HSBC Trust Company (UK) Limited

Annual Report and Accounts

31 December 2005

Company Registration Number 106294

Annual Report and Accounts 2005

Contents

Company Registration Number 106294

Report of the Directors

Principal Activities

The Company provides wealth management services and products including executorships, trusteeship, discretionary and advisory investment portfolios. The Company is registered as a Bank and is regulated by the Financial Services Authority.

Results and Dividends

The Company's results for the year under review are as detailed in the income statement shown in these accounts.

An interim dividend of £17,000,000 was paid on 31 August 2005 in respect of the year ended 31 December 2005 (2004: £7,000,000). A second interim dividend of £20,000,000 was paid on 23 December 2005 for the year ended 31 December 2005 (2004: £nil).

Business Review

Depolarisation of the UK financial services regime in 2005 has resulted in a number of changes to the Company's activities. On 28 February 2005 the Company ceased to be a distributor of financial products, and now makes the majority of product sales through its parent company, HSBC Bank plc. The Company also provides a service wrapper as part of the UK Bank's multi-tied investment proposition.

2005 performance has been strong, with income growth attributable to strong sales and enhanced rebate terms for collective investment funds in addition to market driven fund growth on managed investment products, offset in part by the cessation of income from the discontinued third party broked business. Significant reductions in the Company's distribution and operational costs have been made as a result of changes to the salesforce and continued cost control initiatives in product maintenance areas.

Risk Management

The Company has financial risk management policies in place, further details of which can be found in note 24.

Directors

The directors who served during the year were as follows:

Name	***Appointed***	***Resigned***
V Armson	29 April 2005	
S J Britain		
D R Buckley		
A Cheesewright		
M V Dawson		
J D Edmans		23 February 2005
R F Farrand		
B D Goldberg		30 November 2005
M G Peake	14 December 2005	
M D Watson		
C P M Wills		

C P M Wills resigned as a director of the Company on 27 January 2006.

The Articles of Association of the Company provide 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 1985. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Report of the Directors (continued)

Directors' Interests

All the directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, required to be disclosed under the Companies Act 1985, are set out below:

	Ordinary shares of US$0.50 each	
	1 January 2005 (or appointment date if later)	**31 December 2005**
V Armson	921	1,622
S J Britain	3,216	3,986
D R Buckley	613	2,326
A Cheesewright	5,656	5,578
M V Dawson	5,547	5,547
R F Farrand	11,668	16,475
M D Watson	2,609	2,820
C P M Wills	14,213	12,732

During the year (or since appointment), options over HSBC Holdings plc ordinary shares of US$0.50 each were granted/exercised as follows:

	Granted	**Exercised**
V Armson	-	12,500
S J Britain	494	6,280
D R Buckley	2,474	1,502
A Cheesewright	-	3,300
R F Farrand	2,407	3,917
C P M Wills	989	1,119

The terms of a number of Employee Benefit Trusts provide that all employees of HSBC Holdings plc and any of its subsidiary undertakings are potential beneficiaries of the Trusts. As potential beneficiaries of the Trusts, each director of the Company is deemed to have a technical interest in all of the HSBC Holdings plc ordinary shares of US$0.50 each held by the Trusts. At 31 December 2005 the Trusts held a total of 130,812,676 ordinary shares of US$0.50 each (1 January 2005: 123,108,967).

Supplier Payment Policy

The Company subscribes to the Better Payment Practice Code, the four principles of which are: to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about, the Code are available from: The Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc. The payment performance of this unit is incorporated within the results of that company.

Report of the Directors (continued)

Statement of Directors' Responsibilities in Relation to the Directors' Report and Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the 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 the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records 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 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the Board

16 February 2006

Peter J Harvey
Secretary

Registered Office:
8 Canada Square
London E14 5HQ

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited

We have audited the financial statements of HSBC Trust Company (UK) Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulations.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB

16 February 2006

Income Statement
For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Interest receivable			
Other interest receivable and similar income		**9,387**	8,071
Interest payable		**(4,124)**	(3,698)
Net interest income	5	**5,263**	4,373
Dividend income from shares in group undertakings		-	40
Fees and commissions receivable		**119,552**	108,674
Fees and commissions payable		**(40,283)**	(21,091)
Net income		**84,532**	91,996
Administrative expenses	6	**(30,871)**	(54,524)
Depreciation and amortisation		**(121)**	(610)
Provision for contingent liabilities and commitments		**228**	(2,630)
Operating profit		**53,768**	34,232
Profit before income taxes		**53,768**	34,232
Income taxes	7	**(16,171)**	(9,673)
Profit for the year		**37,597**	24,559
Profit for the year from discontinued activities	8	**5,109**	12,222
Profit for the year from continuing activities		**32,488**	12,337
		37,597	24,559

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2005

	Note	Share capital	Share premium	Retained earnings	Total
		£000	£000	£000	£000
Year ended 31 December 2004					
Balance at 1 January 2004		15,000	100	7,052	22,152
Profit for the year		-	-	24,559	24,559
Dividends	*9*	-	-	(13,000)	(13,000)
Balance at 31 December 2004		15,000	100	18,611	33,711
Year ended 31 December 2005					
Balance at 1 January 2005		15,000	100	18,611	33,711
Profit for the year		-	-	37,597	37,597
Dividends	*9*	-	-	(37,000)	(37,000)
Balance at 31 December 2005		15,000	100	19,208	34,308

The accounting policies and notes on pages 10 to 25 *form an integral part of these financial statements.*

Balance Sheet at 31 December 2005

Assets	Note	2005 £000	2004 £000
Loans and advances to banks	*10*	**232,659**	168,725
Loans and advances to customers	*11*	**1,601**	2,234
Investments in subsidiary undertakings	*12*	**5**	5
Property, plant and equipment	*13*	**19**	992
Other assets	*14*	**6,995**	16,798
Deferred income tax asset	*15*	**52**	105
Prepayments and accrued income		**8,318**	7,051
Total assets		**249,649**	195,910
Liabilities			
Customer accounts	*16*	**184,256**	142,057
Other liabilities	*17*	**19,599**	8,446
Current income tax liabilities		**7,428**	5,859
Accruals and deferred income		**3,169**	3,302
Provisions for liabilities and charges	*18*	**889**	2,535
Total liabilities		**215,341**	162,199
Equity			
Share capital	*19*	**15,000**	15,000
Share premium account	*20*	**100**	100
Retained earnings	*20*	**19,208**	18,611
Total equity		**34,308**	33,711
Total equity and liabilities		**249,649**	195,910

The financial statements were approved by the board of directors on 16 February 2006 and were signed on its behalf by:

Richard F Farrand
Managing Director

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

Statement of Cash Flows – indirect method
For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Cash flows from operating activities			
Profit before tax		**53,768**	34,232
Adjustments for:			
Depreciation		**121**	610
Change in loans and advances to customers		**633**	212
Change in other assets		**9,803**	(5,379)
Change in prepayments and accrued income		**(1,267)**	(1,358)
Change in customer accounts		**42,199**	657
Change in accruals and deferred income		**(133)**	187
Change in other liabilities		**11,153**	(10,190)
Change in provisions		**(1,646)**	533
Cash generated from operations		**114,631**	19,504
Tax paid		**(14,553)**	(6,638)
Net cash from operating activities		**100,078**	12,866
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**857**	532
Acquisition of property, plant and equipment		**(1)**	(5)
Net cash from investing activities		**856**	527
Cash flows from financing activities			
Dividends received		**-**	40
Dividends paid	*9*	**(37,000)**	(13,000)
Net cash from financing activities		**(37,000)**	(12,960)
Net increase in cash and cash equivalents		**63,934**	433
Cash and cash equivalents at 1 January		**168,725**	168,292
Cash and cash equivalents at 31 December		**232,659**	168,725

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

Notes to the financial statements

1 General information

HSBC Trust Company (UK) Limited is a company domiciled in England and Wales.
The financial statements were authorised for issue by the directors on 16 February 2006.

2 Significant accounting policies

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Commission (EC). These are the Company's first financial statements under IFRS and IFRS 1 has been applied.

The Company has not applied IFRS 7 Financial Instruments: Disclosures. The standard is effective from 1 January 2007 and the Company intends to implement it from this date. The effect of the implementation will be to change some of the disclosures relating to the Company's financial instruments and related risk management.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4.

(b) *Basis of preparation*

The financial statements are presented in Pound Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

The Company is a wholly-owned subsidiary of HSBC Bank plc which prepares accounts in accordance with IFRSs and which are available for public use. Details of where copies of these may be obtained are given in note 25. The Company has taken advantage of the exemption contained in IAS 27 'Consolidated and Separate Financial Statements' and has therefore not prepared consolidated accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of the transition to IFRSs.

(c) *Revenue*

Fees and commission income

The Company earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- If the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party); and
- If the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, investment management, portfolio and other management advisory and service fees).

Notes to the financial statements (continued)

(d) *Employee benefits*

The Company does not employ any staff. All staff undertaking work on behalf of the Company are employed by the Company's parent, HSBC Bank plc, or HSBC Investments (UK) Limited, which recharge this Company for the services provided.

(e) *Income taxes*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

(f) *Impairment*

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) *Financial assets and liabilities*

Loans and advances

Loans and advances to banks and customers are shown in the balance sheet at cost less any amounts written off and less any specific provisions. Interest on advances is recognised in the income statement as it accrues. Amounts repayable within three months are classified as cash and cash equivalents in the statement of cashflows.

Customer accounts

Customer accounts are shown in the balance sheet at cost. Interest payable is recognised in the income statement as it accrues.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The Company accounts for investments in subsidiary undertakings at the lower of cost and written down value.

Notes to the financial statements (continued)

(i) *Property Plant & Equipment*

Items of property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation is charged to the income statement on a straight–line basis over the estimated useful lives of each part of any items of property, plant and equipment. The estimated useful lives are as follows:

• Vehicles	5 years
• Fixtures & Fittings	3 to 5 years
• Premises improvements	10 years

(j) *Other receivables*

Other receivables are stated at their cost less impairment losses (see accounting policy f).

(k) *Provisions*

As a result of the Company's normal business risk, operational losses can arise and these are provided for when identified. A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) *Other payables*

Other payables are stated at cost.

(m) *Dividend distribution*

Dividend distributions to the Company's shareholder are recognised as a liability in the Company's financial statements in the year in which the dividends are declared.

3 Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Operational loss provision

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material (see accounting policy l).

4 Explanation of transition to IFRSs

As stated in note 2, these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements (continued)

Balance sheet reconciliation - 2004

		1 January 2004			31 December 2004		
	Notes	Previous GAAP	Effect of Transition to IFRSs	IFRSs	Previous GAAP	Effect of Transition to IFRSs	IFRSs
		£000	£000	£000	£000	£000	£000
Assets							
Loans and advances to banks		168,292	-	168,292	168,725	-	168,725
Loans and advances to customers		2,446	-	2,446	2,234	-	2,234
Investments in subsidiary undertakings		5	-	5	5	-	5
Property, plant and equipment		2,129	-	2,129	992	-	992
Other assets	*a ,b*	4,630	6,830	11,460	9,928	6,870	16,798
Deferred income tax asset	*c*	-	91	91	-	105	105
Prepayments and accrued income	*b*	12,563	(6,870)	5,693	13,201	(6,150)	7,051
Total assets		190,065	51	190,116	195,085	825	195,910
Equity							
Share capital		15,000	-	15,000	15,000	-	15,000
Retained earnings	*b, c*	712	6,340	7,052	17,131	1,480	18,611
Other reserves		100	-	100	100	-	100
Total shareholders' equity		15,812	6,340	22,152	32,231	1,480	33,711
Liabilities							
Customer accounts		141,400	-	141,400	142,057	-	142,057
Other liabilities	*a*	24,636	(6,000)	18,636	8,446	-	8,446
Current income tax liabilities		2,811	-	2,811	5,859	-	5,859
Accruals and deferred income		3,115	-	3,115	3,302	-	3,302
Provision for liabilities and charges		2,002	-	2,002	2,535	-	2,535
Deferred income tax liabilities	*c*	289	(289)	-	655	(655)	-
Total liabilities		174,253	(6,289)	167,964	162,854	(655)	162,199
Total equity and liabilities		190,065	51	190,116	195,085	825	195,910

Notes to the balance sheet reconciliation

The changes to the 2004 balance sheet have arisen from the adoption of the following IFRS standards:

(a) In preparing its opening IFRS balance sheet the Company has applied IAS 10 and adjusted for dividends proposed but not declared in the previous accounting period. The effect is to decrease other liabilities by £6,000,000 (dividend payable to parent company), decrease other assets by £40,000 (dividend receivable from subsidiary) and increase retained earnings by £5,960,000.

Notes to the financial statements (continued)

(b) Consistent with the parent company's accounting policy and IAS 19 all pension prepayments recognised under previous GAAP are now recorded in the books of the parent. Any amortisation of prepayments during 2004 has been reversed. The effect of these adjustments is to decrease prepayments and accrued income by £6,150,000, increase other assets (amounts due from group undertakings) by £6,870,000, and increase retained earnings for 2004 by £720,000.

(c) The above changes decrease the deferred tax liability by £760,000, £380,000 of which relates to before 2004.

Reconciliation of profit for 2004

	Notes	**Previous GAAP £000**	**2004 Effect of Transition To IFRS £000**	**IFRSs £000**
Interest receivable				
Other interest receivable and similar income		8,071	-	8,071
Interest payable		(3,698)	-	(3,698)
Net interest income		4,373	-	4,373
Dividend income from shares in group undertakings	*a*	-	40	40
Fees and commissions receivable		108,674	-	108,674
Fees and commissions payable		(21,091)	-	(21,091)
Net income		91,956	40	91,996
Administrative expenses	*b*	(55,244)	720	(54,524)
Depreciation and amortisation		(610)	-	(610)
Provision for contingent liabilities and commitments		(2,630)	-	(2,630)
Operating profit		33,472	760	34,232
Profit before income taxes		33,472	760	34,232
Income taxes	*c*	(10,053)	380	(9,673)
Profit after income taxes		23,419	1,140	24,559
Dividends	*a*	(7,000)	(6,000)	(13,000)
Retained profit for the financial year		16,419	(4,860)	11,559

Explanation of Material Adjustments to the Cash Flow Statement for 2004

Under previous GAAP no cash flow statement was presented, as the parent company published such a statement in its own publicly available accounts.

Notes to the financial statements (continued)

5 Net interest income

	2005	2004
	£000	£000
Interest income		
Loans and advances	9,372	8,071
Other	15	-
	9,387	8,071
Interest expense		
Banks and customers	(4,124)	(3,698)
Net interest income	5,263	4,373

6 Administrative expenses

	2005	2004
	£000	£000
Includes the following items		
- auditors' remuneration for - audit services	44	36
- non-audit services	28	18
	72	54

7 Taxation

a *Analysis of charge in the year*

	2005	2004
	£000	£000
Current tax:		
UK corporation tax on profits for the year	16,116	9,686
Adjustments in respect of previous years	1	1
Total current tax	16,117	9,687
Deferred tax:		
Origination and reversal of timing differences	55	358
Adjustments to the estimated recoverable amount of deferred tax assets arising in previous years	(1)	(752)
Total deferred tax	54	(394)
Tax on profit on ordinary activities	16,171	9,293

Notes to the financial statements (continued)

b *Factors affecting tax charge for the period*

The tax assessed for the year is different to the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2005	2004
	£000	£000
Profit on ordinary activities before tax	**53,768**	34,232
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	**16,130**	10,270
Effects of:		
Expenses not deductible for tax purposes	**39**	7
Income not subject to tax		(16)
Depreciation for period in excess of capital allowances	**2**	8
Reversal of amortisation of pension repayment under IFRS (note 4)	**-**	(216)
Adjustments to tax charge in respect of previous periods under IFRS (note 4)	**-**	(760)
Current tax charge for the year	**16,171**	9,293

8 Discontinued activities

	2005	2004
	£000	£000
Fees and commissions receivable	**8,485**	25,287
Net income	**8,485**	25,287
Administrative expenses	**(1,187)**	(7,827)
Operating profit	**7,298**	17,460
Profit before income taxes	**7,298**	17,460
Income taxes	**(2,189)**	(5,238)
Profit for the year from discontinued activities	**5,109**	12,222

Cash flow impact of discontinued activities

	2005	2004
	£000	£000
Profit before income taxes	**7,298**	17,460
Adjustment for change in debtors	**1,381**	(1,149)
Cash generated from discontinued activities	**8,679**	16,311
Tax paid	**(1,975)**	(3,386)
Net cash inflows from discontinued activities	**6,704**	12,925

Discontinued activities relate to the sale of investment, protection and pensions products made by the independent salesforce and sourced from third party providers. This activity was migrated to the HSBC Bank plc salesforce on 28 February 2005 as part of the Group's strategic response to the depolarisation of the financial services regime. There was no gain or loss on the discontinuance of activities.

Notes to the financial statements (continued)

9 Dividends

	2005	2004
	£000	£000
Second interim 2003 paid of 200p per share	-	6,000
First interim paid of 567p per share (2004: 233p)	17,000	7,000
Second interim payable of 667p per share (2004: nil pence)	20,000	-
	37,000	13,000

10 Loans and advances to banks

	2005	2004
	£000	£000
Repayable by group undertakings		
- within one month	174,159	138,225
- between one and three months	58,500	30,500
	232,659	168,725

11 Loans and advances to customers

	2005	2004
	£000	£000
Loans to individuals		
- repayable on demand	1,601	2,234

12 Investments in subsidiary undertakings

	2005	2004
	£000	£000
Investments in subsidiary undertakings	5	5

The subsidiary undertakings of the Company at 31 December 2005 were:

Company	Country of Registration	Class of share	Interest of HSBC Trust Company (UK) Limited	Principal activity
HSBC Executorship & Trustee Company (UK) Limited	England	Ordinary	100%	Trust administration
Midland Nominees Limited	England	Ordinary	100%	Nominee company
Turnsonic (Nominees) Limited	England	Ordinary	100%	Nominee company
St. Cross Trustees Limited	England	Ordinary	100%	Nominee company

The investments in Midland Nominees Limited, Turnsonic (Nominees) Limited and St Cross Trustee Limited are held at cost, totaling £5,102. The investment in HSBC Executorship & Trustee Company (UK) Limited was written down to nil value in a previous period.

Notes to the financial statements (continued)

13 Property, plant and equipment

	Motor Vehicles	Premises Improvements	Fixture and Fittings	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2005	2,137	353	2,040	4,530
Additions	-	-	1	1
Transfers to group undertakings	(1,806)	(353)	(233)	(2,392)
Disposals	(271)	-	-	(271)
At 31 December 2005	60	-	1,808	1,868
Depreciation				
At 1 January 2005	1,294	238	2,006	3,538
Charge for year	98	6	17	121
Transfers to group undertakings	(1,175)	(244)	(216)	(1,635)
Disposals	(175)	-	-	(175)
At 31 December 2005	42	-	1,807	1,849
Net Book Value				
At 31 December 2005	**18**	**-**	**1**	**19**
At 31 December 2004	843	115	34	992

14 Other assets

	2005	2004
	£000	£000
Pension relief at source	**21**	25
Commission receivable	**-**	1,179
Due from group undertakings	**3,033**	11,305
Other debtors	**3,941**	4,289
	6,995	16,798

Notes to the financial statements (continued)

15 Deferred income taxes

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**(25)**	(81)	**-**	-	**(25)**	(81)
Provisions for contingent liabilities	**(27)**	(24)	**-**	-	**(27)**	(24)
	(52)	(105)	**-**	-	**(52)**	(105)

Movement in temporary differences during the year

	2005	2004
	£000	£000
Balance at 1 January	**(105)**	289
Recognised in income	**53**	366
Adoption of IFRS	**-**	(760)
At 31 December	**(52)**	(105)

16 Customer accounts

	2005	2004
	£000	£000
Repayable on demand	**184,256**	142,057

17 Other liabilities

	2005	2004
	£000	£000
Due to group undertakings	**12,330**	1,730
Other liabilities	**7,269**	6,716
	19,599	8,446

Notes to the financial statements (continued)

18 Provisions for liabilities and charges

	Administrative Losses	Income Bonds	Indemnity Commission	Total
	£000	£000	£000	£000
At 1 January 2005	1,386	828	321	2,535
Charged to Profit & Loss	449	-	-	449
Amount Utilised	(763)	(654)	-	(1,417)
Provision Released	(337)	(174)	(167)	(678)
At 31 December 2005	**735**	**-**	**154**	**889**

Administrative Losses

The provision relates to losses arising from administrative errors made by the Company in the course of its normal business activities. The closing provision comprises losses arising from portfolio management, trust and probate cases, most of which are expected to be settled during 2006. There is one case which involves property leases which could extend to 2010, although earlier resolution is being pursued. The main uncertainties arise from the difficulties in assessing the financial impact of historical errors.

Income Bonds

The provision relates to losses arising from administrative errors in the provision of investment products. The Company has undertaken a review of all sales of products impacted and has offered compensation payments where appropriate. All payments have now been made.

Indemnity commission

The Company received commission on an indemnity basis in respect of sales of broked investment and protection products. The provision is in respect of amounts of commission which will be repayable in the event that the customer cancels the policy. The period during which commission may be repayable is typically three years. The main uncertainty affecting the amount that will be repayable is the level of policy redemptions or cancellations.

19 Share capital

	2005	2004
	£000	£000
Authorised: 10,000,000 ordinary shares of £5 each	**50,000**	50,000
Allotted, called up and fully paid: 3,000,000 ordinary shares of £5 each	**15,000**	15,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

Notes to the financial statements (continued)

20 Reserves

	2005	2004
	£000	£000
Share premium account	**100**	100
Retained earnings	**19,208**	18,611
	19,308	18,711

The share premium account represents the premium arising on issue of Company shares at greater than nominal value.

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company.

21 Client segregated money

The Company holds funds in respect of client investments in ISAs, structured products and managed portfolios in segregated trust accounts with HSBC Bank plc. As at 31 December 2005 these funds amounted to £303,127,088 (2004: £101,300,000). The funds are not shown as the Company's assets or liabilities respectively as they are held on behalf of clients.

22 Cash and cash equivalents

	2005	2004
	£000	£000
Cash and cash equivalents in the statement of cash flows	**232,659**	168,725

23 Directors' remuneration

The Company does not have any direct employees. The directors and staff are all employees of other Group undertakings.

The Chairman and three (2004: two) other directors who served during the year were remunerated by other Group undertakings which made no specific charge to this Company for their services. The emoluments of the other directors are included within wider departmental recharges. Their costs, allocated on an activities basis, are shown below;

	2005	2004
	£000	£000
Emoluments	**179**	396
Pension scheme contributions	**6**	2
	185	398
Highest paid director:		
Emoluments	**49**	80
Pension scheme contributions	**-**	-
	49	80

Notes to the financial statements (continued)

Details of directors who exercised share options during the year are given in the directors' report on page 3. The highest paid director did not exercise any share options in the period.

Retirement benefits are accruing to the directors under schemes operated by Group companies. Retirement benefits are accruing to six directors under defined benefit schemes and to two directors under money purchase schemes at 31 December 2005 (2004: six and three, respectively). The directors are members of retirement benefit schemes operated by HSBC Bank plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff. It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

24 Management of financial risk

Financial risk

The financial instruments of the Company (excluding short-term debtors and creditors) comprise loans and deposits. These instruments arise mainly from the acceptance of deposits from customers as part of the Company's core business activities of providing investment management, trust and executorship services.

Exposure to credit, interest rate and liquidity risk arises in the normal course of the Company's business. The directors review and agree policies for managing each of these risks and they are summarised below. Minor alterations to these policies were approved by the Board during the year ended 31 December 2005.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. The Company's only significant credit exposure is to its parent, HSBC Bank plc. The Company's principal financial assets are bank balances that are held with its parent. The credit exposure to HSBC Bank plc is monitored on a daily basis, and operates within a limit agreed with the FSA.

Interest rate risk

Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC Bank plc. The Company places all funds with its parent, HSBC Bank plc. The Company manages its interest rate risk by placing deposits with its parent only at call or for fixed periods of up to 3 months.

Liquidity risk

The Company's policy throughout the year has been to maintain sufficient liquidity by ensuring that its ratio of liquid assets (principally loans to banks with under 30 days residual maturity) exceeds 12.5% of total customer and credit liabilities. The ratio at 31 December 2005 was 82% (2004: 88%).

Financial assets

The Company held the following financial assets as at 31 December :

	2005	2004
	£000	£000
Loans and advances to banks	**232,659**	168,725
Loans and advances to customers	**1,601**	2,234
	234,260	170,959

The loans and advances to banks comprise deposits placed with the Company's parent, HSBC Bank plc, at call or for fixed terms of up to 3 months. Loans and advances to customers comprise overdrafts to customers, repayable on demand.

Notes to the financial statements (continued)

Financial liabilities

The interest rate profile of the financial liabilities of the Company as at 31 December was:

	2005	2004
	£000	£000
Customer accounts	184,256	142,057

All floating rate financial liabilities are customer accounts bearing interest at variable rates, generally linked to customer rates offered by HSBC Bank plc.

Interest rate range analysis

The range of interest rates arising in the year on cash deposits and loans and advances to banks and customers was 2% - 4.93%.

The range of interest rates payable on amounts due to customers in the year was 2.06%-2.96% (net).

Interest rate sensitivity gap analysis

The table below summarises the repricing of assets and liabilities as at 31 December 2005.

	Fixed rate	**Variable rate**	**Non-interest bearing**	**Total**
	£000	**£000**	**£000**	**£000**
Assets				
Loans and advances to banks	82,500	150,159	-	232,659
Loans and advances to customers	-	1,601	-	1,601
Investments in subsidiary undertakings	-	-	5	5
Property, plant and equipment	-	-	19	19
Other assets	-	-	7,047	7,047
Prepayments and accrued income	-	-	8,318	8,318
Total assets	**82,500**	**151,760**	**15,389**	**249,649**
Liabilities				
Customer accounts	-	184,256	-	184,256
Other liabilities	-	-	27,027	27,027
Accruals and deferred income	-	-	3,169	3,169
Provisions for liabilities and charges	-	-	889	889
Shareholders' funds	-	-	34,308	34,308
Total liabilities	**0**	**184,256**	**65,393**	**249,649**
Interest rate sensitivity gap	82,500	(32,496)	(50,004)	
Cumulative gap		50,004		

Notes to the financial statements (continued)

The table below summarises the repricing of assets and liabilities as at 31 December 2004

	Fixed rate £000	Variable rate £000	Non-interest bearing £000	Total £000
Assets				
Loans and advances to banks	59,500	109,225	-	168,725
Loans and advances to customers	-	2,234	-	2,234
Investments in subsidiary undertakings	-	-	5	5
Tangible fixed assets	-	-	992	992
Other assets	-	-	16,903	16,903
Prepayments and accrued income	-	-	7,051	7,051
Total assets	**59,500**	**111,459**	**24,951**	**195,910**
Liabilities				
Customer accounts	-	142,057	-	142,057
Other liabilities	-	-	14,305	14,305
Accruals and deferred income	-	-	3,302	3,302
Provisions for liabilities and charges	-	-	2,535	2,535
Shareholders' funds	-	-	33,711	33,711
Total liabilities	**0**	**142,057**	**53,853**	**195,910**
Interest rate sensitivity gap	59,500	(30,598)	(28,902)	
Cumulative gap		28,902		

25 Related-party transactions

Transactions with related parties are summarised as follows:

a) Net Income

	2005 £000	2004 £000
Interest receivable:		
-Parent	**9,311**	8,016
Dividend income:		
-Subsidiary	**-**	40
Fees and commissions receivable		
-Parent	**526**	834
-Group companies	**25,761**	10,661
Fees and commission payable		
-Parent	**27,690**	7,158
-Group companies	**8,825**	9,567

Notes to the financial statements (continued)

Net income from related party transactions arises from:

- interest receivable on cash balances deposited with the Company's parent
- dividend income from investments in subsidiary undertakings
- annual management charges rebated to the Company in respect of its holdings in collective investment schemes managed by the Group companies.
- commission receivable for the referral of business to Group companies.
- commission payable to the Company's parent and an associate in relation to sales and servicing of the Company's products. The Company's products are marketed and sold primarily by HSBC Bank plc through its sales channels. The commission rates are set at either a percentage of fund sales or a percentage of the initial charge.

b) Expenditure

	2005	2004
	£000	£000
Administrative expenses:		
-Parent	**24,545**	47,748
-Subsidiary	**(26)**	(25)
-Group companies	**144**	468

Expenditure from related party transactions arises from:

- costs charged to the Company for the provision of management services. These include product management, customer services, compliance, finance, human resources, property services and IT. The Company is recharged for the actual costs incurred in undertaking these activities.
- costs recoverable from subsidiary undertakings in respect of management services.
- costs charged to the Company for the provision of investment recommendations and related trading support.

c) Year-end balances with related parties

	2005	2004
	£000	£000
Assets		
Loans and advances to banks		
-Parent	**232,659**	168,725
Other assets		
-Parent	**-**	7,115
-Group companies	**3,033**	4,190
Liabilities		
Other payables:		
-Parent	**11,526**	-
-Subsidiary	**9**	15
-Group companies	**795**	1,715

The Company is controlled by HSBC Bank plc (incorporated in England and Wales) which owns 100% of the Company's shares. The ultimate parent company is HSBC Holdings plc (incorporated in England and Wales). The consolidated accounts of these groups are available to the public and may be obtained from the registered office at 8 Canada Square London E14 5HQ.