

CHARTERHOUSE MANAGEMENT SERVICES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Registered Number: 171831

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CHARTERHOUSE MANAGEMENT SERVICES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activities

The principal activity of the Company was to act as the main United Kingdom investment holding company for HSBC France SA. No change in the Company's activities is anticipated.

Business review

During the year, the main income items on the income statement relates to interest receivable on bank deposits and corporation tax receivable relating to adjustments in respect of prior years. The main expense related to foreign exchange loss on the translation of the Euro bank account.

Support services for the Company were provided by HSBC Bank plc. These services include the maintaining of accurate accounting and other records such as cash management and the collection and settlement of receivables and payables as they become due.

The Company has no employees. Services are provided by HSBC Bank plc.

The Company has no stakeholders other than its parent company.

Risk Management

The risks associated with the financial assets and liabilities are as follows:

Foreign exchange risk

The Company is exposed to foreign exchange risk on its cash and cash equivalents.

The directors keep this risk under review, by monitoring the foreign exchange rates applied upon the Company's cash and cash equivalents.

Interest rate risk

The Company is exposed to interest rate risk due to the interest receivable on the Company's deposits with group undertakings. Interest on deposits is receivable at floating market rates.

The directors keep this risk under review, by monitoring the interest rates applied upon the Company's deposits.

Investment risk

The Company invests in listed and unlisted companies, by direct investment.

The directors keep the investment risk exposure under review, through a six monthly review of all investments held by the Company. Following this review, appropriate action is taken to prevent over exposure to particular industrial sectors and geographical areas.

Performance

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

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2006 (2005 £258,418,461)

Future developments

On 14 February 2007 CMSL repurchased the entire Ordinary shares of EUR 1 each and also 42,000,000 £1 Ordinary Shares plus the share premium of £10,000,000. This left a remaining 25,000,000 £1 ordinary shares

Directors

The directors who served during the year were as follows

Name

C P Gill
G Lombard
V J B Mansell
P J Reid

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 Companies Act 1985. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Supplier payment policy

The Company subscribes to the Better Payment Practice Code, the four principles of which are to agree payment terms at the outset and stick to them, to explain payment procedures to suppliers, to pay bills in accordance with any contract agreed with the supplier or as required by law, and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of and information about the Code is available from The Department of Trade and Industry, No 1 Victoria Street, London SW1H 0ET.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc. The payment performance of this unit is incorporated within the results of that company.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

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

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities, is made with a view to distinguishing for the shareholders 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 IFRS as adopted by the EU.

The financial statements are required by law and IFRS as adopted by the EU 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

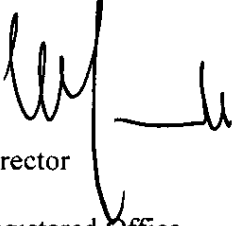
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is 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.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Director

Registered Office
8 Canada Square
London
E14 5HQ

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHARTERHOUSE MANAGEMENT SERVICES LIMITED

We have audited the financial statements of Charterhouse Management Services Limited for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities set out on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHARTERHOUSE
MANAGEMENT SERVICES LIMITED (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS 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

KPMG Audit Plc
Chartered Accountant, London
Registered Auditor

12 October 2007

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
Interest income	3	4,336	4,292
Interest expense	4	(12)	(33)
Investment income	5	<u>702</u>	<u>290,117</u>
		5,026	294,376
Other income	6	523	2,145
Administrative expense	7	<u>(5,983)</u>	<u>43</u>
(LOSS)/PROFIT BEFORE TAX		(434)	296,564
Income tax benefit/(expense)	8	<u>4,636</u>	<u>(8,813)</u>
PROFIT FOR THE YEAR		<u><u>4,202</u></u>	<u><u>287,751</u></u>

The notes on pages 10 to 24 form part of the financial statements

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

**STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31
DECEMBER 2006**

	Notes	2006 £'000	2005 £'000
Foreign exchange translation differences		(43)	517
Actuarial gains on post-employment benefits	20	220	54
Add deferred tax on movement in post-employment benefit surplus directly in equity		(406)	(327)
Change in fair value of equity securities available for sale		8	(500)
Less associated deferred tax recognised directly in equity		(2)	150
Deferred tax recognised in equity in respect of the disposal of a subsidiary undertaking		-	13,228
Net income recognised directly in equity		(223)	13,122
Profit for the year		4,202	287,751
Total recognised income and expense for the year	13	3,979	300,873

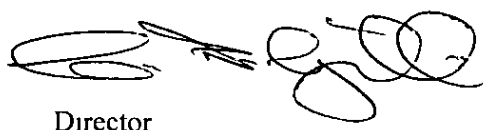
The notes on pages 10 to 24 form part of the financial statements

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
ASSETS			
Tangible fixed assets		-	46
Investments	9	2,013	2,092
Investments in subsidiary undertakings	9	2,018	2,018
Post-employment benefits	20	2,578	1,226
TOTAL NON-CURRENT ASSETS		6,609	5,382
Trade and other receivables	10	8,220	9,463
Cash and cash equivalents	11	334,319	324,846
TOTAL CURRENT ASSETS		342,539	334,309
TOTAL ASSETS		349,148	339,961
EQUITY			
Called up share capital	12	325,585	325,585
Share premium account	13	10,000	10,000
Fair value reserve	13	958	952
Retained earnings	13	4,665	692
TOTAL EQUITY	13	341,208	337,229
LIABILITIES			
Deferred tax liabilities	14	918	776
TOTAL NON - CURRENT LIABILITIES		918	776
Trade and other payables	15	7,022	1,686
TOTAL CURRENT LIABILITIES		7,022	1,686
TOTAL LIABILITIES		7,940	2,462
TOTAL EQUITY AND LIABILITIES		349,148	339,961

Approved by the board and signed on its behalf on 12 October 2007



Director

The notes on pages 10 to 24 form part of the financial statements

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £'000	2005 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		(434)	296,564
Adjustments for			
Interest income		(4,336)	(4,292)
Interest expense		12	33
Pension fund amount recognised in the income statement		(224)	(127)
Operating profit before changes in working capital		(4,982)	292,178
Decrease/(Increase) in trade receivables		503	2
Increase in trade payables		468	19
Pension fund contribution to be made		(908)	(909)
Elimination of exchange differences expensed through the income statement		(43)	-
Elimination of loss on sale of investments		46	-
Elimination of (profit) on sale of investments		-	(158,323)
Cash generated from operations		(4,916)	132,967
Income taxes received/(paid)		2,054	(13,355)
NET CASH FROM OPERATING ACTIVITIES		(2,862)	119,612
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial investments net of capital returned and additional provision made		87	246,660
Interest received		4,228	4,155
Interest paid		(12)	(33)
Acquisition of financial investments		-	(15)
NET CASH FROM INVESTING ACTIVITIES		4,303	250,767
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(72,000)
Decrease in amounts owing by group undertakings		3,164	40,520
Increase/(Decrease) in amounts owed to group undertakings		4,868	(67,423)
NET CASH FROM FINANCING ACTIVITIES		8,032	(98,903)
Net increase in cash and cash equivalents		9,473	271,476
Cash and cash equivalents at 1 January		324,846	53,370
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	334,319	324,846

The notes on pages 10 to 24 form part of the financial statements

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 Basis of preparation

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU') EU-endorsed IFRSs may differ temporarily from IFRSs as published by the International Accounting Standards Board ('IASB') if new or amended IFRSs have not been endorsed by the EU. At 31 December 2006, there were no unendorsed standards effective for 31 December 2006 affecting these financial statements, and there was no difference in application to the Company between IFRSs endorsed by the EU and IFRSs 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.

IFRS 7 'Financial Instruments Disclosure' applicable for years commencing on or after 1 January 2007 has not been applied. Its application would not have affected the balance sheet or income statement as the standard is only concerned with disclosure.

During 2006 the IASB issued IFRS 8 "Operating segments" which is effective for periods commencing on or after 1 January 2009. This standard will have no impact upon the Company.

During 2006, IFRIC issued

- (a) IFRIC Interpretation 8 'Scope of IFRS 2' (effective for periods commencing on or after 1 May 2006),
- (b) IFRIC Interpretation 9 'Reassessment of embedded derivatives' (effective for periods commencing on or after 1 June 2006),
- (c) IFRIC Interpretation 10 'Interim Financial Reporting and Impairment' (effective for periods commencing on or after 1 November 2006),
- (d) IFRIC Interpretation 11 'Group and Treasury Share Transactions' (effective for periods commencing on or after 1 March 2007), and
- (e) IFRIC Interpretation 12 'Service Concession Arrangements' (effective for periods commencing on or after 1 August 2008).

These interpretations are not expected to have any impact upon the Company when adopted.

On 1 January 2006, 'Amendments to IAS 39 and IFRS 4 – Financial Guarantee Contracts' and the 'Amendment to IAS 39 - Cash Flow Hedge Accounting of Forecast Intragroup Transactions' became effective for the Company. However, these amendments had no effect on the Company.

At 31 December 2006, the Company had adopted all IFRSs and Interpretations that had been issued by the IASB and IFRIC, and endorsed by the EU. Except as stated above, there are currently no IFRSs or Interpretations that have been issued by the IASB and endorsed by the EU which become effective after 31 December 2006 that have not already been adopted by the Company.

The company is not required to prepare consolidated financial statements by virtue of the exemption conferred by the section 228 of the Companies Act 1985 and paragraph 41 of the International Accounting Standard 27 "Consolidated and separate financial statements". The results of the company are included within the consolidated financial statements of HSBC Holdings plc which is incorporated in England.

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1 Basis of preparation (continued)

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

General information

Charterhouse Management Services Limited is a company domiciled and incorporated in England and Wales

2 Principal accounting policies

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

(b) Accounting for foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Gains and losses therein are recognised in the statement of income and expense.

(c) Financial investments

Equity securities are classified as non-current financial investments. Financial investments are recognised on trade date when Charterhouse Management Services Limited enters into contractual arrangements with counterparties to purchase securities and are derecognised when the securities are sold.

These securities are initially measured at fair value. They are subsequently re-measured at fair value and changes in this are recognised in equity in the 'Fair value reserve' (see Note 13) until the securities are either sold or impaired. On the sale of these securities, cumulative gains or losses previously recognised in equity are recognised in the income statement and classified as 'Investment income'. Dividends are recognised in the income statement when the right to receive payment has been established and are classified as 'Investment income'.

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

2 Principal accounting policies (continued)

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated

If an AFS security is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement

(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 shareholders' equity, in which case it is recognised in shareholders' 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 the company intends to settle on a net basis and the legal right to the set-off 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 temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised directly in equity. From 1 January 2005, deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedges which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

(e) 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.

(f) Cash and cash equivalents

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

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

2 Principal accounting policies (continued)

(g) Pension benefits

The Company operates a defined benefit plan

The costs recognised for funding the defined benefit plan are determined using the Projected Unit Cost Method, with tri-annual actuarial valuations performed on the plan. Actuarial differences that arise are recognised in shareholders' equity and presented in the Statement of Recognised Income and Expense in the period in which they arise. Past service costs are recognised immediately to the extent that the benefits have vested, and are otherwise recognised on a straight line basis over the average period until the benefits vest.

Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities less the expected return on plan assets, are charged to operating expenses.

3 Interest income

	2006 £'000	2005 £'000
Interest receivable on bank deposits	4,336	4,292
	<u>4,336</u>	<u>4,292</u>

4 Interest expense

	2006 £'000	2005 £'000
Interest payable on deposit administration agreement	(12)	(33)
	<u>(12)</u>	<u>(33)</u>

5 Investment income

	2006 £'000	2005 £'000
Profit on disposal of investments	-	158,323
Dividend income – investments	702	-
Dividend income – subsidiary undertakings	-	131,794
	<u>702</u>	<u>290,117</u>

6 Other income

	2006 £'000	2005 £'000
Debt Recovery on investment previously written off	523	-
Other fees	-	3
Foreign exchange gain	-	2,142
	<u>523</u>	<u>2,145</u>

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

7 Administrative expenses

	2006	2005
	£'000	£'000
Pension costs	224	127
Auditor's remuneration	(87)	(57)
Foreign exchange loss	(5,944)	-
Other	(176)	(27)
	<u>(5,983)</u>	<u>43</u>

The amount of auditor's remuneration in relation to statutory audit of the company and amount borne on behalf of subsidiaries were £34,601 (2005 £22,765) and £51,901 (2005 £34,148) respectively

The Company had no employees during the financial year (2005 nil)

No emoluments were received or are receivable by any of the directors in respect of their services to the Company during the year (2005 £nil)

8 Income tax expense

	2006	2005
	£'000	£'000
The charge for taxation comprises		
Corporation tax payable	907	8,673
Corporation tax payable in respect of prior years	(5,277)	1,113
Relief for overseas tax	-	(973)
Deferred tax origination and reversal of temporary differences	(266)	-
Tax (benefit)/expense	<u>(4,636)</u>	<u>8,813</u>

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 **(continued)**

8 Income tax expense (continued)

Factors affecting tax charge for the year

The tax charge assessed for the year is based on the standard rate of corporation tax in the United Kingdom (30%) The differences are explained below -

	2006 £'000	2005 £'000
Analysis of overall tax charge		
(Loss)/profit before tax	(434)	296,564
Taxation at UK corporate tax rate of 30% (2005 30%)	(130)	88,969
Income not subject to tax	(278)	(32,703)
Expenses not deductible for tax purposes	1,673	-
Capital gains not subject to tax	-	(47,497)
Capital allowances in excess of depreciation	(88)	(118)
Prior period adjustments	(5,277)	1,113
Timing differences between accounting and tax allocations	(266)	-
Impact of overseas income taxed at a different rate	-	(681)
Expense deductible on a paid basis	(270)	(270)
Overall tax (benefit)/charge	(4,636)	8,813

9 Investments

a) Listed Investments

	2006 £'000	2005 £'000
At 1 January	1,621	2,121
Fair value movement	8	(500)
At 31 December	1,629	1,621

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

9 Investments (continued)

b) Unlisted Investments

	2006 £'000	2005 £'000
At 1 January	2,489	276,712
Additions	-	15
Disposals	(87)	(274,238)
At 31 December	<u>2,402</u>	<u>2,489</u>

The following are the principal subsidiary undertakings of the Company at 31 December 2006

Name of Undertaking	Shareholding %	Country of Incorporation	Business
CCF Charterhouse Limited	100	United Kingdom	Holding Company
Shield Property & Investments (Holdings) Limited	100	United Kingdom	Property Investment
Charterhouse Administrators (DT) Limited	100	United Kingdom	Investment Company
Charterhouse Securities Holdings	100 ¹	United Kingdom	Investment Company
Myrayam Limited	100	United Kingdom	Investment Company

¹ Indirectly owned

10 Trade and other receivables

	2006 £'000	2005 £'000
Amounts owing by group undertakings	-	3,164
Trust deposits (Note 16)	297	802
Taxation recoverable	7,674	5,358
Prepayments and accrued income	<u>249</u>	<u>139</u>
	<u>8,220</u>	<u>9,463</u>

11 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash and cash equivalents	<u>334,319</u>	<u>324,846</u>

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

12 Share capital

	Authorised		Issued and fully paid up	
	2006	2005	2006	2005
	Shares'000	Shares'000	£'000	£'000
Ordinary shares of £1 each	150,000	150,000	67,000	67,000
Ordinary shares of EUR 1 each	500,000	500,000	258,585	258,585

The Ordinary sterling and Ordinary Euro shareholders have voting rights and are entitled to a dividend

13 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £'000	Share Premium £'000	Fair Value Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2005	325,585	10,000	1,302	(42,113)	294,774
Total recognised income and expense	-	-	(350)	301,223	300,873
Dividends	-	-	-	(258,418)	(258,418)
Balance at 31 December 2005	325,585	10,000	952	692	337,229
Balance at 1 January 2006	325,585	10,000	952	692	337,229
Total recognised income and expense	-	-	6	3,973	3,979
Dividends	-	-	-	-	-
Balance at 31 December 2006	325,585	10,000	958	4,665	341,208

The fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets £'000	Liabilities £'000
Balance as at 1 January 2006	-	776
Movements in the year	<u>266</u>	<u>408</u>
Balance as at 31 December 2006	<u>266</u>	<u>1,184</u>

The deferred tax asset is in respect of accelerated capital allowances on the general pool

The deferred tax liability represents the difference between the accounting and tax carrying values of the post-employment benefit surplus and deferred tax recognised on the difference between carrying value and tax base cost of available for sale investments. The deferred tax liability was recognised directly in equity as an adjustment in respect of the adoption of IAS 19, 32 and 39

15 Trade and other payables

	2006 £'000	2005 £'000
Customer accounts	297	802
Amounts owing to group undertakings	4,870	2
Accruals and deferred income	232	276
Other payables	<u>1,623</u>	<u>606</u>
	<u>7,022</u>	<u>1,686</u>

16 Customer accounts

	2006 £'000	2005 £'000
Repayable on demand	<u>297</u>	<u>802</u>

At the date of surrender of the Company's authorisation as a bank there was £1,306,984 (representing 169 deposit accounts) of Banking Act deposits which could not be repaid because certain account holders could not be contacted. These accounts were transferred into an independent trustee arrangement managed by Charterhouse Administrators (D T) Limited and the monies placed with HSBC Trust Managers Limited (see note 10). The Financial Services Authority (FSA) has accepted this arrangement. Since the date of surrender the Company has via HSBC Trust Managers Limited repaid amounts totalling £1,014,083 (2005: £505,043).

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

17 Financial risks

The Company's significant financial risks and their management are described below

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk on its cash and cash equivalents. Of the balance of £334,319,222 disclosed in Note 11, the amount of £245,860,161 is denominated in currencies other than Sterling

Management keeps this risk under review, by monitoring the foreign exchange rates applied upon the Company's cash and cash equivalents

(b) Interest rate risk

The Company is exposed to interest rate risk due to the interest receivable on the Company's deposits with group undertakings. Interest on deposits is receivable at floating market rates

Management keeps this risk under review, by monitoring the interest rates applied upon the Company's deposits

(c) Investment risk

The Company invests in listed and unlisted companies, by direct investment

Management keeps the investment risk exposure under review, through a six monthly review of all investments held by the Company. Following this review, appropriate action is taken to prevent over exposure to particular industrial sectors and geographical areas

18 Interest rate analysis of financial instruments

In respect of interest earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the years in which they re-price

	Not more than one year	More than one year but not more than two years	Total	Weighted average effective interest rate
	£'000	£'000	£'000	%
Cash and cash equivalents	334,319	-	-	1.33%
	<u>334,319</u>	<u>-</u>	<u>-</u>	<u>1.33%</u>

Other non interest bearing receivables and payables are excluded from these disclosures

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

19 Fair value of financial assets and liabilities

	Carrying amount 2006 £'000	Estimated fair value 2006 £'000
Financial assets		
Equity investments	1,629	1,629
Preference share investments	384	384
Subsidiary undertakings	2,018	2,018
Cash and cash equivalents	334,319	334,319
	<u>338,350</u>	<u>338,350</u>

Short-term receivables and payables are excluded from these disclosures because their carrying amount is a reasonable approximation to fair value

20 Retirement Benefit Plans

The Keyser Ullmann Group Pension Fund ("the Fund"), the Principal Employer of which is the Company is a defined benefit (final salary) funded pension scheme. The Fund has remained outside the HSBC Bank plc pension scheme and its future is under review. This is a closed fund, where there are currently no employees with the company and there will be no additional service costs.

The assets of the Fund are held in separate trustee administered funds.

The latest valuation for the Fund was at 31 December 2006 by Robert Latham, Fellow of the Institute of Actuaries, of HSBC Actuaries and Consultants Limited. At that date, the actuarial value of the assets was £26.5 million (2005: £23.4 million) and was sufficient to cover the benefits that had accrued to members. After allowing for expected future increases in earnings, the Fund had a surplus of £2.6 million (2005: £1.5 million surplus). The principal assumptions used in the latest valuation of the Fund were a long term investment rate of return and discount rate of 5.1% per annum, post-retirement pension increases of 3% per annum, general pay increases of 3.5% per annum and price inflation of 3%.

In consultation with the actuaries, the principal employer has also agreed that contributions of £900,000 were paid in 2006. No further contributions need be paid until the next valuation on the Fund.

The principal actuarial financial assumptions used to calculate the Company's obligations under its defined benefit pension plan as at 31 December 2006 were as follows:

	2006	2005
Discount rate	5.1%	4.75%
Inflation	3%	2.7%
Rate of increase in salaries	3.5%	3.2%
Rate of increase of pensions in payment	3%	3%

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

20 Retirement Benefit Plans (continued)

The mortality tables and average life expectancy at 65 used at 31 December 2006 were as follows

	Mortality Table	Life expectancy at age 65 for a male member currently:		Life expectancy at age 65 for a female member currently:	
		Aged 65	Aged 45	Aged 65	Aged 45
UK	PMA92C05	20 3	21 6		
	PFA92C05			23 3	24 6

The mortality tables and average life expectancy at 65 used at 31 December 2005 were as follows

	Mortality Table	Life expectancy at age 65 for a male member currently:		Life expectancy at age 65 for a female member currently:	
		Aged 65	Aged 45	Aged 65	Aged 45
UK	PA92U2005	19 53	20 89	22 57	23 86

Assets in the plan and the expected rate of return were -

	Long-term rate of return expected at 31 Dec 2006	Value at 31 Dec 2006	Long-term rate of return expected at 1 Jan 2006	Value at 1 Jan 2006
	%	£'000	%	£'000
Fixed interest bonds	4 50	18,698	4 30	17,810
Equities	8 00	7,459	8 00	7,189
Cash/other	4 50	338	3 60	725
Weighted average return	5 49		5 31	
Total fair value of plan assets		26,495		25,724
Present value of funded obligation		(23,917)		(24,498)
Present value of unfunded obligation		-		-
Defined benefit obligation		(23,917)		(24,498)
Net asset		2,578		1,226

The defined benefit plan asset in the balance sheet represents the present value of the defined benefit obligations adjusted for the past service costs and increased by the value of the plan assets

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

20 Retirement Benefit Plans (continued)

Amounts recognised in the income statement in respect of the defined benefit plan are as follows -

	2006 £'000	2005 £'000
Current service cost	-	-
Interest on obligation	1,138	1,160
Expected return on assets	(1,362)	(1,287)
Actuarial losses recognised in year	-	-
Past service cost	-	-
Employee benefits expense	(224)	(127)

The charge for the year is included in the administrative expense in the income statement

Changes in the present value of the defined benefit obligation are as follows

	2006 £'000	2005 £'000
Opening defined benefit obligation	24,498	22,561
Service cost	-	-
Interest cost	1,138	1,160
Actuarial (gains)/losses	(622)	2,124
Benefits paid	(1,097)	(1,347)
Closing defined benefit obligation	23,917	24,498

Changes in the fair value of the plan for the current and prior period are as follows

	2006 £'000	2005 £'000
Present value of the defined benefit assets		
Fair value of plan assets	25,724	22,697
Expected return	1,362	1,287
Actuarial (losses)/gains	(402)	2,178
Contributions by employer	908	909
Benefits paid	(1,097)	(1,347)
Fair value of plan assets at the end of the year	26,495	25,724

21 Related party transactions

The Company's immediate parent undertaking is HSBC France SA, which is incorporated in France

The Company's ultimate controlling party is HSBC Holdings plc. The Company is controlled by HSBC France SA.

In 2005, the company sold four subsidiaries to related parties for total consideration of £349,625,461, recognising a profit from disposal of £118,239,473.

In 2006 there were no disposals of any subsidiaries.

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

21 Related party transactions (continued)

The smallest and largest groups in which the financial statements of the Company are consolidated are HSBC France SA and HSBC Holdings plc respectively

Copies of the financial statements of HSBC France SA may be obtained from

HSBC France SA
103 avenue des Champs-Élysées
75008
Paris
France

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

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

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

a) Subsidiary Undertakings

The company intends to support the operations of Shield Properties & Investments (Holdings) Limited for the foreseeable future

At 31 December 2006, the Company had loans owed by CCF Charterhouse Limited of £nil (2005 £1,104,300) These loans were non-interest bearing

At 31 December 2006, the Company had loans owed to CCF Charterhouse Limited of £15,000 (2005 £nil) These loans were non-interest bearing

At 31 December 2006, the Company had loans owed by Shield Properties & Investments (Holdings) Limited of £nil (2005 £1,159,520) These loans were non-interest bearing

At 31 December 2006, the company had loans owed by Charterhouse Administrators (D T) Limited of £nil (2005 £7,610) These loans were non-interest bearing

At 31 December 2006, the company had loans owed to Charterhouse Administrators (D T) Limited of £390 (2006 £nil) These loans were non-interest bearing

b) Fellow Subsidiaries

At 31 December 2006, the Company had loans owed by Charterhouse Development Limited of £nil (2005 £201,511) These loans were non-interest bearing

At 31 December 2006, the Company had loans owed to Charterhouse Development Limited of £4,837,000 (2005 £nil) These loans were non-interest bearing

CHARTERHOUSE MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(continued)

21 Related party transactions (continued)

At 31 December 2006, the Company had loans owed by Charterhouse Finance Corporation Limited of £nil (2005 £690,838) These loans were non-interest bearing

c) Intermediate Parent Undertakings

At 31 December 2006, the Company had deposits with HSBC Bank plc of £334,319,322 (2005 £324,846,993) These deposits were interest bearing at market rates

At 31 December 2006, the Company had borrowings owed to HSBC Bank plc of £27,446 (2005 £1,542) These borrowings were non-interest bearing

22 Subsequent events

On 14 February 2007 CMSL repurchased the entire Ordinary shares of EUR 1 each and also 42,000,000 £1 Ordinary Shares plus the share premium of £10,000,000 This left a remaining 25,000,000 £1 ordinary shares

23 Accounting estimates and judgements

Management discussed the development, selection and disclosure of the Company's critical accounting policies (Note 2) and estimates and the application of these policies and estimates

Fair values are based on the quoted market value of assets at the balance sheet date

Actuarial assumptions are made in valuing future pension obligations as set out in note 20 and are updated periodically The principal assumptions relate to the rate of inflation and the discount rate The assumed rate of inflation affects the rate at which salaries grow and therefore the size of the pensions that employees receive on retirement The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation As a result, there is uncertainty that these assumptions will continue in the future For example, if the discount rate for the fund increased by one per cent, the net pension asset would decrease by approximately £543,000

24 Contingent liabilities

There were no contingent liabilities at 31 December 2006 (2005 £nil)