HSBC Enterprise Investment Company (UK) Limited

Registered No: 2509924

Annual Report and Financial Statements for the year ended 31 December 2018

HSBC

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HSBC Enterprise Investment Company (UK) Limited

Strategic Report

Principal activities

HSBC Enterprise Investment Company (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 Company's principal activity is to invest in regional venture capital funds. Each regional fund covers a specific geographic area of Great Britain and incorporates the geographic area in its title. In addition, the Company has invested in the Capital for Enterprise Fund L.P.

The Company is limited by shares.

Review of the Company's business

During the year the Company maintained its investments in capital funding activities.

The Company has no employees. Services required are provided by fellow HSBC Group companies. The Company has no stakeholders other than its parent company.

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 Directors have made a decision for the Company to go into members' voluntary liquidation. Prior to this, it is proposed that all of the remaining business will be transferred to its immediate parent company, HSBC Bank plc. As a consequence, the remaining assets and liabilities have been disclosed at values at which they are expected to be realised.

Accordingly, the Directors have prepared the financial statements on a basis other than that of going concern. The financial statements have been prepared on a breakup basis for the year ended 31 December 2018.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 9 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 performance of the Company is carried out by comparing actual performance against annually set budgets.

Strategic Report

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 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 leaving the EU commencing on 29 March 2017. The ultimate economic impact of the UK leaving the EU is currently 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. However this is not expected to have a material impact on the results or net assets of the Company given the nature of the Company's transactions, counterparties and available security.

On behalf of the Board

P.R. Ellis

P R Ellis
Director
Dated: 25 September 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of 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

P R Ellis
M P Keller

The Articles of Association of the Company provides that in certain circumstances the Directors are entitled 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 but have not been utilised by the Directors. 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 2018 (2017: nil).

Significant events since the end of the financial year

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

Going concern basis

The Directors have agreed that the Company should go into members' voluntary liquidation as soon as practicable. Accordingly, these financial statements have not been prepared on a going concern basis. The accounts are prepared on a basis other than going concern whereby all assets and liabilities are recognised at values at which they are expected to be realised. The adoption of non-going concern basis has not resulted in any difference to the carrying amounts/presentation of assets and liabilities.

Financial risk management

The principal risks and uncertainties facing the Company, together with its financial risk management objectives and policies, and an analysis of the exposure to such risks, are set out in Note 11 of 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') is external auditor 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 auditor.

Directors' responsibility statement

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 6, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and Financial Statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and financial statements for each financial year. The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

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 for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors have made a decision for the Company to go into members' voluntary liquidation, the accounts have not been prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditors

In accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement, in the case of each Director in office as at the date the Report of the Directors is approved, that:

- 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

P.R. Ellis.

P R Ellis
Director

Dated: 25 September 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the independent auditors' to the members of HSBC Enterprise Investment Company (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Enterprise Investment Company (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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, which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on 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.

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than 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 2018 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 Directors' responsibilities statement 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 members 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.

David Mayland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Dated: 26 September 2019.

Income statement for the year ended 31 December 2018

	Notes	2018 £	2017 £
Gains less losses on financial investments		-	518,225
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		(348,476)	-
Operating (loss)/ profit		(348,476)	518,225
(Loss)/ profit before tax		(348,476)	518,225
Tax credit/ (expense)	5	146,537	(44,240)
(Loss)/ profit for the year		(201,939)	473,985

Statement of comprehensive income for the year ended 31 December 2018

	2018 £	2017 £
(Loss)/profit for the year	(201,939)	473,985
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments:		
– fair value gains	-	1,104,106
– fair value gains transferred to income statement on disposal	-	(258,273)
– deferred tax on items taken directly to equity	-	(143,791)
Other comprehensive (expense)/ income for the year, net of tax	(201,939)	702,042
Total comprehensive (expense)/ income for the year attributable to the shareholders	(201,939)	1,176,027

Balance sheet as at 31 December 2018

	Notes	2018 £	2017 £
Assets			
Cash and cash equivalents		**4,572,200**	3,960,566
Financial investments	7	**-**	1,425,845
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	6	**463,573**	-
Total assets		**5,035,773**	5,386,411
Liabilities and equity			
Liabilities			
Trade and other payables	8	**2,049,754**	2,072,224
Deferred tax liabilities	9	**78,476**	204,705
Total liabilities		**2,128,230**	2,276,929
Equity			
Called up share capital	10	**3**	3
Share premium account		**8,499,999**	8,499,999
Available-for-sale fair value reserve		**-**	1,950,220
Accumulated losses		**(5,592,459)**	(7,340,740)
Total equity		**2,907,543**	3,109,482
Total liabilities and equity		**5,035,773**	5,386,411

The accompanying notes on pages 12 to 25 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 25 September 2019 and signed on its behalf by:

P.R. Ellis.

P R Ellis
Director

Company Registration Number: 2509924

Statement of cash flows for the year ended 31 December 2018

	2018 £	2017 £
Cash flows from operating activities		
(Loss)/profit before tax	**(348,476)**	518,225
Adjustments for:		
Non-cash items included in profit before tax	**414,603**	-
Tax received	**20,308**	-
Net cash generated from operating activities	**86,435**	518,225
Cash flows from investing activities		
Capital repayments	-	320,955
Proceeds on disposal of financial investments	**547,668**	638
Net cash generated from investing activities	**547,668**	321,593
Cash flows from financing activities		
Movements in inter-company funding	(22,469)	-
Net cash used in financing activities	**(22,469)**	-
Net increase in cash and cash equivalents	**611,634**	839,818
Cash and cash equivalents brought forward	**3,960,566**	3,120,748
Cash and cash equivalents carried forward	**4,572,200**	3,960,566

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £	Share premium account £	Accumulated losses £	Available-for-sale fair value reserve £	Total equity £
As At 31 December 2017	**3**	**8,499,999**	**(7,340,740)**	**1,950,220**	**3,109,482**
Impact on transition to IFRS 9	-	-	**1,950,220**	**(1,950,220)**	-
At 1 January 2018	**3**	**8,499,999**	**(5,390,520)**	-	**3,109,482**
Loss for the year	-	-	**(201,939)**	-	**(201,939)**
Available-for-sale investments	-	-	-	-	-
Total comprehensive expense for the year	-	-	**(201,939)**	-	**(201,939)**
At 31 December 2018	**3**	**8,499,999**	**(5,592,459)**	-	**2,907,543**

	Called up share capital £	Share premium account £	Accumulated losses £	Available-for-sale fair value reserve £	Total equity £
At 1 January 2017	3	8,499,999	(7,814,725)	1,248,178	1,933,455
Profit for the year	-	-	473,985	-	473,985
Other comprehensive income (net of tax):					
Available-for-sale investments	-	-	-	702,042	702,042
Total comprehensive income for the year	-	-	473,985	702,042	1,176,027
At 31 December 2017	3	8,499,999	(7,340,740)	1,950,220	3,109,482

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 2018, there were no unendorsed standards effective for the year ended 31 December 2018 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 2018

The Company has adopted the requirements of IFRS 9 from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives. The impact of adoption at 1 January 2018 on Net Assets is 'Nil', however the accumulated losses has been reduced by £1,950k.

In addition, the Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of Interpretations and amendments to standards which have had an insignificant effect on the financial statements of the Company.

IFRS 9 transitional requirements

The transitional requirements of IFRS 9 necessitated a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 January 2018 and permits designations to be revoked or additional designations created at 1 January 2018 if there are accounting mismatches at that date.

As a result:

- fair value designations for financial liabilities were revoked where the accounting mismatch no longer exists, as required by IFRS 9; and
- fair value designations were revoked for certain long-dated securities where accounting mismatches continue to exist, but where the Company has revoked the designation as permitted by IFRS 9 since it will better mitigate the accounting mismatch by undertaking fair value hedge accounting.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2019, 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

The IASB has published IFRS 16 'Leases' which has been endorsed for use in the EU. In addition, an amendment to IAS 12 'Income Taxes' has not yet been endorsed. These are not expected to have a significant effect on the results or net assets of the Company when adopted. There are no new IFRSs published by the IASB which are effective from 1 January 2019 that are expected to have an 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 that 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 Directors have agreed that the Company should go into members' voluntary liquidation as soon as practicable. Accordingly, these financial statements have not been prepared on a going concern basis. The accounts are prepared on a basis other than going concern whereby all assets and liabilities are recognised at values at which they are expected to be realised. The adoption of non-going concern basis has not resulted in any difference to the carrying amounts/presentation of assets and liabilities.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments except for 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.

(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, 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 which contain contractual terms that gives 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. In addition most financial liabilities are measured at amortised cost.

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 liabilities 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 ('ECL') are recognized 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 recognized 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 recognized 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 statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it 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 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 is 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.

(i) Accounting policies applicable prior to 1 January 2018

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

Available-for-sale financial assets

Available-for-sale financial assets are recognized on the trade date when the Company enters into contractual arrangements to purchase them, and are normally recognized when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognized in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognized in the income statement as 'Gains less losses from financial investments'. Excess income from distributions are also recognized in the income statement as gains less losses from financial investments.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognized in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments and within 'Gains less losses from financial investments' for equities.

Available-for-sale equity securities

A significant or prolonged decline in the fair value of equity below its cost is objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognized in other comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognized in the income statement to the extent that further cumulative impairment losses have been incurred. Impairment losses recognized on the equity security are not reversed through the income statement.

(j) 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.

2 Employee compensation and benefits

The Company has no employees and hence no staff costs (2017: nil).

3 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2017: 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

Certain expenses including auditors' remuneration have been borne by a fellow group undertaking and are therefore not charged in arriving at the profit before taxation. The auditors' remuneration borne on behalf of the Company amounted to £4,000 (2017: £4,000).

There were no non-audit fees incurred during the year (2017: nil).

5 Tax (credit)/expense

	2018	2017
	£	£
Current tax		
– for this year	-	-
– adjustments in respect of prior years	(20,308)	44,240
Deferred tax		
- Origination and reversals of temporary differences	(141,080)	
- Effects of changes in tax rates	14,851	
Total deferred tax	(126,229)	44,240
Total tax (credited)/ charged to income statement	(146,537)	44,240

The UK corporation tax rate applying to the Company was 19.00% (2017: 19.25%).

In the UK Budget on 8 July 2015, the UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020 and this was enacted in the Finance (No2) Act 2016 on 6 September 2016 . This has therefore been taken into account in the calculation of the UK related deferred tax balances as these balances will materially reverse after 1 April 2020.

Tax reconciliation

	2018	Percentage of overall profit before tax	2017	Percentage of overall profit before tax
	£	%	£	%
(Loss)/ profit before tax	(348,476)	-	518,225	-
Tax at 19.00% (2017: 19.25%)	(66,210)	19.0	99,741	19.3
Adjustments in respect of prior years	(20,308)	5.8	44,240	8.5
Expenses not deductible	(74,870)	21.5	-	-
Non taxable income and gains	-	-	(99,741)	(19.3)
Impact due to changes in tax rates	14,851	(4.3)	-	-
Total tax charged/(credited) to income statement	(146,537)	42.0	44,240	8.5

6 Financial assets designated at fair value

	2018	2017
	£	£
At 1 January	-	-
Additions	-	-
Repayments	-	-
Disposals	-	-
Transfer in from available-for-sale investments	878,176	-
Impairment	(414,603)	-
At 31 December	463,573	-

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

	2018			2017		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	£	£		£		£
Financial assets	-	463,573	463,573	-	-	-
At 31 Dec	-	463,573	463,573	-	-	-

Funds

The following table is a break down of the Company's principal financial investments, measured at fair value, that were held at the end of the financial year:

	2018	2017
	£	£
Advantage Growth Fund LP	100	100
Capital for Enterprise Fund L.P.	104,391	104,390
The HSBC UK Enterprise Fund for the North West	-	94,514
The HSBC UK Enterprise Fund for the South East	253,339	616,317
The HSBC UK / Finance Wales Fund for Wales Limited Partnership	105,743	157,369
The HSBC UK European Fund for the North West of England	-	453,155

In addition to the Capital investment in the Funds detailed above, the Company has the following loan commitments outstanding as at 31 December 2018 and 2017 to each Fund:

	PARK Seedcorn Fund	Capital for Enterprise Fund L.P.
	£	£
Original commitment	200,000	6,250,000
Drawn	(80,000)	(5,759,220)
Unutilised commitment at 31 December 2018	120,000	490,780

	PARK Seedcorn fund	Capital for Enterprise Fund L.P.
	£	£
Original commitment	200,000	6,250,000
Drawn	(80,000)	(5,759,220)
Unutilised commitment at 31 December 2017	120,000	490,780

Out of the amount drawn there has been repayments made.

7 Financial investments

	2018	2017
	£	£
At 1 January	1,425,845	901,605
Additions	-	-
Repayments	-	(320,955)
Disposals	(547,669)	(638)
Revaluation	-	845,833
Transfer to financial assets designated at fair value	(878,176)	-
At 31 December	-	1,425,845

8 Trade and other payables

Amounts owed to other group undertakings have no fixed date for repayment 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.

	2018	2017
	£	£
Amounts owed to other group undertakings	**2,049,754**	2,072,224

9 Deferred tax liabilities

	2018	2017
	£	£
At 1 January	**(204,705)**	(60,914)
Income statement (debit)/credit	**126,229**	-
Other comprehensive income:		
- available-for-sale investments		(143,791)
Other adjustments		
At 31 December	**(78,476)**	(204,705)

In the financial statements for the year ending 31 December 2018, deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised or the liabilities settled, being 17.00%. (2017: 17.00%).

10 Called up share capital

	2018	2017
	£	£
Authorised		
100 (2017:100) Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
3 (2017:3) Ordinary shares of £1 each	**3**	3

11 Management of financial risk

All of the Company's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk and liquidity risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Company as a going concern.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It arises principally from cash held with other group entities and recoverable from financial investments.

Within the overall framework of the HSBC Company policy, the Company has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Company is responsible for the quality of credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets.

The Company's credit risk rating system and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The Company's exposure to credit risk in relation to cash held with other group undertakings relates to entities that are wholly owned subsidiaries of HSBC Holdings plc, and are part of the Business described above. 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.

Maximum exposure to credit risk

	Maximum exposure 2018	Maximum exposure 2017
	£	£
Available-for-sale investments	**-**	1,425,845
Financial assets designated at fair value	**463,573**	-
Outstanding contracted commitments	**610,780**	610,780
	1,074,353	2,036,625

Liquidity risk

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 but at an excessive cost.

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. The Company's assets are funded by borrowing from a group undertaking. This funding has no fixed date for repayment and is therefore technically repayable on demand, although the group undertaking provides funds as required.

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

31 December 2018	**On demand**	**Undated**	**Total**
	£	**£**	**£**
Assets			
Cash and cash equivalents	**4,572,200**	**-**	**4,572,200**
Financial investments designated at fair value	**-**	**463,573**	**463,573**
Non-financial assets	**-**	**-**	**-**
Total as at 31 December 2018	**4,572,200**	**463,573**	**5,035,773**
Liabilities			
Trade and other payables	**2,049,754**	**-**	**2,049,754**
Total non-financial liabilities	**-**	**78,476**	**78,476**
Total as at 31 December 2018	**2,049,754**	**78,476**	**2,128,230**

31 December 2017	On demand	Undated	Total
	£	£	£
Assets			
Cash and cash equivalents	3,960,566	-	3,960,566
Financial investments	-	1,425,845	1,425,845
Non-financial assets	-	-	-
Total as at 31 December 2017	3,960,566	1,425,845	5,386,411
Liabilities			
Trade and other payables	2,072,224	-	2,072,224
Total non-financial liabilities	-	204,705	204,705
Total as at 31 December 2017	2,072,224	204,705	2,276,929

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

At 31 December 2018	**On demand**	**Total**
	£	**£**
Trade and other payables	**2,049,754**	**2,049,754**
Total as at 31 December 2018	**2,049,754**	**2,049,754**

At 31 December 2017	On demand	Total
	£	£
Trade and other payables	2,072,224	2,072,224
Total as at 31 December 2017	2,072,224	2,072,224

12 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: quoted market price:, financial instruments with quoted prices for identical instruments in active markets.

(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 are significant inputs are observable.

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

Financial instruments carried at fair value and bases of valuation

2018	**Level 2** **£**	**Total** **£**
Financial assests designated and otherwise mandatorily measured at fair value through profit or loss	**463,573**	**463,573**
Total as at 31 December 2018	**463,573**	**463,573**

2017	Level 2 £	Total £
Financial investments- available-for-sale investments	1,425,845	1,425,845
Total as at 31 December 2018	1,425,845	1,425,845

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 observable inputs - Level 2

	Financial investments	
	2018 **£**	2017 £
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**463,573**	1,425,845

Reconciliation of fair value measurements in Level 2 financial instruments

The following table provides a reconciliation of the movement between opening and closing balances of Level 2 financial instruments, measured at fair value based on unobservable inputs:

	2018 **£**	2017 £
At 1 January	**1,425,845**	901,605
Additions	**-**	-
Repayments	**-**	(320,955)
Disposals	**(547,669)**	(638)
Revaluation	**-**	845,833
Impairment provision	**(414,603)**	-
At 31 December	463,573	1,425,845

Effects of change in significant observable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 2 fair values of reasonably possible alternative assumptions:

Sensitivity of fair values to reasonably possible alternative assumptions

As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions. In this context the quantum of reasonably possible alternative assumptions is highly judgemental and management has used an estimate of 10.00% for favourable changes and 10.00% for unfavourable changes in this regard. The following table shows the sensitivity of these fair values.

	Reflected in other comprehensive income	
	2018	**2018**
	£	**£**
	Favourable changes	**Unfavourable changes**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	-	-

	Reflected in other comprehensive income	
	2017	2017
	£	£
	Favourable changes	Unfavourable changes
Available-for-sale investments	142,584	(142,584)

13 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 2018 and 31 December 2017.

Cash and cash equivalents held and amounts owed to other group undertakings as shown in the balance sheet is a reasonable approximation of fair value as they are short term in nature.

14 Analysis of financial assets and liabilities by measurement basis

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

2018

	FVPL	**Amortised cost**	**Total**
	£		**£**
Assets			
Cash and cash equivalents	-	4,572,200	4,572,200
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	463,573	-	463,573
Total financial assets	463,573	4,572,200	5,035,773
Total non-financial assets			-
Total assets			5,035,773
Liabilities			
Trade and other payables	-	2,049,754	2,049,754
Total financial liabilities	-	2,049,754	2,049,754
Total non-financial liabilties			78,476
Total liabilities			2,128,230

2017

	Loans and receivables £	Available-for- sale securities £	Financial liabilities at amortised cost	Total £
Assets				
Cash and cash equivalents	3,960,566	-	-	3,960,566
Financial investments		1,425,845	-	1,425,845
Total financial assets	3,960,566	1,425,845	-	5,386,411
Total non-financial assets				-
Total assets				5,386,411
Liabilities				
Trade and other payables	-	-	2,072,224	2,072,224
Total financial liabilities	-	-	2,072,224	2,072,224
Total non-financial liabilties				204,705
Total liabilities				2,276,929

15 Related party transactions

Balances with related parties:

	2018		2017	
	Highest balance during the year £	**Balance at 31 December £**	Highest balance during the year £	Balance at 31 December £
Assets				
Cash and cash equivalents[1]	**4,572,200**	**4,572,200**	3,960,566	3,960,566
Liabilities				
Trade and other payables	**2,072,221**	**2,049,754**	2,072,224	2,072,224

[1]*Amounts are held with HSBC Bank plc.*

16 Effects of reclassification on adoption of IFRS 9

Reclassification of balance sheet as at 31 December 2017 and 31 December 2018

			IFRS 9 reclassification to			
		IAS 39 carrying amount at 31 Dec 2017	**Fair value through profit and loss**	**Carrying amount post reclassification**	**IFRS 9 re-measurement including expected credit losses**	**IFRS 9 carrying amount at 1 Jan 2018**
	IAS 39 measurement category	**£**	**£**	**£**	**£**	**£**
Assets						
Cash and cash equivalents	**Amortised cost**	**3,960,566**	**-**	**3,960,566**	**-**	**3,960,566**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**FVPL**	**-**	**1,425,845**	**1,425,845**	**-**	**1,425,845**
Financial investments	**FVOCI (Available for sale equity instruments)**	**1,425,845**	**(1,425,845)**	**-**	**-**	**-**
Total assets		**5,386,411**	**-**	**5,386,411**	**-**	**5,386,411**

Liabilities	IAS 39 measurement category	IAS 39 carrying amount at 31 Dec 2017 £	Fair value through profit and loss £	Carrying amount post reclassification £	IFRS 9 re-measurement including expected credit losses £	IFRS 9 carrying amount at 1 Jan 2018 £
Loans from other group undertakings	Amortised cost	2,072,224	-	2,072,224	-	2,072,224
Deferred tax liabilities	N/A	204,705	-	204,705	-	204,705
Total liabilities		**2,276,929**	**-**	**2,276,929**	**-**	**2,276,929**

	IAS 39 carrying amount as at 31 Dec 2017	IFRS 9 reclassification	Carrying amount post reclassification	IFRS 9 remeasurement including expected credit losses	Carrying amount at 1 Jan 2018
	£	£	£	£	£
Equity					
Called up share capital	3	-	3	-	3
Share premium	8,499,999	-	8,499,999	-	8,499,999
Other reserves	1,950,220	(1,950,220)	-	-	-
Accumulated losses	(7,340,740)	1,950,220	(5,390,520)	-	(5,390,520)
Total equity	**(3,109,482)**	**-**	**(3,109,482)**	**-**	**(3,109,482)**

17 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 immediate parent undertaking and parent undertaking of the smallest group to consolidate the financial statements. 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 the HSBC Holdings plc and HSBC Bank plc 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

18 Contingent liabilities and contractual commitments and guarantees

There were no contingent liabilities at 31 December 2018 (2017: nil) other than the loan commitments disclosed in Note 6.

19 Events after the balance sheet date

There are no significant events after the balance sheet date.