

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED
FINANCIAL STATEMENTS

31 December 2006

Company Registration Number: 2278807

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MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED
FINANCIAL STATEMENTS

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Report of the Directors for the Year Ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006.

Business Review

The Company is the holding company for the Marks and Spencer Money activities of the HSBC Group.

Results and Dividends

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

The Directors declared a dividend of £27 million (23 February 2006: £10 million), which has not been included within creditors, having been approved post the end of the financial year under review.

Directors

The directors of the Company who served during the year were as follows:

B A Cook
A LeCornu
A R Mielczarek
M D Watson

A LeCornu and M D Watson resigned as Directors of the company on 8 February 2007 and E B Nott was appointed as a Director of the company on 8 February 2007.

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.

The interests of all the directors in the share capital of the Company and its related undertakings are disclosed in Note 14 on page 13.

Statement of Directors' Responsibilities in Relation to the Financial Statements

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 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.

The Directors have taken reasonable steps to ensure that they are aware of any relevant audit information and to ensure that the Company's auditors are aware of this information. So far as the Directors are aware, there is no relevant audit information which has not been disclosed to the Company's auditors.

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



Peter Harvey

Secretary

22 February 2007

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Independent Auditors' Report to the Members of Marks and Spencer Retail Financial Services Holdings Limited

We have audited the financial statements of Marks and Spencer Retail Financial Services Holdings Limited for the year ended 31 December 2006 which comprise of the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 2.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc /

KPMG Audit Plc

Chartered Accountants Manchester

Registered Auditor

22 February 2007

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Income Statement

For the Year Ended 31 December 2006

	Notes	2006 £000	2005 £000
Income from investment activities	6	10,000	-
Total operating income		10,000	-
Total operating expenses		-	-
Profit before tax		10,000	-
Income tax expense	7	-	-
Profit for the period		10,000	-
Attributable to equity shareholders of the Company		10,000	-

All operations are continuing.

There were no recognised income or expenses other than those shown in the Income Statement.

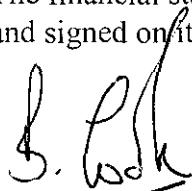
The notes on pages 7 to 13 are an integral part of these accounts.

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Balance Sheet At 31 December 2006

	Notes	As at 31 Dec 2006 £000	As at 31 Dec 2005 £000
ASSETS			
Financial investments	9	118,600	118,600
Total assets		118,600	118,600
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	10	29,998	29,998
Total liabilities		29,998	29,998
Equity			
Capital and reserves attributable to the Company's equity holders			
Called-up share capital	11 & 12	67,000	67,000
Retained earnings	12	21,602	21,602
Total equity		88,602	88,602
Total equity and liabilities		118,600	118,600

The financial statements on pages 4 to 13 were approved by the Board of Directors on 22 February 2007 and signed on its behalf by:



Brendan Cook
Director

The notes on pages 7 to 13 are an integral part of these accounts.

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Cash Flow Statement

For the Year Ended 31 December 2006

	2006 £000	2005 £000
Cash flows from operating activities		
Profit before tax	10,000	-
Net cash from operating activities	10,000	-
Cash flows from financing activities		
Dividends paid	(10,000)	-
Net cash used in financing activities	(10,000)	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the period	-	-
Cash and cash equivalents at the end of the period	-	-

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements For the Year Ended 31 December 2006

1 Summary of significant accounting policies

Basis of preparation

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 2006. 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.

These financial statements comply with all current IFRSs. Current IFRSs include certain amendments that have yet to be endorsed by the EU, but are expected to be endorsed. The Company has elected to early adopt IFRS 7. At the date of authorisation of these financial statements the amendment to IAS 1 Presentation of Financial Statements; Capital Disclosures was in issue but not yet effective and had not been applied in these financial statements.

In the opinion of management, all normal adjustments considered necessary for a fair presentation of the Company's net income, financial position and cash flows for the year ended 31 December 2006 have been made.

The accounting policies below were in force during the prior period and remain unchanged unless otherwise stated.

Fixed asset investments

There is no quoted market price and fair value cannot be reliably measured for the fixed asset investments held by the Company. Therefore fixed asset investments are stated at cost less any provision for permanent diminution in value.

Segment reporting

The Company does not operate in more than one geographical segment, or in more than one class of business.

2 Consolidated financial statements

The Company has taken advantage of the exemption available under Section 228(2) of the Companies Act 1985 from preparing consolidated financial statements as it is a wholly owned subsidiary of an undertaking incorporated in the European Union and the ultimate parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

The Company has therefore prepared separate financial statements. Investments in subsidiaries are shown in Note 9 on page 10, and the accounting policy is shown in Note 1 on page 7. Note 15 on page 13 provides the address where the consolidated financial statements are available.

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

3 Staff costs

The Company does not have any direct employees. The directors and staff are all employees of other group undertakings.

4 Directors' emoluments

No directors of the Company received emoluments in respect of their services as directors of the Company (2005: nil). No retirement benefits are accruing for any of the directors under either defined benefit or defined contribution schemes in respect of their services to the Company. 4 directors (2005: 4) are entitled to receive and have received shares in the ultimate parent undertaking under a long-term incentive scheme (see Note 14).

5 Audit and non-audit fees

Fees payable to auditors in relation to the Company were nil (2005: nil). Fees payable to auditors in relation to the Company's subsidiary undertakings were audit fees of £148,000 (2005: £159,000), and non-audit fees of £15,000 (2005: £15,000).

All audit and non-audit fees have been paid by subsidiary undertakings and have been separately disclosed in their accounts.

6 Income from investment activities

Income from investment activities is recognised where the company becomes legally entitled to that income.

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

7 Taxation on profit on ordinary activities

	2006 £000	2005 £000
Current tax		
Income tax expense	-	-
	<u> </u>	<u> </u>

The tax on the Company's profit before tax differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £000	2005 £000
Profit before tax	10,000	-
Tax calculated at a tax rate of 30% (31 December 2005: 30%)	3,000	-
UK dividends not subject to corporation tax	<u>(3,000)</u>	<u> </u>
Income tax expense	<u> </u>	<u> </u>

8 Dividend

	2006 £000	2005 £000
Ordinary shares		
Final of £0.149 per share	<u>10,000</u>	<u> </u>

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

9 Financial investments

	As at 31 Dec 2006 £000	As at 31 Dec 2005 £000
Investment in subsidiaries	<u>118,600</u>	<u>118,600</u>

All subsidiary companies are wholly owned and registered in England and Wales.

Marks and Spencer Financial Services Plc provides credit and associated services.

Marks and Spencer Unit Trust Management Limited trades as a unit trust manager.

Marks and Spencer Savings and Investments Limited operates as a corporate Personal Equity Plan (PEP) manager.

Marks and Spencer Life Assurance Limited trades as an authorised Life Assurance Company.

10 Other liabilities

	As at 31 Dec 2006 £000	As at 31 Dec 2005 £000
Amounts owed to subsidiaries	<u>29,998</u>	<u>29,998</u>
	<u>29,998</u>	<u>29,998</u>

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

11 Called-up share capital

	As at 31 Dec 2006 £000	As at 31 Dec 2005 £000
Authorised:		
80,000,000 ordinary shares of £1 each	80,000	80,000
Issued, allotted, called up and fully paid:		
67,000,000 ordinary shares of £1 each	67,000	67,000

12 Statement of changes in equity

	2006 £000	2005 £000
Called-up share capital		
Balance at the beginning of the period	67,000	67,000
Balance at the end of the period	67,000	67,000
Retained earnings		
Balance at the beginning of the period	21,602	21,602
Profit for the period	10,000	-
Total recognised income and expense for the period	10,000	-
Dividends paid	(10,000)	-
Balance at the end of the period	21,602	21,602
Total shareholders' equity at the beginning of the period	88,602	88,602
Net change in shareholders' equity	-	-
Total shareholders' equity at the end of the period	88,602	88,602

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

13 Related party transactions

Marks and Spencer Retail Financial Services Holdings Ltd is the immediate parent undertaking of Marks and Spencer Financial Services Plc, Marks and Spencer Life Assurance Ltd, Marks and Spencer Savings and Investments Ltd and Marks and Spencer Unit Trust Management Ltd. The transactions that took place within the year and their values are shown below.

	2006 £000	2005 £000
Marks and Spencer Financial Services Plc		
Dividend received	5,000	-
Marks and Spencer Unit Trust Management Ltd		
Dividend received	5,000	-

The amounts payable at the end of the period were as follows:

	As at 31 Dec 2006 £000	As at 31 Dec 2005 £000
Marks and Spencer Financial Services Plc	(29,998)	(29,998)

MARKS AND SPENCER RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

Notes to the Financial Statements

For the Year Ended 31 December 2006

14 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:

	B Cook Number	A LeCornu Number	A Mielczarek Number	M Watson Number
At 1 January 2006				
Ordinary Shares of US\$0.50	21,233	7,243	-	2,820
Total Options	32,508	-	2,474	33,187
Exercisable Options	32,508	-	-	30,150
Options granted	-	-	-	-
Options exercised or lapsed	32,508	-	-	-
At 31 December 2006				
Ordinary Shares of US\$0.50	34,246	678	-	3,011
Total Options	-	-	2,474	33,187
Exercisable Options	-	-	-	30,150

The terms of a number of Employee Benefit Trusts provide that all employees of HSBC Holdings Plc and any of its subsidiary undertakings are potential beneficiaries of the Trusts. As potential beneficiaries of the Trusts, each Director of the Company is deemed to have a technical interest in all of the HSBC Holdings Plc ordinary shares of US\$0.50 each held by the Trusts. At 31 December 2006 the Trusts held a total of 133,346,569 ordinary shares of US\$0.50 each (31 December 2005: 130,812,676).

15 Ultimate holding company

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings Plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank Plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Bank Plc. All companies are registered in England and Wales.

Copies of HSBC Holdings Plc and HSBC Bank Plc consolidated financial statements can be obtained from the Company Secretary at 8 Canada Square, London, E14 5HQ.

16 Events after the balance sheet date

Subsequent to the year end, subsidiary companies declared dividend payments totalling £27 million (23 February 2006: £10 million), payable to Marks and Spencer Retail Financial Services Holdings Limited. On the same day, the Board declared the payment of a dividend of £27 million (23 February 2006: 10 million).