

HSBC PROPERTY FUNDS (HOLDING) LIMITED

Registered Number 3335872

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006



HSBC PROPERTY FUNDS (HOLDING) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006 (2005 £24,750).

Business review

The principal activities of the Company are set out above. In addition, the company is a subsidiary where its parent, HSBC Specialist Investments Limited, acts as an agent and provides agency services by charging an annual management charge to the company. The service provided by the parent is seeking new business and managing and divesting the asset portfolio. The parent maintains accurate accounting and other records such as borrowing funds and settlement of all invoices relating to the services.

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

The Company has no employees, and all the related services are provided by the parent company.

The Company's stakeholders are limited to its subsidiaries as listed in note 7 and its parent company.

Risk management

The Company has no significant exposure to credit, market and liquidity risk due to the nature of the Company's business. Transactions are generally being funded by way of capital and debt obtained from the parent or other group company.

The Company's bank balances, amounts due to creditors and amounts due to and from group related parties are all sterling denominated. Since these accounts are in sterling and mostly due to group undertakings, the directors do not consider there to be any significant foreign exchange risk.

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

Performance

For all periods up to and including the year ended 31 December 2004, the Company prepared its financial statements in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'). From 1 January 2005, the Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and effective for the Company's reporting for the year ended 31 December 2006.

HSBC PROPERTY FUNDS (HOLDING) LIMITED

REPORT OF THE DIRECTORS (continued)

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 2006 the Trusts held a total of 133,346,569 ordinary shares of US\$0.50 each (1 January 2006: 130,812,676).

None of the directors at 31 December 2006 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 VI 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.

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.

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 auditor is unaware, and the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 234ZA of the UK Companies Act 1985 and should be interpreted in accordance therewith.

HSBC PROPERTY FUNDS (HOLDING) LIMITED

REPORT OF THE DIRECTORS (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 IFRSs as adopted by the EU and applicable laws.

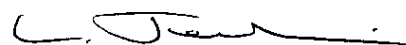
The financial statements are required by law to present fairly the financial position and the performance of the company. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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.

By order of the Board



L J Jenkinson
Secretary

20 April 2007

Registered Office
8 Canada Square
London E14 5HQ

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 2006 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

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 Directors' Report 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 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 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 Directors' Report is consistent with the financial statements.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

23 April 2007
8 Salisbury Square
London
EC4Y 8BB

HSBC PROPERTY FUNDS (HOLDING) LIMITED

INCOME STATEMENT for the year ended 31 December 2006

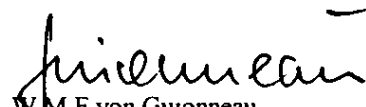
	Notes	2006 £	2005 £
Administrative expenses		(36)	(25)
Operating loss		(36)	(25)
Financial income		115	210
Profit before taxation		79	185
Income tax expense	5	(24)	(56)
Profit for the year		55	129

HSBC PROPERTY FUNDS (HOLDING) LIMITED

BALANCE SHEET as at 31 December 2006

	Notes	2006 £	2005 £
Assets			
Investments	7	60,086	10,086
Total non-current assets		60,086	10,086
Trade and other receivables	8	7,652,693	33,789,773
Inter-company loans		73,695,027	-
Cash and cash equivalents	9	4,427	6,884
Total current assets		81,352,147	33,796,657
Liabilities			
Trade and other payables	10	(7,718,854)	(28,833,164)
Inter-company loans		(68,695,027)	-
Income tax payable		(24)	(56)
Total current liabilities		(76,413,905)	(28,833,220)
Net current assets		4,938,242	4,963,437
Net assets		4,998,328	4,973,523
Equity			
Issued share capital	12	5,000,000	5,000,000
Retained earnings		(1,672)	(26,477)
Total equity		4,998,328	4,973,523

The financial statements on pages 5 to 13 were approved by the Board of Directors on 20 April 2007 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 2006

	Notes	2006 £	2005 £
Operating activities			
Operating loss		(36)	(25)
Decrease/(increase) in trade receivables		26,161,831	(50,000)
(Decrease)/increase in trade payables		(21,114,310)	74,791
Interest received		115	210
Income tax paid		(56)	(46)
Cash generated from operations		5,047,544	24,930
Investing activities			
Inter-company loans given		(73,695,027)	-
Acquisition of investments		(50,102)	-
Proceeds from sale of investments		102	-
Cash flows from investing activities		(73,745,027)	-
Financing activities			
Inter-company loans received		68,695,027	-
Dividends paid		-	(24,750)
Cash flows from financing activities		68,695,027	(24,750)
Net (decrease)/increase in cash and cash equivalents		(2,457)	180
Cash and cash equivalents at 1 January	9	6,884	6,704
Cash and cash equivalents at 31 December	9	4,427	6,884

HSBC PROPERTY FUNDS (HOLDING) LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2006

	Share Capital £	Retained Earnings £	Total Equity £
At 1 January 2006	5,000,000	(26,477)	4,973,523
Profit for the year	-	55	55
Dividends	-	24,750*	24,750
Balance at 31 December 2006	5,000,000	(1,672)	4,998,328
At 1 January 2005	5,000,000	(1,856)	4,998,144
Profit for the year	-	129	129
Dividends	-	(24,750)	(24,750)
Balance at 31 December 2005	5,000,000	(26,477)	4,973,523

*Reversal of preference dividends paid in prior year

HSBC PROPERTY FUNDS (HOLDING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 December 2006

1. Accounting policies

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations as adopted by the EU ("Adopted IFRSs"). The principal accounting policies of the Company are set out below and have been consistently applied to all the years presented, unless otherwise stated

(b) *Basis of preparation*

The financial statements are prepared on a historical cost basis and are presented in Sterling

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

The following adopted IFRS was available for early application but has not been applied by the Company in these financial statements

IFRS 7 'Financial instruments Disclosures'

Effective from 1 January 2007. The application of IFRS 7 in 2006 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The Company plans to adopt it in 2007

(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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2006

1. Accounting policies (continued)

(e) *Inter-company loans*

Inter-company loans received and given to subsidiaries and parent undertaking are interest free and repayable on demand

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 financial year was £4,300 (2005: £3,100) and, 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

	2006 £	2005 £
Current tax:		
UK corporation tax on profits of the year	24	56
Total income tax expense in the income statement	24	56

5b. Reconciliation of effective tax rate

	2006 £	2005 £
Profit before taxation	79	185
Profit before taxation multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	24	56
Total income tax expense in the income statement	24	56

5c. Factors affecting future current and total tax charges

There are no factors which are expected to have a significant effect on future current and total tax charges.

HSBC PROPERTY FUNDS (HOLDING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) 31 DECEMBER 2006

6. Dividends

	2006 £	2005 £
On non-equity shares		
No dividend in 2006 (2005 £0 005 per redeemable preference share)	-	24,750
	-	24,750

7. Investments in subsidiary undertakings

	2006 £	2005 £
Cost		
Balance at 1 January	10,086	10,086
Additions	50,102	-
Disposals	(102)	-
Balance at 31 December	60,086	10,086

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

Name of Undertaking	Class of Capital	Class of Business	Country of Incorporation	Percentage shareholding	
				2006	2005
Charterhouse Income Carry SLP Limited	Ordinary shares	Investment company	UK	100	100
Charterhouse (Jersey) Limited	Ordinary shares	Holding company	Jersey	100	100
HSBC Property Funds Investment Limited	Ordinary shares	Investment company	UK	100	100
Charterhouse Property General Partner (No 4) Limited	Ordinary shares	Investment company	UK	100	100
Charterhouse Property Special LP Limited	Ordinary shares	Investment company	UK	100	100
Charterhouse Retail Property Special LP Limited	Ordinary shares	Property investment	UK	100	100
CL Administration Limited	Ordinary shares	Nominee company	UK	100	100
CL Residential Limited	Ordinary shares	Investment management company	UK	100	100
HSIL Investments Limited	Ordinary shares	Investment company	UK	100	100
HSI Active Property Fund Nominee Limited	Ordinary shares	Nominee company	UK	100	100
HSI Active Property Fund Trustee Limited	Ordinary shares	Nominee company	UK	100	100
HSBC Property Fund Management (Guernsey) Limited	Ordinary shares	Management company	Guernsey	100	-

During the year the Company sold its shares in the undertakings listed below

HSBC Shopping Centre Fund III General Partner Limited	Ordinary shares	Investment company	UK	100
HSBC Shopping Centre Fund III Nominee Limited	Ordinary shares	Nominee company	UK	100

HSBC PROPERTY FUNDS (HOLDING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2006

8. Trade and other receivables

	2006 £	2005 £
Amounts due from group undertakings	7,652,693	33,789,773

9. Cash and cash equivalents

	2006 £	2005 £
Amounts deposited with group undertakings	4,427	6,884

10. Trade and other payables

	2006 £	2005 £
Amounts due to group undertakings	7,718,854	28,833,164

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.

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.

2006

	Effective interest rate	Total £	One year or less £	1-2 years £	2-5 years £
Cash	0.00%	4,427	4,427	-	-
		4,427	4,427	-	-

2005

	Effective interest rate	Total £	One year or less £	1-2 years £	2-5 years £
Cash	0.00%	6,884	6,884	-	-
		6,884	6,884	-	-

Fair values

There are no material differences between the carrying value and fair value of assets and liabilities as at 31 December 2006 and 31 December 2005.

HSBC PROPERTY FUNDS (HOLDING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2006

12 Share capital

	2006 £	2005 £
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>

The 0.5 per cent redeemable preference shares entitle the holder to receive a preferential dividend out of the current year's distributable profits at the rate of 0.5 per cent on the paid up capital

The shares are redeemable at the discretion of the Company subject to the provisions of the Companies Act and to the conditions set out in the Company's Articles of Association. There is no time limit in which to redeem the shares and no premium is payable on redemption.

13. Related party transactions

2006

Related Party	Amount of transaction £	Balance at 31 December 2006 £	Details of transactions
Subsidiaries	-	7,652,693	Provision of services
Subsidiaries	-	(68,695,027)	Unsecured loans
Parent	-	(7,743,596)	Provision of services
Parent	-	73,695,027	Unsecured loans

2005

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