HSBC Finance Transformation (UK) Limited
(Previously Midland Equity (Nominees Number 64) Limited)

Report of the Directors and Financial Statements

For the year ended 31 December 2005

Incorporated and domiciled in England and
Wales with limited liability under the UK
Companies Registered number 1889590

HSBC Finance Transformation (UK) Limited

Report of the Directors and Financial Statements

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HSBC Finance Transformation (UK) Limited

Report of the Directors for the year ended 31 December 2005

Principal activities

Prior to the current financial reporting period the company was dormant. During the year ended 31 December 2005, the company commenced its activities of developing and operating an accounting and finance model for the HSBC Group.

The Company changed its name on 30 March 2005 from Midland Equity (Nominees Number 64) Limited to HSBC Finance Transformation (UK) Limited.

Future developments

The Company will continue in 2006, the development of an accounting and finance model for the benefit of the HSBC Group.

Results and dividends

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

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

Directors

	Appointment	Resignation
R H Musgrove		18 July 2005
F J Niven		18 July 2005
R H Muth	18 July 2005	
R C Picot	18 July 2005	
Y M Walters-Pollard	18 July 2005	

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 1985. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

Directors' interests

All the Directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, required to be disclosed under the Companies Act 1985, are set out below.

HSBC Holdings plc
Ordinary shares of US$0.50 each

	At date of appointment	At 31 December 2005
R H Muth	41,488	42,802
R C Picot	9,286	41,622

During the year R H Muth and R C Picot exercised options over 3,031 and 32,250 HSBC Holdings plc Ordinary shares of US$0.50 each respectively.

R H Muth was granted options over 1,351 HSBC Holdings plc Ordinary shares of US$0.50 each.

The terms of a number of Employee Benefit Trusts provide that all employees of HSBC Holdings plc and any of its subsidiary undertakings are potential beneficiaries of the Trusts. As potential beneficiaries of the Trusts, R H Muth, R C Picot and Y M Walters-Pollard are deemed to have a technical interest in all of the HSBC Holdings plc ordinary shares of US$0.50 each held by the Trusts. At 31 December 2005 the Trusts held a total of 130,812,676 ordinary shares of US$0.50 each (1 January 2005: 123,108,967).

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; explain payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; and tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about, the Code are available from the Department of Trade and Industry, No.1 Victoria Street, London SW1H 0ET.

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

Risk Management

The Company has no significant exposure to credit, market and liquidity risk due to the nature of the Company's business, which is predominantly investing in the development of an accounting and finance model for the HSBC Group. The transactions are generally being funded by way of capital and debt obtained from the parent or other group company. The parent company has indicated its willingness to continue to support the Company through increasing its investment in share capital.

The Company's investments, bank balances and amounts due to HSBC undertakings are all sterling denominated and all with HSBC undertakings and since these accounts are in sterling, the directors do not consider there to be any significant risk. Looking forward beyond 2006, there will be some exposure to exchange risk when the model is licensed to Group companies and receivables will be denominated in US dollars. Mitigation of these risks will be considered closer to that point.

HSBC Finance Transformation (UK) Limited

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 set out in their report on pages 4 and 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 for the year ended 31 December 2005 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 and IFRSs 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 judgments 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 have responsibility 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 1985.

The Directors 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. C. Picot

R C Picot
Director

Dated: 30 October 2006

Registered office:
8 Canada Square
London
E14 5HQ

Independent auditor's report to the members of HSBC Finance Transformation (UK) Limited

We have audited the financial statements of HSBC Finance Transformation (UK) Limited for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement of change in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditors

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

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

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

Basis of audit opinion

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

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

Independent auditor's report to the members of HSBC Finance Transformation (UK) Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

30 October 2006

HSBC Finance Transformation (UK) Limited

Income statement
for the year ended 31 December 2005

	Note	2005 GBP
Interest income		35,616
Administrative expenses	3	(13,238,529)
Loss before tax		(13,202,913)
Tax credit	4	3,960,874
Loss for the year		(9,242,039)

All amounts relate to continuing activities.

The notes on pages 10 to 15 form part of these financial statements.

HSBC Finance Transformation (UK) Limited

Balance sheet
at 31 December 2005

	Note	2005 GBP	2004 GBP
ASSETS			
Cash and cash equivalents			
-balances with HSBC undertakings[1]	6	6,108,155	100
Intangible assets	7	26,423,356	-
Deferred tax		3,971,559	-
Total assets		36,503,070	100
LIABILITIES AND EQUITY			
Liabilities[2]			
Amounts due to HSBC undertakings	6	20,734,424	-
Current tax		10,685	-
Total liabilities		20,745,109	-
Equity			
Called up share capital	9	25,000,000	100
Net loss	10	(9,242,039)	-
Total equity		15,757,961	100
Total equity and liabilities		36,503,070	100

The notes on pages 10 to 15 form part of these financial statements.

1 These assets are expected to be realised within 1 year. All other assets are expected to be realised after 1 year.

2 All liabilities are due within 1 year.

These financial statements were approved by the Board of Directors on 30 October 2006 and were signed on its behalf by:

R. C. Picot

R C Picot
Director

HSBC Finance Transformation (UK) Limited

Statement of changes in equity
for the year ended 31 December 2005

	2005 GBP	2004 GBP
Called up share capital		
At 1 January	100	100
New share capital subscribed	24,999,900	-
At 31 December	25,000,000	100
Retained earnings		
At 1 January	-	-
Loss for the year attributable to shareholders	(9,242,039)	-
At 31 December	(9,242,039)	-

The notes on pages 10 to 15 form part of these financial statements.

HSBC Finance Transformation (UK) Limited

Cash flow statement

for the year ended 31 December 2005

	2005 GBP	2004 GBP
Cash flow from operating activities		
Loss before tax	(13,202,913)	-
Adjustments for :		
Amortisation of intangible assets	2,036,377	-
Interest income	(35,616)	-
	(11,202,152)	-
Change in amounts owed to HSBC undertakings	20,734,424	-
	9,532,272	-
Interest received	35,616	-
Net cash from operating activities	9,567,888	-
Cash flow from investing activities		
Purchase of intangible assets	(28,459,733)	-
Net cash used in investing activities	(28,459,733)	-
Cash flow from financing activities		
Proceeds from issue of share capital	24,999,900	-
Net cash from financing activities	24,999,900	-
Net increase in cash and cash equivalents	6,108,055	-
Cash and cash equivalents at 1 January	100	100
Cash and cash equivalents at 31 December	6,108,155	100

Interest received during the year was GBP 35,616 (2004:GBP nil). No interest was paid during the year (2004:GBP nil).

The notes on pages 10 to 15 form part of these financial statements.

1 Basis of preparation

Prior to 31 December 2004, HSBC Finance Transformation (UK) Limited was not trading. From 1 January 2005, the company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the EU and effective for the company's reporting for the year ended 31 December 2005. IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

As the Company was dormant during 2004, there were no adjustments required on adoption of IFRS.

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, management believes that the critical accounting policies where judgement is necessarily applied are those which relate to impairment of intangible assets.

2 Principal accounting policies

(a)Interest income

Interest income represents interest received on the company's bank current account. It is recognised in the income statement using the effective interest method.

(b)Income tax

Income tax on the profit or loss for the year 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 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 substantially 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 set off exists.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount 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 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. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group, relate to income taxes levied by the same taxation authority, and a legal right to set off exists in the entity.

(c)Foreign currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). This is GBP pounds.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences 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.

(d)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 shares instruments are shown in equity as a deduction from the proceeds, net of tax.

(e)Impairment

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of the Company's assets or group of assets. This usually arises where circumstances are such that an adverse effect on future cash flows from the asset or group of assets can be reliably estimated. If an intangible asset is impaired, the cumulative loss (measured as the difference between the carrying amount and its recoverable amount) is recognised in the income statement.

(f)Financial liabilities

Financial liabilities, including amounts due to HSBC undertakings, are recognised when cash is advanced or contractual arrangements are entered into and are normally derecognised when a loan is repaid or a liability is extinguished. Measurement is initially at fair value adjusted for directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

(g)Cash and cash equivalents

Cash and cash equivalents represent cash in current accounts and call accounts with fellow subsidiaries and are measured at amortised cost.

(h)Intangible assets

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised cost of internally developed software includes all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is recognised in the income statement on a straight line basis over five years from the date that the intangible assets are available for use.

3 Administrative expenses

Administrative expenses include:

	2005 GBP
Charges from parent company for:	
the services of their staff	6,055,800
IT charges including software support fees	2,649,999
external staff costs	2,496,353
Amortisation of intangibles	2,036,377

Certain expenses including Auditors' remuneration and directors' emoluments have been borne by HSBC Holdings plc and are therefore not charged in arriving at the loss before tax.

The company had no employees during the year.

4 Tax credit

	2005 GBP
Current year charge	10,685
Deferred tax (credit)	
Expenses deductible in future periods	(3,971,559)
Tax (credit)	(3,960,874)

Reconciliation of effective tax rate

	2005 GBP
Loss before tax	(13,202,913)
Taxation at UK corporation tax rate of 30 per cent	(3,960,874)
Overall tax credit	(3,960,874)

5 Segmental reporting

The Company is a trading company operating as a single segment solely in the United Kingdom.

6 Related party transactions

	2005 Balance at the year end GBP
Assets	
Due from fellow subsidiary	6,108,155
Total related party assets	6,108,155
Liabilities	
Amounts owed to parent undertaking	13,317,186
Amounts owed to fellow subsidiary	7,417,238
Total related party liabilities	20,434,424

All transactions which occurred during the year were with other HSBC undertakings. The absolute amount of transactions during the year with the parent company was GBP 10,017,041. The absolute amount of transactions during the year with fellow subsidiaries was GBP 18,963,077.

The above outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparties other than an interest free overdraft facility which is provided to the Company by HSBC Holdings plc. This is repayable on demand.

Notes on the Financial Statements *(continued)*

7 Intangible assets

The analysis of the movement of intangible assets for the year ended 31 December 2005 is as follows:

	Internally-generated software GBP	Purchased software GBP	Total GBP
Cost			
At 1 January 2005	-	-	-
Additions	18,277,847	10,181,886	28,459,733
At 31 December 2005	18,277,847	10,181,886	28,459,733
Accumulated amortisation			
At 1 January 2005	-	-	-
Charge for the year	-	2,036,377	2,036,377
At 31 December 2005	-	2,036,377	2,036,377
Net carrying amount at 31 December 2005	18,277,847	8,145,509	26,423,356

There were no intangible assets owned during the year ended 31 December 2004.

8 Fair value of financial assets and liabilities

The carrying amount of all financial assets and liabilities is considered to be a reasonable approximation of fair value because they are short term in nature.

9 Called up share capital

The share capital of the company at 31 December was as follows:

	2005 Number	2004 Number
Authorised		
Ordinary shares of £1 each	100,000,000	100

	2005 GBP	2004 GBP
Allotted, called up and fully paid		
Ordinary shares of £1 each	25,000,000	100

10 Reserves

Retained earnings	GBP
At 1 January 2005	-
Net loss for the year	(9,242,039)
At 31 December 2005	(9,242,039)

11 Non-adjusting post balance sheet event

In June 2006 a decision was taken to use internally developed software instead of third party software acquired in 2005 for use in one component of the accounting model. As a result the remaining unamortised cost of this software will be written off in full. This purchased software is included at a net carrying amount of GBP 1,202,513 at 31 December 2005.

12 Parent undertaking

The Company's immediate and ultimate parent company is HSBC Holdings plc.

The accounts of the Company are consolidated within the financial statements of HSBC Holdings plc. Copies of the financial statements of HSBC Holdings plc may be obtained from its registered office as stated below, or from the Group's website, www.hsbc.com.

HSBC Holdings plc
8 Canada Square
London
E14 5HQ