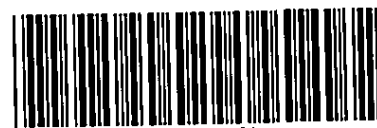


HSBC RAIL (UK) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2006

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HSBC RAIL (UK) LIMITED

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HSBC RAIL (UK) LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2006

The Directors present their Directors' Report and Financial Statements for the year ended 31 December 2006

Principal activities

The main objective of the Company is the provision of passenger and freight rolling stock to train operators under operating leases.

Business Review

The principal activities of the Company are set out above. During the year the Company continued its normal trading activities. As well as re-leasing existing passenger rolling stock to train operating companies that have recently acquired or extended franchises, the Company also leased a number of new trains for the first time. Despite a reduction in the number of available new passenger rolling stock opportunities in the market generally, the Company also continued to fund new freight locomotives and wagons.

A major potential impact on the business may result from the decision of the Office of the Rail Regulator to refer the rolling stock leasing companies to the Competition Commission. The Company considers its prices to be fair and reasonable and looks forward to working with the Competition Commission in reaching a satisfactory conclusion.

The business is funded by parent undertakings through equity investment and borrowings.

The Company has no employees. Services required are provided by fellow HSBC Group companies.

Risk Management

Credit risk

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. Local management is responsible for the quality of the credit portfolios and follow a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products.

Liquidity risk

Other than obligations under finance leases, the company's assets are funded by borrowing from a parent undertaking, which acts as a treasury function. This funding has no fixed date for repayment and is therefore technically repayable on demand, although the treasury function provides funds as required.

HSBC RAIL (UK) LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2006 (CONTINUED)

Risk Management (continued)

Residual Value Risk

A significant part of a lessor's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the "residual values") differ from those projected at the inception of the leases. The business regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails the potential of re-letting of operating lease assets at the end of their lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

Interest Rate Risk

The Company takes interest rate risk on its inter-company current account borrowings on which it is charged interest at HSBC Bank plc base rate. There is a corresponding risk in the lending company (a fellow subsidiary undertaking), and hence from a HSBC Bank Group perspective the interest rate risk is eliminated on such borrowings.

Performance

No change in the Company's activities is anticipated.

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

The key performance indicators used by management in assessing the performance of the Company are review of cumulative profits against plan, and monitoring of capital required to support the business. The amount of capital required is set by HSBC Bank plc. For this purpose, monthly management accounts are prepared and reviewed by the directors of the Company.

Future Developments

In August 2007, in connection with an internal restructuring of the Group's Rail interests, the company has entered into transactions with a fellow subsidiary in respect of property, plant and equipment - see note 20 to the Accounts.

New business prospects will reflect any changes in the regulatory regime. In particular, the taxation of leasing transactions has been recently revised by HM Revenue & Customs to the extent that amongst other things, lessees rather than lessors would be able to obtain tax allowances in respect of certain leased assets. It is too soon to assess the impact upon third parties' appetite for leasing transactions.

Dividends

Interim dividends of £29,500,000 were paid during the year ended 31 December 2006 (2005 £48,500,000).

HSBC RAIL (UK) LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2006 (CONTINUED)

Directors

The Directors who served during the year were as follows

Name	Appointed
P C Aldridge	
D H Mead	
P M Nolan	
K J Godfrey	21 February 2006

On 29 June 2007 D H Mead resigned as a Director, and M B Kenny was appointed a Director of the Company. N D Barker was appointed a Director of the Company on 12 July 2007. In addition, M P J Molloy was appointed an Alternate Director to K J Godfrey on 27 July 2007, and resigned from the position on 5 October 2007.

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.

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 is available from The Department of Trade and Industry, No 1 Victoria Street, London SW1H 0ET.

The amount due to the Company's trade creditors at 31 December 2006 represented 25 days' average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

HSBC RAIL (UK) LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31 DECEMBER 2006 (CONTINUED)

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities, is made with a view to distinguishing for the shareholder the respective responsibilities of the directors and of the auditors in relation to the 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the company. 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.

Statement of directors' responsibilities in relation to financial statements (continued)

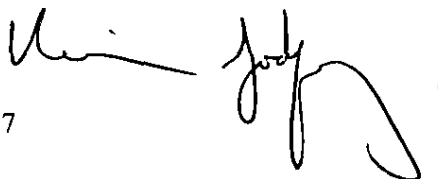
In preparing these financial statements, the directors are required to

- 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 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 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.

By order of the Board

Director



Date 23 October 2007

Registered Office
8 Canada Square
London
E14 5HQ

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HSBC RAIL (UK) LIMITED

We have audited the financial statements of HSBC Rail (UK) Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Report of the Directors 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HSBC RAIL (UK) LIMITED (CONTINUED)

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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

24/10/07

2 Cornwall Street
Birmingham B3 2DL

HSBC RAIL (UK) LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER
2006

	Note	<u>2006</u> £m	<u>2005</u> £m
Revenue			
Finance lease income		1 2	1 5
Operating lease income		286 8	287.8
Cost of sales		(142 2)	(147 8)
Finance Costs: Interest payable	2	<u>(93.7)</u>	<u>(86 1)</u>
		52 1	55 4
Administrative expenses	3	(11 6)	(12 6)
Other Income		1 3	3 3
Gain on disposal of property, plant and equipment		<u>0 7</u>	<u>0 4</u>
Profit before tax		42 5	46 5
Tax expense	4	<u>(12 8)</u>	<u>(14 0)</u>
<u>Profit for the year</u>		<u>29 7</u>	<u>32 5</u>

There were no acquisitions, discontinued or discontinuing operations during the year

STATEMENT OF RECOGNISED INCOME AND EXPENSE

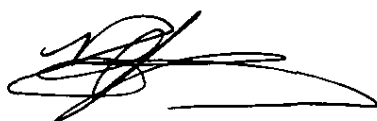
There has been no recognised income or expense other than the profit for the year as shown above

HSBC RAIL (UK) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 £m	2005 £m
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,873.6	1,800.1
Current assets			
Inventories	7	3.7	4.0
Finance lease receivables	8	19.3	22.1
Trade and other receivables	9	69.4	73.8
Cash & cash equivalents held with parent undertaking		1.4	0.7
		93.8	100.6
Total assets		1,967.4	1,900.7
LIABILITIES AND EQUITY			
Current liabilities			
Amounts owed to parent undertakings	10	1,371.8	1,352.5
Trade and other payables		21.1	15.5
Provisions	13	2.9	2.0
Deferred income	14	14.4	19.6
		1,410.2	1,389.6
Non-current liabilities			
Amounts owed to parent undertakings	10	69.6	68.7
Obligations under finance leases	11	86.3	84.7
Deferred tax	12	346.9	309.5
Provisions	13	4.9	4.8
Deferred income	14	47.4	41.5
Total liabilities		1,965.3	1,898.8
Equity			
Called up share capital	16	-	-
Retained earnings	16	2.1	1.9
Total equity		2.1	1.9
Total liabilities and equity		1,967.4	1,900.7

These financial statements were approved by the Board of Directors on 23 October 2007 and were signed on its behalf by

Director



HSBC RAIL (UK) LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31
DECEMBER 2006

	<u>2006</u>	<u>2005</u>
	£m	£m
Cash flows from operating activities		
Profit before tax	42.5	46.5
Adjustments for:		
Depreciation	73.8	67.4
Provisions raised	1.0	(7.9)
Profit on disposal of financial assets	(0.7)	(0.4)
Income taxes (paid)/received	29.5	29.5
Change in inventories	0.3	0.1
Change in trade and other receivables	7.9	(13.2)
Change in trade payables	7.2	86.5
Change in other payables	-	13.3
	-----	-----
Net cash from operating activities	161.5	221.8
	-----	-----
Cash flows from investing activities		
Purchase of property, plant and equipment	(141.9)	(237.9)
Proceeds from sale of equipment	0.7	0.4
	-----	-----
Net cash used in investing activities	(141.2)	(237.5)
	-----	-----
Cash flows from financing activities:		
Paid/(Received) from parent undertaking	9.9	64.6
Dividends paid	(29.5)	(48.5)
	-----	-----
Net cash used in financing activities	(19.6)	16.1
	-----	-----
Net increase in cash and cash equivalents	0.7	0.4
Cash and cash equivalents brought forward	0.7	0.3
	-----	-----
Cash and cash equivalents carried forward	1.4	0.7
	-----	-----

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are presented in Sterling and have been prepared on the historical cost basis

The company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows

The specialised nature of the company's assets means that estimation of estimated lives and residual values involves significant judgement. The deferral of maintenance income to cover future maintenance expenditure over an extended period involves judgement regarding incidence and future costs of such maintenance

b) Revenue

Revenue comprises

- i) Operating lease rentals receivable, (including any maintenance income recognised on the basis set out in note 1(d)), net of rebates and value added tax, which are recognised on a straight-line basis over the term of the lease
- ii) Income from finance leases, recognised in accounting periods at a rate calculated to give a constant rate of return on the net investment in the lease

The business is operated principally within the United Kingdom

c) Finance lease receivables

Leasing balances are stated in the balance sheet after the deduction of unearned charges, provision for reduced future rentals and grant equalisation

d) Maintenance income and costs

The non-capital element of rentals ('maintenance income') is deferred to the extent that it relates to future maintenance costs

Maintenance costs are written off when incurred except to the extent that they will be recovered by maintenance income which will be received in future periods

e) Grants

Grants received in relation to rolling stock are recognised in the income statement so as to match them with the depreciation of the assets towards which they are intended to contribute. Any grants received but not yet recognised in the income statement, are deferred and included under the heading of "Deferred income" in the balance sheet

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (continued)

f) Property, plant and equipment

Rolling stock and other railway assets

Rolling stock and other railway assets are capitalised at cost (or deemed cost) and are depreciated on a straight-line basis over their useful economic lives to the estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 35 years. Lives and residual values are reviewed annually and if there is an indication of impairment a loss will be recognised to reduce the carrying value of the asset to its recoverable amount.

In relation to the construction of rolling stock and other railway assets:

- i) Progress payments paid to third parties are capitalised
- ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the period of construction
- iii) Assets in the course of construction are not depreciated until these are available for use

g) Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax.

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

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and a legal right to set off exists in the entity.

h) Lease liabilities

Assets acquired under finance leases are subleased under operating leases and the relevant balances are included within rolling stock assets in the balance sheet.

Finance charges in respect of assets acquired under finance leases are charged to the income statement over the period of the lease so as to give a constant periodic rate of finance cost. The capital element of the obligation to make future payments is included in liabilities.

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (continued)

i) Inventories

Inventories are stated at the lower of cost and net realisable value.

j) Provision for engineering costs

Provision is made to the extent that the company has a present legal or constructive obligation to repair or modify rolling stock

k) Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired, or where the company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership, or where control is not retained. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

l) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

m) Cash and cash equivalents

For the purpose of the cash flow statement, 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. Inter company transactions are accounted for as financing activities.

n) Related parties

A parent undertaking provides banking facilities and acts as a treasury function, providing funding for the company through an inter-company current account. This is reflected in the balance sheet, as amounts owed to parent undertakings. Interest on this balance is charged at a commercial rate. Other transactions are disclosed in the relevant notes.

HSBC RAIL (UK) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

2 INTEREST PAYABLE

	<u>2006</u>	<u>2005</u>
	£m	£m
Interest payable to parent undertakings	81.8	74.1
Other interest payable	0.7	0.4
Finance lease charge on finance leases payable to parent undertakings	5.0	5.2
Finance lease charge on finance leases payable to third parties	6.2	6.4
	<u>93.7</u>	<u>86.1</u>

3 ADMINISTRATIVE EXPENSES

Administrative expenses include £11.6m (2005 £11.9m) in respect of group management charges payable to a parent undertaking

The directors made no charge for their services in either the current or previous year
Audit fees are borne by another Group undertaking. The company has no employees and hence no staff costs

4 TAX EXPENSE

The tax expense comprises	<u>2006</u>	<u>2005</u>
	£m	£m
Group relief receivable		
- current tax on income for the year	<u>(24.6)</u>	<u>(31.5)</u>
Total current tax credit	<u>(24.6)</u>	<u>(31.5)</u>
Deferred taxation		
- origination/reversal of temporary differences	<u>37.4</u>	<u>45.5</u>
Total deferred tax (Note 12)	<u>37.4</u>	<u>45.5</u>
Total tax expense	<u>12.8</u>	<u>14.0</u>

The tax expense for the year is different from the standard rate of corporation tax in the UK 30% (2005 30%). The differences are explained below

HSBC RAIL (UK) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

4 **TAX EXPENSE**

	<u>2006</u>	<u>2005</u>
	£m	£m
Analysis of overall tax expense		
Profit before tax	42.5	46.5
	<hr/>	<hr/>
Taxation at 30% (2005: 30%)	12.8	14.0
	<hr/>	<hr/>
Overall tax expense (see above)	12.8	14.0
	<hr/>	<hr/>

5 **DIVIDENDS PAID**

	<u>2006</u>	<u>2005</u>
	£m	£m
First Interim	14.7	11.1
Second Interim	14.8	37.4
	<hr/>	<hr/>
	29.5	48.5
	<hr/>	<hr/>

HSBC RAIL (UK) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

6 PROPERTY, PLANT AND EQUIPMENT

	Assets in the course of <u>construction</u> £m	Rolling stock and other <u>railway assets</u> £m	<u>Total</u> £m
<u>Cost</u>			
At 1 January 2005	176 5	1,992 6	2,169 1
Additions	218.7	29 0	247 7
Transfers	(210 8)	210 8	-
Disposals	-	(15 0)	(15 0)
At 31 December 2005	184 4	2,217 4	2,401 8
At 1 January 2006	184 4	2,217 4	2,401 8
Additions	122 0	25 3	147 3
Transfers	(221 8)	221 8	-
Disposals	-	(4 0)	(4 0)
At 31 December 2006	84 6	2,460 5	2,545 1
<u>Depreciation</u>			
At 1 January 2005	-	549 3	549 3
Charge for the year	-	67 4	67 4
Disposals	-	(15 0)	(15 0)
At 31 December 2005	-	601 7	601 7
At 1 January 2006	-	601 7	601 7
Charge for the year	-	73 8	73 8
Disposals	-	(4 0)	(4 0)
At 31 December 2006	-	671 5	671 5
<u>Net book value</u>			
At 1 January 2005	176 5	1,443 3	1,619 8
At 31 December 2005 and 1 January 2006	184 4	1,615 7	1,800 1
At 31 December 2006	84 6	1,789 0	1,873 6
Assets acquired under finance leases included in the above			
At 1 January 2005			113 3
At 31 December 2005 and 1 January 2006			111 9
At 31 December 2006			110 5

Within assets in the course of construction additions is capitalised interest of £5 0m (2005 £9 9m) The cost of tangible fixed assets at 31 December 2006 includes capitalised interest of £51 7m (2005 £46 3m) The capitalisation rate used is the rate of interest attaching to the company's borrowings attributable to the construction of rolling stock and other railway assets

HSBC RAIL (UK) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Rolling stock and other railway assets are leased to customers under operating leases

Included in the above is £10.6m (2005: £11.4m) in respect of sublease rental receivable

Future minimum lease payments under non-cancellable operating leases:

	<u>2006</u>	<u>2005</u>
	£m	£m
No later than one year	220.4	196.9
Later than one year and later than five years	731.1	579.2
Later than five years	291.1	235.9
	<u>1,242.6</u>	<u>1,012.0</u>

7 INVENTORIES

	<u>2006</u>	<u>2005</u>
	£m	£m
Rolling stock spares	<u>3.7</u>	<u>4.0</u>

8 FINANCE LEASE RECEIVABLES

The company undertakes leasing services for commercial and industrial customers

	<u>2006</u>	<u>2005</u>
	£m	£m
Amounts falling due:		
No later than one year	6.1	2.3
Later than one year and not later than five years	6.0	6.2
Later than five years	<u>15.9</u>	<u>17.3</u>
Gross investment in finance leases	28.0	25.8
Unearned finance income	<u>(8.7)</u>	<u>(3.7)</u>
Net investment in finance leases	<u>19.3</u>	<u>22.1</u>
Amortisation of finance lease receivables		
No later than one year	5.1	4.3
Later than one year and not later than five years	2.8	5.8
Later than five years	<u>11.4</u>	<u>12.0</u>
Present value of minimum lease receivables:	<u>19.3</u>	<u>22.1</u>
 Aggregate finance lease rentals receivable in the year	 <u>2.2</u>	 <u>2.5</u>

The fair value of minimum lease receivables is not significantly different from the carrying value

HSBC RAIL (UK) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

9 TRADE AND OTHER RECEIVABLES

	<u>2006</u>	<u>2005</u>
	£m	£m
Trade receivables	5.0	6.1
Other receivables	2.2	2.2
Maintenance prepayment	62.2	65.5
	<u>69.4</u>	<u>73.8</u>

Included within trade and other receivables are the following amounts recoverable after more than one year

Other receivables	2.2	2.2
Maintenance prepayment	54.9	53.3
	<u>57.1</u>	<u>55.5</u>

10 AMOUNTS OWED TO PARENT UNDERTAKINGS

	<u>2006</u>	<u>2005</u>
	£m	£m
Obligations under finance leases:		
Total future minimum lease payments		
No later than one year	6.3	6.2
Later than one year and no later than five years	27.4	26.6
Later than five years	74.9	82.0
	<u>108.6</u>	<u>114.8</u>
Unearned finance lease income	(39.0)	(46.1)
	<u>69.6</u>	<u>68.7</u>
Present value of minimum lease payments		
No later than one year	-	-
Later than one year and no later than five years	-	-
Later than five years	69.6	68.7
	<u>69.6</u>	<u>68.7</u>

Amounts owed to parent undertakings within current liabilities represent inter-company current account borrowings repayable on demand. Interest is payable on these borrowings at HSBC Bank base rate. Fair value of all inter-company accounts, including obligations under finance leases, is not significantly different from the carrying value.

Contingent rents (receivable) in respect of interest variation are £15.1m (2005 £14.1m)

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11 OBLIGATIONS UNDER FINANCE LEASES

	<u>2006</u>	<u>2005</u>
	£m	£m
Total future minimum lease payments		
No later than one year	7 4	7 0
Later than one year and no later than five years	33 3	31 8
Later than five years	103 6	112 6
	-----	-----
	144 3	151 4
Unearned finance income	(58 0)	(66 7)
	-----	-----
	86 3	84 7
	-----	-----
Present value of minimum lease payments		
No later than one year	-	-
Later than one year and no later than five years	-	-
Later than five years	86 3	84 7
	-----	-----
	86.3	84 7
	-----	-----

Fair value is not significantly different Under the terms of the lease agreements, no contingent rents are payable

Contingent rents (receivable) in respect of interest variation are £21 2m (2005 £19 6m)

12 DEFERRED TAX

		£m
As at 1 January 2006		309 5
Transfer from income statement	(Note 4)	37 4

As at 31 December 2006		346 9

Deferred tax arises on		
	£m	£m
Leasing transactions	349 2	311 5
Engineering provisions	(2 3)	(2 0)
	-----	-----
	346 9	309 5
	-----	-----

Leasing transactions temporary differences relate principally to accelerated capital allowances

Deferred tax has been calculated at 30% (2005 30%) being the rate in force at 31 December 2006 Subsequent to the year end the Government has announced a reduction in the UK corporation tax rate to 28% with effect from 1 April 2008 Subject to this being enacted the Company's deferred tax provision will be reduced by some £23m

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

13 PROVISIONS

Engineering costs

	<u>Total</u>
	£m
At 1 January 2006	6.8
Charge for the year	2.7
Utilised	(1.7)

At 31 December 2006	7.8

	<u>2006</u>	<u>2005</u>
	£m	£m
Included within engineering costs are the following amounts payable within one year	2.9	2.0
	-----	-----

Provision for engineering costs has been made for the cost of mandatory modifications and design or endemic faults to rolling stock

14 DEFERRED INCOME

Deferred income includes £4.4m (2005 £5.1m) relating to grants. During the year, £0.7m (2005 £0.2m) was released to the profit and loss account. Included within deferred income is £14.4m (2005 £19.6m) payable within one year.

15 RISK MANAGEMENT

Credit risk

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. Local management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products.

Liquidity risk

Other than obligations under finance leases (note 11), the company's assets are funded by borrowing from a parent undertaking, which acts as a treasury function. This funding has no fixed date for repayment and is therefore technically repayable on demand, although the treasury function provides funds as required.

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

15 RISK MANAGEMENT (continued)

Residual Value Risk

A significant part of a lessor's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the "residual values") differ from those projected at the inception of the leases. The business regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails the potential of re-letting of operating lease assets at the end of their lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

Interest Rate Risk

The Company takes interest rate risk on its inter-company current account borrowings on which it is charged interest at HSBC Bank plc base rate. There is a corresponding risk in the lending company (a fellow subsidiary undertaking), and hence from a HSBC Bank Group perspective the interest rate risk is eliminated on such borrowings.

16 STATEMENT OF CHANGES TO EQUITY

	<u>2006</u> £m	<u>2005</u> £m
Called up share capital		
Balance brought forward and carried forward	-	-
	-----	-----
Retained earnings		
Balance brought forward	1.9	17.9
Profit for the year	29.7	32.5
Dividends paid during the year	(29.5)	(48.5)
	-----	-----
Balance carried forward	2.1	1.9
	-----	-----
Total shareholders' equity		
Balance brought forward	1.9	17.9
Profit for the year less dividends paid	0.2	(16.0)
	-----	-----
Balance carried forward	2.1	1.9
	-----	-----

Shareholders' equity is wholly attributable to equity shareholders.

HSBC RAIL (UK) LIMITED

NOTES ON THE FINANCIAL STATEMENTS

17 SHARE CAPITAL

	<u>2006</u>	<u>2005</u>
	£m	£m
Authorised		
100,000,000 Ordinary shares of £1 each	100 0	100 0
	-----	-----
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	-	-
	-----	-----

18 COMMITMENTS

	<u>2006</u>	<u>2005</u>
	£m	£m
In respect of capital expenditure		
Authorised and contracted	215 4	313 1
	-----	-----

19 PARENT UNDERTAKINGS

The ultimate parent undertaking (which is the ultimate controlling party) and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is HSBC Holdings plc, and the parent undertaking of the smallest such group is HSBC Bank plc. The immediate holding company is Forward Trust Rail Services Limited. The result of the company is included in the group financial statements of HSBC Bank plc and HSBC Holdings plc.

20 EVENTS AFTER THE BALANCE SHEET DATE

In August 2007, in connection with an internal restructuring of the Group's Rail interests, the company has entered into transactions with a fellow subsidiary resulting in the derecognition of approximately £1.6bn of property, plant and equipment, and the receipt of cash and lease receivables of approximately £1.9bn. The resulting gain is approximately £0.3bn before tax. It is estimated that these transactions will result in the release of deferred tax of approximately £0.1bn.

Copies of the group financial statements may be obtained from the following addresses:

HSBC Bank plc
8 Canada Square
London
E14 5HQ

HSBC Holdings plc
8 Canada Square
London
E14 5HQ