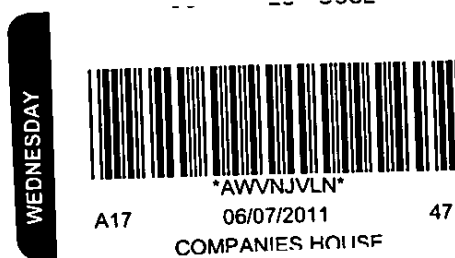


Financial Statements
31 December 2010

Registered No: 3335872



HSBC PROPERTY FUNDS (HOLDING) LIMITED

Financial Statements

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Directors' report for the year ended 31 December 2010

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.

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, provides services by 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 6 and its parent company.

Risk management

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 12 of the financial statements.

Performance

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

The Company is showing a net loss of £5,143,142, for the year ended 31 December 2010, compared to a prior year loss of £5,085,596. This is mainly due to provisions against amounts due from a group undertaking of £5,091,625 (2009: £5,340,469) and provisions against investments of £50,069 (2009: £0).

Future developments

On 30 April 2011, the management team of HSBC Specialist Investments Limited, HSBC's specialist infrastructure and real estate fund management business completed the acquisition of a majority interest in that business from HSBC Holdings plc ('HSBC'). The new business was named InfraRed Capital Partners ('InfraRed'). As part of the acquisition, the Company sold its investments in InfraRed Active Property Fund Trustee Limited and InfraRed Active Property Fund Nominee Limited to InfraRed. In addition, the Company sold its investments in IRENE Coyote Nominee Limited and IRENE Coyote Trustee Limited to an English Limited Partnership which is managed by InfraRed.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2010 (2009: £0).

Going concern basis

The financial statements have been prepared on the going concern basis notwithstanding the Company's net current liabilities of £40,239,766 (2009: £35,146,691). The Directors of the Company have reasonable assurance that the intercompany payables of £76,499,880 (2009: £74,003,193) treated as a current liability as at 31 December 2010 will not be recalled.

Based on this assurance the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Directors' report for the year ended (continued)

31 December 2010

Directors

The directors who served during the year were as follows

Name

G I Craig*
C P Gill*
E D Glover*
W M F von Guionneau*
C J Huxtable*
P E Mackey**

* Resigned as a director effective 30 April 2011

**P E Mackey ceased to be a director on 29 September 2010

R J Cole and J P Marlow were appointed as directors effective 14 April 2011

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 2006. 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 does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

Capital management

The Company is not subject to externally imposed capital requirements. It is a member of the HSBC Specialist Investments Limited group of companies ('HSI') and capital management is performed at group level.

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 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 auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditors

KPMG Audit Plc are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

Directors' report for the year ended (continued)
31 December 2010

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 5, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the Auditor 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.

The financial statements are required by law to present fairly the financial position and the performance of the Company. The Companies Act 2006 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 judgements and estimates that are reasonable and prudent, and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors are responsible for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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.

On behalf of the Board



J P Marlow
Director

Registered Office
8 Canada Square
London
E14 5HQ

Date 29 June 2011

Independent Auditor's Report 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 2010 set out on pages 6 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

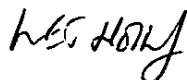
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



WEJ Holland (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

29 June 2011

Financial Statements

Statement of comprehensive income for the year ended 31 December 2010

	<i>Notes</i>	2010 £	2009 £
Investment income			
Dividend income		-	254,883
Administrative expenses			
Other operating expense		(2,011)	(14)
Provision for impairment	6/7	(5,141,694)	(5,340,469)
		<u>(5,143,705)</u>	<u>(5,340,483)</u>
Loss before tax		(5,143,705)	(5,085,600)
Tax credit	5	563	4
Loss for the year		(5,143,142)	(5,085,596)
Total comprehensive loss for the year		(5,143,142)	(5,085,596)

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

The accounting policies and notes on pages 10 to 17 form an integral part of these financial statements

Financial Statements (continued)**Statement of financial position as at 31 December 2010**

	<i>Notes</i>	2010 £	2009 £
ASSETS			
Non-current assets			
Investments in subsidiaries	6	<u>35,010,019</u>	<u>35,060,086</u>
		35,010,019	35,060,086
Current assets			
Cash and cash equivalents held with other group undertakings		93	5,339
Receivables	7	<u>36,260,168</u>	<u>38,851,159</u>
Current tax assets	5	<u>563</u>	<u>4</u>
		36,260,824	38,856,502
Total assets		<u>71,270,843</u>	<u>73,916,588</u>
LIABILITIES AND EQUITY			
Current liabilities			
Other financial liabilities	8	<u>76,500,590</u>	<u>74,003,193</u>
Total liabilities		<u>76,500,590</u>	<u>74,003,193</u>
Equity			
Called up share capital	9	5,000,000	5,000,000
Retained deficit		<u>(10,229,747)</u>	<u>(5,086,605)</u>
Total shareholders' equity		<u>(5,229,747)</u>	<u>(86,605)</u>
Total equity and liabilities		<u>71,270,843</u>	<u>73,916,588</u>

The accounting policies and notes on pages 10 to 17 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 29 June 2011 and were signed on its behalf by



R J Cole
Director

Company Registered Number 3335872

Financial Statements (continued)**Statement of cash flows for the year ended 31 December 2010**

	2010 £	2009 £
Cash flows from operating activities		
Loss before tax	(5,143,705)	(5,085,600)
Adjustments for		
– Provision for impairment	5,141,694	5,340,469
	(2,011)	254,869
Change in operating assets	(227)	(254,883)
Change in operating liabilities	710	-
	(1,528)	(14)
Tax received	4	-
Net cash used in operating activities	(1,524)	(14)
Cash flows from investing activities		
Intercompany loans (given)/repaid	(3,720)	131,356,122
Increase in investments	(2)	(35,000,000)
Net cash (used in)/generated from investing activities	(3,722)	96,356,122
Cash flows from financing activities		
Intercompany loans repaid	-	(96,356,122)
Net cash used in financing activities	-	(96,356,122)
Net decrease in cash and cash equivalents	(5,246)	(14)
Cash and cash equivalents brought forward	5,339	5,353
Cash and cash equivalents carried forward	93	5,339

The accounting policies and notes on pages 10 to 17 form an integral part of these financial statements

Financial Statements (continued)**Statement of changes in equity for the year ended 31 December 2010**

	Called up share capital	Retained earnings	Total shareholders' equity
	£	£	£
Year ended 31 December 2010			
At 1 January 2010	5,000,000	(5,086,605)	(86,605)
Total comprehensive loss for the year	-	(5,143,142)	(5,143,142)
At 31 December 2010	<u>5,000,000</u>	<u>(10,229,747)</u>	<u>(5,229,747)</u>

	Called up share capital	Retained earnings	Total shareholders' equity
	£	£	£
Year ended 31 December 2009			
At 1 January 2009	5,000,000	(1,009)	4,998,991
Total comprehensive loss for the year	-	(5,085,596)	(5,085,596)
At 31 December 2009	<u>5,000,000</u>	<u>(5,086,605)</u>	<u>(86,605)</u>

The accounting policies and notes on pages 10 to 17 form an integral part of these financial statements

Shareholders' equity is wholly attributable to equity shareholders

Financial Statements (continued)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements are presented in Sterling, the Company's functional currency, 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 issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 December 2010 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

(b) Future accounting developments

At 31 December 2010 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2010. None are expected to have a significant effect on the Company's financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

(c) Going concern

The financial statements have been prepared on the going concern basis notwithstanding the Company's net current liabilities of £40,239,766 (2009: £35,146,691). The Directors of the Company have reasonable assurance that the intercompany payables of £76,499,880 (2009: £74,003,193) treated as a current liability as at 31 December 2010 will not be recalled.

Based on this assurance the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

(d) General information

HSBC Property Funds (Holding) Limited is a company domiciled and incorporated in England and Wales. The Company's registered address is 8 Canada Square, London E14 5HQ.

2 Summary of significant accounting policies

(a) Revenue

In accordance with IAS 18, revenue is only recognised when it is probable that the economic benefits associated with the transactions will flow to the Company.

(b) Dividend income

Dividend income from investments is recognised in profit when the right to receive payment is established.

(c) Income Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit/(loss) except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Financial Statements (continued)

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 end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts 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 that 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, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

(d) Investments in subsidiaries

The Company's investments in subsidiaries are stated at cost less any impairment losses. Any impairment loss recognised in prior periods shall be reversed through profit/(loss) if, and only if, there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

(e) Financial assets and liabilities**(i) Loans and receivables**

Loans and receivables include loans and receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

(ii) Financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

Bank overdrafts are shown within 'Other financial liabilities' on the statement of financial position.

(f) Impairment of loans and receivables

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

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

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

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

Financial Statements (continued)**(g) Share capital**

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared.

(h) Use of assumptions and estimates

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

There are no accounting policies that are deemed critical to the Company's IFRS results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

3 Directors' emoluments

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.

4 Auditor's remuneration

	2010 £	2009 £
Auditor's remuneration		
– Company audit	<u>2,000</u>	<u>2,000</u>

For the previous financial year the auditor's remuneration was borne by a group undertaking.

5 Tax credit

	2010 £	2009 £
Current tax		
UK corporation tax		
– on current year profit	<u>(563)</u>	<u>(4)</u>
Total current tax	<u>(563)</u>	<u>(4)</u>
Tax credit	<u>(563)</u>	<u>(4)</u>

The UK corporation tax rate applying to the Company was 28% (2009: 28%).

The following table reconciles the tax expense:

	2010 £	Percentage of overall profit before tax %	2009 £	Percentage of overall profit before tax %
Taxation at UK corporation tax rate of 28% (2009: 28%)	(1,440,237)	28.0%	(1,423,968)	28.0%
Amounts not deductible for tax purposes	1,439,674	(28.0%)	1,495,331	(29.4%)
Income not taxable for tax purposes	-	-	(71,367)	1.4%
Overall tax credit	<u>(563)</u>	<u>-</u>	<u>(4)</u>	<u>-</u>

Financial Statements (continued)**6 Investments in subsidiaries**

	2010 £	2009 £
Cost		
At 1 January	35,060,086	60,086
Additions	2	35,000,000
Provisions	(50,069)	-
At 31 December	<u>35,010,019</u>	<u>35,060,086</u>

During the year ended 31 December 2010, the Company provided against investments in dormant or non-trading subsidiaries

During the year ended 31 December 2009, the Company increased its holdings in HSIL Investments Limited by 35,000,000 ordinary shares of £1 each for total cash consideration of £35,000,000. There were no disposals during the year.

The principal subsidiary undertakings of the Company at the end of the reporting period were

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2010	Ownership Percentage 2009
Charterhouse (Jersey) Limited	Ordinary Shares	Jersey	Holding company	100%	100%
Charterhouse Income Carry SLP Limited	Ordinary Shares	UK	Investment company	100%	100%
Charterhouse Property General Partner (No 4) Limited*	Ordinary Shares	UK	Investment company	-	100%
Charterhouse Property Nominees (No 3) Limited*	Ordinary Shares	UK	Nominee company	-	100%
Charterhouse Property Special LP Limited*	Ordinary Shares	UK	Investment company	-	100%
Charterhouse Retail Property Special LP Limited*	Ordinary Shares	UK	Property investment	-	100%
CL Administration Limited	Ordinary Shares	UK	Nominee company	100%	100%
CL Residential Limited	Ordinary Shares	UK	Investment management company	100%	100%
HSBC Property Fund Management (Guernsey) Limited	Ordinary Shares	Guernsey	Management company	100%	100%
HSBC Property Funds Investment Limited	Ordinary Shares	UK	Investment company	100%	100%
InfraRed Active Property Fund Nominee Limited (formerly HSI Active Property Fund Nominee Limited)	Ordinary Shares	UK	Nominee company	100%	100%
InfraRed Active Property Fund Trustee Limited (formerly HSI Active Property Fund Trustee Limited)	Ordinary Shares	UK	Trustee company	100%	100%
IRERE Coyote Nominee Limited (formerly HSIL Coyote Nominee Limited)	Ordinary Shares	UK	Nominee company	100%	-
IRERE Coyote Trustee Limited (formerly HSIL Coyote Trustee Limited)	Ordinary Shares	UK	Trustee company	100%	-
HSIL Investments Limited	Ordinary Shares	UK	Investment company	100%	100%

* Struck off in 2010

Financial Statements (continued)**7 Receivables**

	2010 £	2009 £
Related parties	36,259,941	38,851,159
Amounts due from other group undertakings	46,692,035	44,191,628
Provisions against amounts due from other group undertakings	(10,432,094)	(5,340,469)
Other receivables	227	-
	36,260,168	38,851,159

During the year ended 31 December 2010, a provision of £5,091,625 was made against balances due from HSBC Property Funds Investment Limited (2009 £5,340,469)

8 Other financial liabilities

	2010 £	2009 £
Related parties	76,499,880	74,003,193
Amounts due to parent undertakings	76,499,880	74,003,193
Other creditors	710	-
	76,500,590	74,003,193

Amounts owed to parent undertakings have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial liabilities, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

9 Share capital

	2010 £	2009 £
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50,000	50,000
4,950,000 0.5% Preference shares of £1 each	4,950,000	4,950,000
	5,000,000	5,000,000

The 0.5% non-cumulative redeemable preference shares entitle the holder to receive a dividend of 0.5% on paid up share capital out of any profits earned during the financial year. The preference shares do not entitle the holder to any further participation in the profits of the Company. Due to the contingent dividend payment, the non-cumulative feature and no defined redemption date, the preference shares are classified as share capital.

10 Dividends

For the year ended 31 December 2010 no dividends have been paid or declared (2009 £0)

Financial Statements (continued)**11 Analysis of financial assets and liabilities by measurement basis**

The following tables analyse the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by heading in the statement of financial position

2010	Loans and receivables	Other financial liabilities	Total
	£	£	£
Financial assets			
Cash and cash equivalents	93	-	93
Receivables	36,260,168	-	36,260,168
	<u>36,260,261</u>	<u>-</u>	<u>36,260,261</u>
Financial liabilities			
Other financial liabilities	-	76,500,590	76,500,590
	<u>-</u>	<u>76,500,590</u>	<u>76,500,590</u>
 2009	 Loans and receivables	 Other financial liabilities	 Total
	£	£	£
Financial assets			
Cash and cash equivalents	5,339	-	5,339
Receivables	38,851,159	-	38,851,159
	<u>38,856,498</u>	<u>-</u>	<u>38,856,498</u>
Financial liabilities			
Other financial liabilities	-	74,003,193	74,003,193
	<u>-</u>	<u>74,003,193</u>	<u>74,003,193</u>

12 Risk Management

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business

The Company participates in transactions to which other HSBC group companies are also party. HSI has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from HSI's perspective – this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant company.

As part of that process, HSI's management will review the monthly management accounts of the Company. There were no changes in the Company's approach to risk management during the year.

Credit risk management

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 fellow group companies. The maximum exposure to credit risk is represented by the carrying amount of trade receivables at the balance sheet date.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions. Credit risk is managed as only banks and financial institutions with a minimum rating of 'A' are accepted.

Financial Statements (continued)**Liquidity risk management**

The objective of liquidity management is to ensure that all commitments which are required to be funded can be met out of readily available and secure sources of funding

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company does this by monitoring its investment commitments and positions on an ongoing basis within limits set and approved by the HSBC group

The following is an analysis of undiscounted cash flows payable under financial liabilities by remaining contractual maturities (excluding interest) at the end of the reporting period

2010	Carrying value £	Contractual cash flows £	Due between 0-12 months £
Other financial liabilities	<u>76,500,590</u>	<u>76,500,590</u>	<u>76,500,590</u>
	<u>76,500,590</u>	<u>76,500,590</u>	<u>76,500,590</u>
2009			
Other financial liabilities	<u>74,003,193</u>	<u>74,003,193</u>	<u>74,003,193</u>
	<u>74,003,193</u>	<u>74,003,193</u>	<u>74,003,193</u>

Market risk management

Market risk is the risk that changes in the market prices, such as interest rates and equity prices will affect the Company's Profit and Loss, or the value of its holdings of financial instruments. The objective is to minimise market risk through managing and controlling the risk to acceptable parameters, while optimising the return on risk

The Company has minimal exposure to market risk

Interest rate risk

The Company has no exposure to interest rate risks as it does not have any interest bearing borrowings

Foreign exchange risk management

The Company has no exposure to currency risks as it does not deal in foreign currencies

13 Fair values

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2010 and 31 December 2009

Financial Statements (continued)**14 Related party transactions**

Particulars of transactions, arrangement and agreements involving related parties are as follows

Related party	Amount of transaction £	Balance at 31 December 2010 £	Details of transactions
2010			
HSBC Property Funds Investments Limited	(5,091,625)	36,259,941	Provision of services
HSBC Specialist Investments Limited	-	(76,499,880)	Provision of services

Related party	Amount of transaction £	Balance at 31 December 2009 £	Details of transactions
2009			
HSBC Property Funds Investments Limited	(5,340,469)	38,851,159	Provision of services
HSBC Specialist Investments Limited	-	(74,003,193)	Provision of services

All cash balances are held with HSBC Bank plc

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

HSBC Specialist Investments Limited, its immediate parent company, is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party

The result of the Company is included in the group financial statements of HSBC Holdings plc

Copies of the group financial statements of HSBC Holdings plc may be obtained from the following address

HSBC Holdings plc
8 Canada Square
London
E14 5HQ
www.hsbc.com

15 Subsequent event

On 30 April 2011, the management team of HSBC Specialist Investments Limited, HSBC's specialist infrastructure and real estate fund management business completed the acquisition of a majority interest in that business from HSBC Holdings plc ('HSBC'). The new business was named InfraRed Capital Partners ('InfraRed'). As part of the acquisition, the Company sold its investments in InfraRed Active Property Fund Trustee Limited and InfraRed Active Property Fund Nominee Limited to InfraRed. In addition, the Company sold its investments in IRENE Coyote Nominee Limited and IRENE Coyote Trustee Limited to an English Limited Partnership which is managed by InfraRed.