

**HSBC PROPERTY FUNDS (HOLDING) LIMITED**

**Registered Number 3335872**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**



# **HSBC PROPERTY FUNDS (HOLDING) LIMITED**

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## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005**

### **Principal activities**

The Company acts as a holding company for companies established primarily to acquire and actively manage properties. No change in the Company's activities is anticipated.

### **Results and dividends**

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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2005 (2004: £24,750).

### **Directors**

The Directors who served during the year were as follows:

#### **Name**

S P de Albuquerque

E D Glover

W M F von Guionneau

C J Huxtable (Alternate to W M F von Guionneau)

T G Thorp

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.

### **Directors' interests**

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).

None of the directors at 31 December 2005 had any other interests in the shares of the Company or in the securities of any other company in the group of which it is a member, required to be disclosed under the Companies Act 1985.

### **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.

During the year, the Company only received goods and services from group undertakings. Part V1 of Schedule 7 of the Companies Act 1985, setting out reporting requirements in relation to the policy and practice on payment of creditors is, therefore, not applicable.

## REPORT OF THE DIRECTORS (continued)

### Financial Instruments

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in Note 11 of the Notes on the Accounts.

### 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 IFRSs as adopted by the EU.

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.

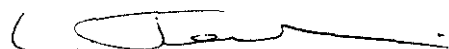
In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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.

The directors have taken reasonable steps to ensure that they are aware of any relevant audit information and to ensure that the company's auditors are aware of this information. So far as the directors are aware, there is no relevant audit information which has not been disclosed to the company's auditors.

By order of the Board



L. J. Jenkinson  
Secretary

8 March 2006

Registered Office:  
8 Canada Square  
London  
E14 5HQ

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HSBC PROPERTY FUNDS (HOLDING) LIMITED

We have audited the financial statements of HSBC Property Funds (Holding) Limited for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in 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 set out on page 2 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. 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 judgments 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.

  
KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

  
8 March 2006  
8 Salisbury Square  
London  
EC4Y 8BB

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

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## INCOME STATEMENT for the year ended 31 December 2005

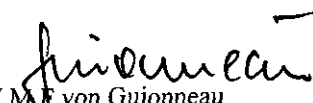
	Notes	2005 £	2004 £
Administrative expenses		(25)	(2)
<b>Operating loss</b>		<b>(25)</b>	<b>(2)</b>
Financial income		210	154
<b>Profit before taxation</b>		<b>185</b>	<b>152</b>
Income tax expense	5	(56)	(2,008)
<b>Profit/(loss) for the year</b>		<b>129</b>	<b>(1,856)</b>

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## BALANCE SHEET as at 31 December 2005

	Notes	2005 £	2004 £
<b>Assets</b>			
Investments	7	10,086	10,086
<b>Total non-current assets</b>		<b>10,086</b>	<b>10,086</b>
Trade and other receivables	8	33,789,773	33,739,773
Cash and cash equivalents	9	6,884	6,704
<b>Total current assets</b>		<b>33,796,657</b>	<b>33,746,477</b>
<b>Liabilities</b>			
Trade and other payables	10	(28,833,164)	(28,758,373)
Income tax payable		(56)	(46)
<b>Total current liabilities</b>		<b>(28,833,220)</b>	<b>(28,758,419)</b>
<b>Net current assets</b>		<b>4,963,437</b>	<b>4,988,058</b>
<b>Net Assets</b>		<b>4,973,523</b>	<b>4,998,144</b>
<b>Equity</b>			
Issued share capital	12	5,000,000	5,000,000
Retained earnings		(26,477)	(1,856)
<b>Total equity</b>		<b>4,973,523</b>	<b>4,998,144</b>

The financial statements on pages 4 to 13 were approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

  
W M F von Guionneau  
Director

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## STATEMENT OF CASH FLOWS for the year ended 31 December 2005

	Notes	2005 £	2004 £
<b>Operating activities</b>			
Profit before taxation		185	152
Increase in trade receivables		(50,000)	(7,208,200)
Increase in trade payables		74,791	7,210,162
Income tax paid		(46)	(1,962)
<b>Cash generated from operations</b>		<b>24,930</b>	<b>152</b>
<b>Financing activities</b>			
Dividends paid		(24,750)	-
<b>Cash flows from financing activities</b>		<b>(24,750)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>180</b>	<b>152</b>
Cash and cash equivalents at 1 January	9	6,704	6,552
<b>Cash and cash equivalents at 31 December</b>	<b>9</b>	<b>6,884</b>	<b>6,704</b>

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2005

	Share Capital £	Retained Earnings £	Total Equity £
At 1 January 2005	5,000,000	(1,856)	4,998,144
Profit for the year	-	129	129
Dividends	-	(24,750)	(24,750)
<b>Balance at 31 December 2005</b>	<b>5,000,000</b>	<b>(26,477)</b>	<b>4,973,523</b>
At 1 January 2004	5,000,000	-	5,000,000
Loss for the year	-	(1,856)	(1,856)
Dividends	-	-	-
<b>Balance at 31 December 2004</b>	<b>5,000,000</b>	<b>(1,856)</b>	<b>4,998,144</b>

## NOTES TO THE FINANCIAL STATEMENTS 31 December 2005

### 1. Accounting policies

#### (a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

#### (b) *Basis of preparation*

These financial statements have been prepared under the historical cost convention and are presented in Sterling. These are the Company's first financial statements to have been prepared in accordance with IFRS and accordingly IFRS 1 has been applied. There are no changes to accounting policies that effect profit or shareholders equity resulting from the adoption of IFRS. The comparative figures for 2004 have been adjusted or extended to conform to changes in presentation in the 2005 financial statements as required by the revised standards which the group implemented. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in notes 11 and 12.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and the 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) *Investments in subsidiaries*

Investments in subsidiary undertakings are included in the balance sheet at cost less provisions for diminution in value. In accordance with the exemption available under Section 228(1)(a) of the Companies Act 1985, the Company has not prepared consolidated financial statements.

#### (d) *Income tax*

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 it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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 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.

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.



# HSBC PROPERTY FUNDS (HOLDING) LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

**2. Directors' remuneration**

The Directors' emoluments are borne by a group undertaking. It is not practicable to allocate costs to HSBC Property Funds (Holding) Limited for the services performed by the Directors in relation to the Company.

**3. Auditors' remuneration**

The auditors' remuneration for the current and previous financial year has been borne by a group undertaking.

**4. Employees**

The Company had no employees during the current or previous financial year.

**5a. Income tax expense**

	2005 £	2004 £
<b>Current tax:</b>		
UK corporation tax on profits of the period	56	46
Adjustments in respect of previous periods	-	1,962
<b>Total income tax expense in the income statement</b>	<b>56</b>	<b>2,008</b>

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 DECEMBER 2005

<b>5b. Reconciliation of effective tax rate</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Profit before taxation	<b>185</b>	152
Profit before taxation multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	<b>56</b>	46
<b>Effects of:</b>		
Adjustments to tax charge in respect of previous periods	-	1,962
<b>Total current tax charge</b>	<b>56</b>	2,008
<b>5c. Factors affecting future current and total tax charges</b>		
There are no factors which are expected to have a significant effect on future current and total tax charges.		
<b>6. Dividends</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
On equity shares:	-	-
On non-equity shares:		
Dividend of 0.5% on redeemable preference shares at £0.005 per share (2004:£Nil)	<b>24,750</b>	-
	<b>24,750</b>	-
<b>7. Investments in subsidiary undertakings</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<b>Cost</b>		
Balance at 1 January	<b>10,086</b>	10,086
Balance at 31 December	<b>10,086</b>	10,086

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2005

The Company's subsidiary undertakings, which are all wholly owned, are listed below.

Name of Undertaking	Class of Capital	Class of Business
Charterhouse Income Carry SLP Limited	Ordinary shares	Investment company
Charterhouse (Jersey) Limited	Ordinary shares	Holding company
HSBC Property Funds Investment Limited	Ordinary shares	Investment company
Charterhouse Property General Partner (No 4) Limited	Ordinary shares	Investment company
Charterhouse Property Special LP Limited	Ordinary shares	Investment company
Charterhouse Retail Property Special LP Limited	Ordinary shares	Property investment
CL Administration Limited	Ordinary shares	Nominee company
CL Residential Limited	Ordinary shares	Investment management company
IO Nominee Limited	Ordinary shares	Nominee company
HSI Active Property Fund Nominee Limited	Ordinary shares	Nominee company
HSI Active Property Fund Trustee Limited	Ordinary shares	Nominee company
HSBC Shopping Centre Fund III General Partner Limited	Ordinary shares	Investment company
HSBC Shopping Centre Fund III Nominee Limited	Ordinary shares	Nominee company

### 8. Trade and other receivables

	2005 £	2004 £
Amounts due from group undertakings	33,789,773	33,739,773

### 9. Cash and cash equivalents

	2005 £	2004 £
Amounts deposited with group undertakings	6,884	6,704

### 10. Trade and other payables

	2005 £	2004 £
Amounts due to group undertakings	28,833,164	28,758,373
	28,833,164	28,758,373

### 11. Financial instruments

Exposure to credit and interest rate risks arises in the normal course of the company's business.

#### *Credit risk*

Management has a credit policy in place and credit risk is monitored on an ongoing basis.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of investments and trade receivables at the balance sheet date.

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2005

### 11. Financial instruments (continued)

#### *Effective interest and repricing analysis*

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice.

#### 2005

	Effective interest rate	Total	One year or less	1-2 years	2-5 years
		£	£	£	£
Cash	0%	6,884	6,884	-	-
		6,884	6,884	-	-

#### 2004

	Effective interest rate	Total	One year or less	1-2 years	2-5 years
		£	£	£	£
Cash	0%	6,704	6,704	-	-
		6,704	6,704	-	-

#### *Fair values*

The fair values together with the carrying amounts shown in the balance sheet of all financial assets and liabilities are as follows:

	Carrying amount	2005 Fair value	Carrying amount	2004 Fair value
	£	£	£	£
Investments	10,086	5,928,993	10,086	6,762,597
Cash	6,884	6,884	6,704	6,704
	16,970	5,935,877	16,790	6,769,301

#### *Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### *Trade and other payables and receivables*

For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine the fair value.

#### *Investments*

The fair value of investments has been calculated by management using the discounted cash flows of future maintainable earnings.

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2005

### 12. Share capital

	2005 £	2004 £
Authorised, allocated, called up and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000
4,950,000 0.5% redeemable preference shares of £1 each	4,950,000	4,950,000
	<u>5,000,000</u>	<u>5,000,000</u>

### 13. Related party transactions

The related party transactions for the year ended 31 December 2005 are shown as follows:

Related Party	Amount of transaction £	Balance at 31 December 2005 £	Details of transactions
Subsidiaries	-	33,789,773	Investment funding
Parent	-	(28,833,164)	Investment funding and provision of services

### 14. Parent undertakings

The Company's immediate parent company is HSBC Specialist Investments Limited, which is incorporated in England and Wales.

The Company's ultimate controlling party as defined under International Accounting Standard 24 'Related Party Disclosures' (IAS 24) is HSBC Holdings plc, which is incorporated in England and Wales.

The smallest and largest group in which the financial statements of the Company are consolidated is HSBC Holdings plc. The consolidated financial statements of HSBC Holdings plc are available to the public and may be obtained from HSBC Holdings plc, Group Corporate Affairs, 8 Canada Square, London E14 5HQ.

### 15. Reconciliation of UK GAAP to IFRS equivalents Income statement for the year ended 31 December 2004

There are no material differences between UK GAAP and IFRS accounting standards in relation to the income statement for the year ended 31 December 2004.

# HSBC PROPERTY FUNDS (HOLDING) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2005

### 16. Reconciliation of UK GAAP to IFRS equivalents Balance sheet as at 31 December 2004

	UK GAAP	Differences*	IFRS
	£	£	£
<b>Assets</b>			
Investments	10,086	-	10,086
<b>Total non-current assets</b>	10,086	-	10,086
Trade and other receivables	33,739,773	-	33,739,773
Cash at bank and in hand	6,704	-	6,704
<b>Total current assets</b>	33,746,477	-	33,746,477
<b>Liabilities</b>			
Trade and other payables	(28,783,169)	24,796	(28,758,373)
Income tax payable	-	(46)	(46)
<b>Total current liabilities</b>	(28,783,169)	-	(28,758,419)
<b>Net current assets</b>	4,963,308	24,750	4,998,058
<b>Net assets</b>	4,973,394	24,750	4,998,144
<b>Equity</b>			
Issued share capital	5,000,000	-	5,000,000
Retained earnings	(26,606)	(24,750)	(1,856)
<b>Total Equity</b>	4,973,394	(24,750)	4,998,144

\* These adjustments primarily relate to the reclassification of assets and liabilities in accordance with IAS 1 other than adjustment in retained earnings.

The adjustment in retained earnings relates to dividends recommended in 2004 after the balance sheet date which have been recognised in 2005 in accordance with IAS 10.

### 17. Reconciliation of UK GAAP to IFRS equivalents Balance sheet as at 1 January 2004

There are no material differences between UK GAAP and IFRS accounting standards in relation to the balance sheet as at 1 January 2004.