

HSBC PROPERTY FUNDS (HOLDING) LIMITED

**Financial Statements
For the year ended 31 December 2011**

Registered No: 03335872

TUESDAY



A1FS8GPM

A08

21/08/2012

#84

COMPANIES HOUSE

HSBC PROPERTY FUNDS (HOLDING) LIMITED

Financial Statements

Contents	Page
Directors' report	2
Independent Auditor's Report to the Members of HSBC Property Funds (Holding) Limited	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of cash flows	8
Statement of changes in equity	9
Notes to the financial statements	10

Directors' report for the year ended 31 December 2011

The Directors present the Directors' Report and financial statement for the year ended 31 December 2011

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 £29,736,909, for the year ended 31 December 2011, compared to a prior year loss of £5,143,142.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010: £0).

Going concern basis

The financial statements have been prepared on the going concern basis notwithstanding the Company's net current liabilities of £40,210,731 (2010: £40,239,766). The Directors of the Company have reasonable assurance that the intercompany payables of £76,499,768 (2010: £76,499,880) treated as a current liability as at 31 December 2011 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 2011

Directors

The directors who served during the year were as follows

Name	Appointed	Resigned
G I Craig		30 April 2011
C P Gill		30 April 2011
E D Glover		30 April 2011
W M F von Guionneau		30 April 2011
C J Huxtable		30 April 2011
R J Cole	14 April 2011	
J P Marlow	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.

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year.

Disclosure of information to auditor

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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit plc will therefore continue in office.

Directors' report for the year ended (continued) 31 December 2011

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,
- 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 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

R J Cole
Director



Registered Office
8 Canada Square
London
United Kingdom
E14 5HQ

2 August 2012

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 2011 set out on pages 6 to 19. 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 Auditor

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.

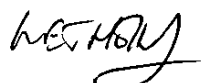
Opinion on other matter prescribed by the Companies Act 2006

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.



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

Date 2 August 2012

Financial Statements

Statement of comprehensive income for the year ended 31 December 2011

	<i>Notes</i>	2011 £	2010 £
Investment income			
Dividend income		30,000	-
Administrative expenses			
Other operating expense		(1,333)	(2,011)
Provision for impairment		<u>(29,765,929)</u>	<u>(5,141,694)</u>
		<u>(29,767,262)</u>	<u>(5,143,705)</u>
Loss before tax		<u>(29,737,262)</u>	<u>(5,143,705)</u>
Tax credit	5	<u>353</u>	<u>563</u>
Loss for the year		<u>(29,736,909)</u>	<u>(5,143,142)</u>
Total comprehensive loss for the year		<u>(29,736,909)</u>	<u>(5,143,142)</u>

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Financial Statements (continued)**Statement of financial position as at 31 December 2011**

	<i>Notes</i>	2011 £	2010 £
ASSETS			
Non-current assets			
Investments in subsidiaries	6	<u>5,244,075</u>	35,010,019
		<u>5,244,075</u>	35,010,019
Current assets			
Cash and cash equivalents		30,744	93
Receivables	7	36,259,940	36,260,168
Current tax assets	5	<u>353</u>	<u>563</u>
		<u>36,291,037</u>	36,260,824
Total assets		<u>41,535,112</u>	<u>71,270,843</u>
LIABILITIES AND EQUITY			
Current liabilities			
Other financial liabilities	8	<u>76,501,768</u>	76,500,590
Total liabilities		<u>76,501,768</u>	76,500,590
Equity			
Called up share capital	9	5,000,000	5,000,000
Retained earnings - (deficit)		<u>(39,966,656)</u>	<u>(10,229,747)</u>
Total shareholders' equity - (deficit)		<u>(34,966,656)</u>	<u>(5,229,747)</u>
Total equity and liabilities		<u>41,535,112</u>	<u>71,270,843</u>

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 2 August 2012 and were signed on its behalf by



R J Cole
Director

Company Registered Number 03335872

Financial Statements (continued)**Statement of cash flows for the year ended 31 December 2011**

	<i>Notes</i>	2011 £	2010 £
Cash flows from operating activities			
Loss before tax		(29,737,262)	(5,143,705)
Adjustments for			
– Provision for impairment		<u>29,765,940</u>	<u>5,141,694</u>
		28,678	(2,011)
Change in operating assets		229	(227)
Change in operating liabilities		<u>1,289</u>	<u>710</u>
		30,196	(1,528)
Tax received		<u>563</u>	<u>4</u>
Net cash generated from/(used in) operating activities		<u>30,759</u>	<u>(1,524)</u>
Cash flows from investing activities			
Intercompany loans given		(112)	(3,720)
Decrease/(increase) in investments		<u>4</u>	<u>(2)</u>
Net cash used in investing activities		<u>(108)</u>	<u>(3,722)</u>
Net increase/(decrease) in cash and cash equivalents		30,651	(5,246)
Cash and cash equivalents brought forward		<u>93</u>	<u>5,339</u>
Cash and cash equivalents carried forward		<u>30,744</u>	<u>93</u>

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Financial Statements (continued)

Statement of changes in equity for the year ended 31 December 2011

	Called up share capital	Retained earnings	Total shareholders' equity
	£	£	£
Year ended 31 December 2011			
At 1 January 2011	5,000,000	(10,229,747)	(5,229,747)
Loss for the year	-	(29,736,909)	(29,736,909)
At 31 December 2011	<u>5,000,000</u>	<u>(39,966,656)</u>	<u>(34,966,656)</u>

	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)
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>

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Shareholders' equity is wholly attributable to equity shareholders

Financial Statements (continued)

Notes to the Financial Statements

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 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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 2011 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 IFRS Interpretations Committee ('IFRIC') and its predecessor body.

During the year, the Company adopted a number of standards, interpretations and amendments thereto which had an insignificant effect on the financial statements.

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 2011, 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 2011. Part of these are expected to have a significant effect on the results or net assets of the Company when adopted.

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

Standards and Interpretations issued by the IASB but not endorsed by the EU

Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities.

Based on an initial assessment, IFRSs 10 and 11 are not expected to have a material impact on the Company's financial statements.

In May 2011, the IASB issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly

Financial Statements (continued)

transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement

Based on an initial assessment, IFRS 13 is not expected to have a material impact on the Company's financial statements

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised') The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted IAS 19 revised must be applied retrospectively

The most significant amendment to IAS 19 for the Company is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset The difference between the actual return on plan assets and the return included in the finance cost component in the income statement will be presented in other comprehensive income The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate

Based on an initial estimate of the impact of this particular amendment on the 2011 financial statements, the change would decrease pre-tax profit, with no effect on the pension liability The effect on total operating expenses and pre-tax profit is not expected to be material

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods The amendments are required to be applied retrospectively

Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments Presentation' The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively

Based on an initial assessment, the amendments to IAS 32 are not expected to have a material impact on the Company's financial statements

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted IFRS 9 is required to be applied retrospectively but prior periods need not be restated

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting

The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders, including reopening IFRS 9 to address practice and other issues The EU is not expected to endorse IFRS 9 until the completed standard is available Therefore, the Company remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements

Financial Statements (continued)

If considered significant, the following text has been added to the impairment of loans and advances policy.

The factors considered in determining that a loan is individually significant for the purposes of assessing impairment include

- the size of the loan,
- the number of loans in the portfolio,
- The importance of the individual loan relationship, and how this is managed, and
- Whether volumes of defaults and losses are sufficient to enable a collective assessment methodology to be applied

Loans considered as individually significant are typically to corporate and commercial customers and are for larger amounts, which are managed on an individual relationship basis. Retail lending portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous loans.

If relevant, the share-based payment reserve has been merged into Retained Earnings

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 £40,210,731 (2010: £40,239,766). The Directors of the Company have reasonable assurance that the intercompany payables of £76,499,768 (2010: £76,499,880) treated as a current liability as at 31 December 2011 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 the income statement except to the extent that it relates to items recognised directly in equity.

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. Current tax assets and liabilities are offset when HSBC Property Funds (Holding) Limited 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 balance sheet 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.

Financial Statements (continued)

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 balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when HSBC has a legal right to offset.

(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.

(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.

Financial Statements (continued)**(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

	2011 £	2010 £
Auditor's remuneration – Company Audit	<u>2,000</u>	<u>2,000</u>

5 Tax credit

	Notes	2011 £	2010 £
Current tax			
UK Corporation tax			
– on current year profit		<u>(353)</u>	<u>(563)</u>
Total current tax		<u>(353)</u>	<u>(563)</u>
Tax credit		<u>(353)</u>	<u>(563)</u>

The UK corporation tax rate applying to the Company was 26.5% (2010: 28%)

The following table reconciles the tax expense

	2011 £	Percentage of overall profit before tax %	2010 £	Percentage of overall profit before tax %
Taxation at UK corporation tax rate of 26.5% (2010: 28%)	(7,878,353)	26.5%	(1,440,237)	28.0%
Amounts not deductible for tax purposes	7,885,948	(26.5)%	1,439,674	(28.0)%
Income not taxable for tax purposes	(7,948)	0.0%	-	-
Overall tax credit	<u>(353)</u>	<u>0.0%</u>	<u>(563)</u>	<u>0.0%</u>

On 21 March 2012 the Government announced its intention to further reduce the UK corporation tax rate to 22% by 1 April 2014 and on 26 March 2012 the Government substantively enacted a reduction in the UK corporation tax rate to 24% with effect from 1 April 2012. There will be a 1% decrease in the corporation tax rate for each year starting on 1 April 2013. As at 31 December 2011 the full anticipated effect of the announced rate reduction has not been quantified, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liability accordingly.

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

	2011 £	2010 £
Cost		
At 1 January	35,060,088	35,060,086
Additions/ (disposals)	(15)	2
At 31 December	35,060,073	35,060,088
Provision for impairment		
At 1 January	(50,069)	-
Additions	(29,765,929)	(50,069)
At 31 December	(29,815,998)	(50,069)
Net carrying amount 1 January	35,010,019	35,060,086
Net carrying amount 31 December	5,244,075	35,010,019

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

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 2011	Ownership Percentage 2010
Charterhouse (Jersey) Limited	Ordinary Shares	UK	Holding company	0%	100%
Charterhouse Income Carry SLP Limited	Ordinary Shares	UK	Investment company	100%	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	UK	Management company	0%	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	0%	100%
InfraRed Active Property Fund Trustee Limited (formerly HSI Active Property Fund Trustee Limited)	Ordinary Shares	UK	Trustee company	0%	100%
IRERE Coyote Nominee Limited (formerly HSIL Coyote Nominee Limited)	Ordinary Shares	UK	Nominee company	0%	100%
IRERE Coyote Trustee Limited (formerly HSIL Coyote Trustee Limited)	Ordinary Shares	UK	Trustee company	0%	100%
HSIL Investments Limited	Ordinary Shares	UK	Investment company	100%	100%

Financial Statements (continued)**6 Receivables**

	2011 £	2010 £
Related parties	36,259,940	36,259,941
Amounts due from other group undertakings	46,692,035	46,692,035
Provisions against amounts due from other group undertakings	(10,432,095)	(10,432,094)
Other receivables	-	227
	36,259,940	36,260,168

During the year ended 31 December 2011, a provision of £0 was made against balances due from HSBC Property Funds Investment Limited (2010 £5,091,625)

7 Other financial liabilities

	2011 £	2010 £
Related parties	76,499,768	76,499,880
Amounts due to parent undertakings	76,499,768	76,499,880
Other creditors	2,000	710
	76,501,768	76,500,590

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.

8 Share capital

	2011 £	2010 £
Allotted, called up and fully paid		
5,000,000 Ordinary shares of £1 each	5,000,000	50,000
Preference shares of £1 each	-	4,950,000
	5,000,000	5,000,000

On 24 March 2011 the preference shares were redeemed and 4,950,000 ordinary shares were issued.

9 Dividends

For the year ended 31 December 2011 no dividends have been paid or declared (2010 £0)

Financial Statements (continued)**10 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

2011	Loans and receivables	Other financial liabilities	Total
	£	£	£
Financial assets			
Cash and cash equivalents	30,744	-	30,744
Receivables	36,259,941	-	36,259,941
	<u>36,290,685</u>	<u>-</u>	<u>36,290,685</u>
Financial liabilities			
Other financial liabilities	-	76,501,768	76,501,768
	<u>-</u>	<u>76,501,768</u>	<u>76,501,768</u>
 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>

11 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.

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.

Financial Statements (continued)

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

2011	Carrying value £	Contractual cash flows £	Due between 0-12 months £
Other financial liabilities	<u>76,501,768</u>	<u>76,501,768</u>	<u>76,501,768</u>
	<u>76,501,768</u>	<u>76,501,768</u>	<u>76,501,768</u>
2010			
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>

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.

12 Fair values

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2011 and 31 December 2010.

13 Related party transactions

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

Related party	Amount of transaction £	Balance at 31 December 2011 £	Details of transactions
2011			
HSBC Property Funds Investments Limited	-	36,259,940	Provision of services
HSBC Specialist Investments Limited	-	(76,499,768)	Provision of services
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

Financial Statements (continued)

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

