC Bank plc, the 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 11 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 the Company'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



J L Chew
Director

24 September 2020

Registered office
8 Canada Square
London E14 5HQ
United Kingdom

Independent auditors' report to the member of HSBC (BGF) Investments Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC (BGF) Investments 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 loss 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 for 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 (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 September 2020

Financial statements

Income statement for the year ended 31 December 2019

	2019	2018
	£	£
Interest expense	(3,312,593)	(1,961,433)
General and administrative expenses	(1)	(22)
Loss before tax	(3,312,594)	(1,961,455)
Tax credit	6	372,672
Loss for the year	(2,683,197)	(1,588,783)

Statement of comprehensive income for the year ended 31 December 2019

All operations are continuing. There has been no comprehensive income or expense other than the loss for the year as shown above (2018: nil).

Balance sheet at 31 December 2019

Registration No: 5229587

	Notes	2019 £	2018 £
Assets			
Cash and cash equivalents		53,334	100,488
Current tax asset		629,393	372,672
Interest in associate	8	403,032,250	355,782,250
Trade and other receivables	7	372,676	668,721
Total assets		404,087,653	356,922,131
Liabilities and equity			
Liabilities			
Trade and other payables	8	410,968,710	361,119,991
Total liabilities		410,968,710	361,119,991
Equity			
Called up share capital	9	100	100
Accumulated losses		(6,881,157)	(4,197,960)
Total equity		(6,881,057)	(4,197,860)
Total liabilities and equity		404,087,653	356,922,131

The accompanying notes on pages 11 to 16 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24 September 2020 and signed on its behalf by:



J L Chew
Director

Statement of cash flows for the year ended 31 December 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Loss before tax	*	(3,312,594)	(1,961,455)
Adjustments for:			
Interest expense		3,312,593	1,961,433
Tax received		372,676	162,553
Net cash generated from operating activities		372,675	162,531
Purchase of interest in associates	⁶	(47,250,000)	(51,750,000)
Net cash used in investing activities		(47,250,000)	(51,750,000)
Received from other group undertakings in respect of other financing activities		46,830,171	51,587,447
Net cash generated from financing activities		46,830,171	51,587,447
Net decrease in cash and cash equivalents		(47,154)	(22)
Cash and cash equivalents brought forward		100,488	100,510
Cash and cash equivalents carried forward		53,334	100,488

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

	Called up share capital	Accumulated losses	Total equity
	£	£	£
At 1 Jan 2019	100	(4,197,960)	(4,197,860)
Loss for the year	—	(2,683,197)	(2,683,197)
Total comprehensive expense for the year	—	(2,683,197)	(2,683,197)
At 31 Dec 2019	100	(6,881,157)	(6,881,057)

	Called up share capital	Accumulated losses	Total equity
	£	£	£
At 1 Jan 2018	100	(2,609,177)	(2,609,077)
Loss for the year	—	(1,588,783)	(1,588,783)
Total comprehensive expense for the year	—	(1,588,783)	(1,588,783)
At 31 Dec 2018	100	(4,197,960)	(4,197,860)

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'

On 1 January 2019, Company adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated.

Adoption has had no material 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 an impact on the financial statements of the Company.

(c) Presentation of information

The functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company.

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.

(d) 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.

(e) Going concern

The Company had net current liabilities of £409,913,307 as at 31 December 2019. HSBC Bank plc, the 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

Non-interest income and expense

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

The Dividend income from investments is also recognised when the right to receive payment is established.

(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

HSBC (BGF) Investments Limited

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.

(c) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. Such financial assets include trade and other receivables.

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.

Impairment of trade and other receivables

Expected credit losses ('ECL') are recognised for trade and other receivables 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 of the Company's exposures are with other group undertakings. The credit risk of amounts due from other group undertakings is minimised because such other group undertakings are wholly owned subsidiaries of HSBC Holdings plc. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable and hence no impairments are required.

Trade and other payables

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) Interests in associates

The Company classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates.

Investments in an associate are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in associates is not tested separately for impairment but is assessed as part of the carrying amount of the investment.

The Company carries its investments in associates at historical cost less provisions for any impairment.

The Company has taken the exemption from the requirement to prepare economic interest financial statements, allowable under IAS 28 paragraph 17, for entities that are wholly owned subsidiaries, with no listed debt or equity and for which ultimate and intermediate parent company consolidated financial statements are available publicly. Therefore the Company has not applied the equity method for its investment in associates.

Critical accounting estimates and judgements

For the classification of an investment in an entity as an associate, judgements are made in the consideration of evidence of significant influence.

Investments in associates are tested for impairment when there is an indication that the investment may be impaired. Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment and the rates used to discount these cash flows.

(e) 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.

HSBC (BGF) Investments Limited

(f) 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.

(g) Statement of cash flows

The statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in inter-company transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company account.

(h) 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.

(i) Contingent liabilities and contractual commitments

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

2 Employee compensation and benefits

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

3 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.

4 Auditors' remuneration

The auditors' remuneration borne on behalf of the Company amounted to £1,050 (2018: £1,000).

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

5 Tax

Tax credit

	2019	2018
	£	£
Current tax		
- For this year	(629,393)	(372,672)
- Adjustment in respect of prior years	(4)	—
Total current tax	(629,397)	(372,672)
Year ended 31 Dec	(629,397)	(372,672)

The UK corporation tax rate applying to the Company was 19% (2018: 19%).

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%.

Tax reconciliation

	2019		2018	
	£	(%)	£	(%)
Loss before tax	(3,312,594)		(1,961,455)	
Tax at 19% (2018: 19%)	(629,393)	19.0	(372,676)	19.0
Adjustment in respect of prior years	(4)	—	—	—
Effects of group relief/other relief	—	—	4	—
Year ended 31 Dec	(629,397)	19.0	(372,672)	19.0

6 Interests in associate

	2019	2018
	£	£
Cost		
At 1 Jan	355,782,250	304,032,250
Additions	47,250,000	51,750,000
At 31 Dec	403,032,250	355,782,250

Principal associate of the Company

Prior to May 2017, Business Growth Fund Plc (the 'Fund') was the principal associate of the Company. In May 2017, there was a reorganisation of the Fund and its subsidiaries, which included the transfer of the entire issued share capital of the Company to a newly incorporated company, BGF Group plc ('BGF plc'), in consideration for the allotment and issue of shares in BGF plc. The purpose of the reorganisation was to implement the structural changes necessary for the Fund to extend the scope of its, and its subsidiaries activities to the Republic of Ireland and for the business to start managing the assets of third parties.

BGF plc's principal place of business and country of incorporation is in the UK and its principal activity is that of an investment business that provides growth capital to ambitious entrepreneurs running growing companies in the UK and wider entrepreneurial population.

At 31 December 2019, the Company had a 24.543% interest in the £1,642,129,000 issued equity share capital of BGF plc (2018: 24.484% interest in the £1,453,129,000 issued equity capital of the Fund). The carrying amount of the Company's interest in BGF plc was £403,032,250 as at 31 December 2019 (2018: £355,782,250 carrying amount in the Fund).

No impairment indicators have been noted in the investment in associates mentioned above as the Net Asset Value is higher than the carrying value.

Summarised financial information on associate

	2019	2018
	£'000	£'000
Assets	442,344	367,043
Liabilities	4,889	4,980
Revenue	19,938	18,059
Profit/(loss) after tax	27,766	(11,321)

7 Trade and other receivables

	2019	2018
	£	£
Amounts due from other group undertakings	372,676	666,721
At 31 Dec	372,676	666,721

8 Trade and other payables

	2019	2018
	£	£
Amounts owed to other group undertakings	410,761,091	360,989,858
Accrued interest on amounts due to other group undertakings	207,619	130,133
At 31 Dec	410,968,710	361,119,991

Amounts owed to other group undertakings have no fixed repayment date and are therefore technically repayable on demand. They are accounted for as financial liabilities, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

9 Called up share capital

	2019		2018	
	Number	£	Number	£
Issued, allotted and fully paid up				
Ordinary shares of £1 each	100	100	100	100
As at 1 Jan and 31 Dec	100	100	100	100

10 Fair value of financial instruments not carried at fair value

Except where disclosed elsewhere, there are no material differences between the carrying value and the fair value of financial assets as at 31 December 2019 and 31 December 2018.

11 Management of financial risk

The Company has exposure to the following types of risk arising from its use of financial instruments; liquidity risk and market risk. Market risk includes interest rate risk.

The management of risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this Note.

The Company participates in transactions to which other HSBC group companies are also party. The HSBC business in which these companies reside (the "Business") has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from the Business' perspective - this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant company.

There were no changes in the Company's approach to risk management during the year.

(a) Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's assets are funded by borrowing from another group undertaking. This funding has no fixed date for repayment and is therefore technically repayable on demand, although the other group undertaking provides funds as required.

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

	On Demand £	Undated £	Total £
Assets			
Cash and cash equivalents	53,334	–	53,334
Non-Financial assets	–	403,661,643	403,661,643
Trade and other receivables	372,676	–	372,676
At 31 December 2019	426,010	403,661,643	404,087,653
Liabilities			
Trade and other payables	410,968,710	–	410,968,710
At 31 December 2019	410,968,710	–	410,968,710

	On Demand £	Undated £	Total £
Assets			
Cash and cash equivalents	100,488	–	100,488
Non-Financial assets	–	356,154,922	356,154,922
Trade and other receivables	666,721	–	666,721
At 31 December 2018	767,209	356,154,922	356,922,131
Liabilities			
Trade and other payables	361,119,991	–	361,119,991
At 31 December 2018	361,119,991	–	361,119,991

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

	Carrying value £	Contractual cash flows £	On Demand £
At 31 December 2019			
Amounts owed to other group undertakings	410,968,710	410,968,710	410,968,710
	410,968,710	410,968,710	410,968,710
At 31 December 2018			
Amounts owed to other group undertakings	361,119,991	361,119,991	361,119,991
	361,119,991	361,119,991	361,119,991

(b) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will affect the Company's income.

Interest payable on amounts owed to other group undertakings is at a floating interest rate.

Interest rate risk

The table below sets out the effect on future net interest income of an incremental 100 basis points parallel rise or fall in interest rates at the reporting date (floored to 0%). The analysis assumes that all other variables remain constant.

HSBC (BGF) Investments Limited

	Profit or loss 100 bps increase £	Profit or loss 100 bps decrease £
At 31 Dec 2019		
Financial liabilities at amortised cost	(4,109,687)	3,990,506
Total decrease/(increase)	(4,109,687)	3,990,506
At 31 Dec 2018		
Financial liabilities at amortised cost	(3,611,200)	2,634,913
Total decrease/(increase)	(3,611,200)	2,634,913

12 Related party transactions

Balances with other related parties

	2019		2018	
	Highest balance during the year £	Balance at 31 December £	Highest balance during the year £	Balance at 31 December £
Assets				
Cash and cash equivalents ¹	767,230	53,334	100,510	100,488
Trade and other receivables ²	372,676	372,676	666,721	666,721
Liabilities				
Trade and other payables ¹	410,968,710	410,968,710	361,119,991	361,119,991

¹These balances are held with HSBC Bank plc.

²These balances are held with HSBC Asset Finance (UK) Ltd.

	2019 £	2018 £
Income statement		
Interest expense	3,312,593	1,961,433

13 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. The immediate parent undertaking is HSBC Bank plc. All companies are registered in England and Wales.

The results of the Company are included in the 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

14 Contingent liabilities and contractual commitments and guarantees

There were no contingent liabilities at 31 December 2019 (2018: nil). The Company is committed to investing a further £42,750,000 in BGF plc as at 31 December 2019 (2018: £27,750,000). This will take the form of periodic subscriptions for shares in BGF plc as notified by them subject to agreed facility limits.

15 Events after the balance sheet date

Since early January 2020, the 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 investment in an associate, BGF plc. During 2020, there has been a reduction in the net asset value of BGF plc due to reduced revenues and cash flows from its investments. As a result of a reduction in net asset value, there will be an increase in the risk of impairment for the investment held by the Company. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, management continue to monitor the situation closely and the effect on financial performance.

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.

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