

**SINOPIA ASSET MANAGEMENT (UK) LIMITED**

**Registered Number 3492595**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2008**

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## Contents

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2	Report of the Directors
6	Independent Auditors' Report
7	Income Statement
8	Statement of Changes in Equity
9	Balance Sheet
10	Statement of Cash Flows
11	Notes to the Financial Statements

## Report of the Directors for the Year Ended 31 December 2008

### Principal Activities

The Company's principal activity is to manage investment portfolios on behalf of institutional clients. No change in the Company's activities is anticipated.

### Business Review

The Company's results for the year under review are as detailed in the income statement shown in these accounts. No dividends have been paid in the current period (2007: £nil).

The Company business was severely impacted by the financial crisis. Assets under Management ('AUM') fell by 32% to £5.7bn; 75% of the reduction being due to the drop in equity prices and 25% due to client redemptions. The Company focused its activity on managing the risks caused by the volatile market conditions and as a result suffered no operational problems despite the difficulties caused by the very turbulent environment. As a result of the Company's diligence, index investment strategy returns were delivered with very low tracking errors; enhanced index strategy results were delivered with positive returns compared to the US and European Markets although returns for UK and Global Equities underperformed the markets.

The Company's profit before tax for the period increased, despite its fall in AUM, due to its success at controlling its costs.

The impairment loss on assets available for sale ('AFS') investments relates to equity shares in HSBC Holdings plc awarded to staff on a deferred basis. A permanent write down in the value of the equity shares has been required following the downward movement in the share price of all banks in the last 12 months. This accounting adjustment does not represent an additional loss to the Company over and above the original purchase value of the shares. Similarly, the loss has no impact on the Company's capital.

### Key Performance Indicators

The Directors consider that the Company's financial key performance indicators ('KPIs') are those that communicate the Company's financial performance and position. Monitoring performance against KPIs enables the Company to measure its success in achieving targets and includes the following:

Measure	2008	2007	Change
Profit before tax (£000)	2,447	2,290	+7%
Operating profit (£000)	2,218	2,091	+6%
Net Assets (£000)	6,434	4,683	+37%
Assets under management ('AUM') (£'m)	5,786	8,531	(32%)
Return on capital employed (%)	59%	46%	+28%
Annualised cost/income ratio (%)	57%	70%	(19%)

## **Report of the Directors (continued)**

### **Risk Management**

The Board is responsible for risk and is responsible for oversight of the risk management process. The Board has considered the principal risks facing the Company and the exposure in relation to each of those risks. The Company operates within the governance and priority framework of HSBC Holdings plc. It also has its own established governance framework, with clear terms of reference for the Board and Sinopia Asset Management Risk Management Committee and a clear organisation structure, with documented delegated authorities and responsibilities. The Company is also monitored by the Global Banking and Markets Audit Committee which includes shareholder representatives.

The Sinopia Asset Management Risk Management Committee has approved a risk management framework and structure established by the Company's Risk function. The framework defines the principal risk categories and sets out the methodology for the identification, assessment, mitigation and reporting of risks. A risk management structure is in place which embeds risk management into the business.

The Sinopia Asset Management Risk Management Committee reviews the key corporate risks facing the Company and receives regular reports as to the current status of each risk.

The financial services industry remains closely regulated and the UK regulators may take actions that could result in changes to industry practices, sales and pricing. The Company maintains a strong compliance culture and monitors the regulatory environment closely to proactively adapt to changes and reduce risks to the business.

The Company has robust processes in place to identify, evaluate and manage the operational risk inherent in its business activities. Operational losses are closely monitored and assessed to ensure that business improvements are identified and implemented. The Company also has financial risk management policies in place, further details of which can be found in note 16.

There are formal compliance, internal audit and operational risk functions. These departments conduct regular monitoring of various business areas and control procedures in line with a plan agreed by the Board. Any issues of significance are brought to the attention of the Board. Planned corrective actions are independently monitored for timely completion and reviewed by the Global Banking and Markets Audit Committee.

The Company is a Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) firm and is authorised and regulated by the Financial Services Authority ('FSA'), pursuant to the Financial Services & Markets Act 2000. All the Company's activities during the year are regulated and conducted within the permissions granted to the Company by the FSA. Capital and other financial returns are prepared and submitted to the FSA on a quarterly basis. At 31 December 2008, surplus regulatory capital, as reflected within the Company's regulatory returns, amounted to £3,083,000 (2007: £2,258,000)

Pillar 3 Basel II is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel II framework. In accordance with these requirements the Company is relying on the HSBC Holdings plc's statement on the disclosure of Pillar 3 Basel II. On 10 November 2008, HSBC Holdings plc published summary qualitative pillar 3 disclosures ('Interim Pillar 3 Disclosures 2008') for 30 June 2008 on the investor relations section of its website, [www.hsbc.com](http://www.hsbc.com). HSBC Holdings plc expects to publish the first full set of pillar 3 disclosures for 31 December 2008, including quantitative tables, during the first half of 2009.

### **Internal Control**

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the Board policies on internal control and internal control management. The system of internal control is designed to manage rather than eliminate the risks of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

### **Future Developments**

The challenge for 2009 will be to undertake product development whilst continuing tight costs management. As investors' risk aversion has increased, there is a greater appetite for index strategies and a full range of equity index funds will be launched in a Luxembourg SICAV. In addition, client retention will be a key objective which the Company intends to achieve by delivering a strong product offering with good client service.

## Report of the Directors (continued)

### Results and Dividends

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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008 (2007: £Nil).

### Directors

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The Directors who served during the year were as follows:

Name	Appointed	Resigned
C Brousse		
S T Brown		
P Goimard		14 May 2008
O Sara		
J F Schmitt		
P Sequier		

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 and 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

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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 those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment.

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

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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 auditors are unaware and the director has taken all the steps that he/she ought to have taken as director in order to make himself/herself 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.

### Auditors

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It is the intention of the Directors to reappoint KPMG Audit Plc as the Company's auditor for the forthcoming year.

## Report of the Directors (continued)

### Statement of Directors' Responsibilities in Relation to Financial Statements

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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 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 (IFRS) 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 judgments 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

By order of the Board



Jean-Francois Schmitt  
Chief Executive Officer

23 April 2009

Registered Office:  
8 Canada Square  
London  
E14 5HQ

## **Independent Auditors' Report to the Members of Sinopia Asset Management (UK) Limited**

We have audited the financial statements of Sinopia Asset Management (UK) Limited for the year ended 31 December 2008 which comprise the income statement, the balance sheet, the statement of cash flows, statement of changes 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**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

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 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.

### **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 2008 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  
Registered Auditor

8 Salisbury Square  
London EC4Y 8BB

*24 April* 2009

# Income Statement

## For the year ended 31 December 2008

		<b>2008</b>	<b>2007</b>
	<i>Note</i>	<b>£000</b>	<b>£000</b>
Management fees receivable		4,578	5,816
Advisory fees receivable		703	1,040
<b>Net operating income</b>		<b>5,281</b>	<b>6,856</b>
Staff costs	13	(1,198)	(2,050)
Impairment loss on AFS investments		(26)	-
Other administrative expenses		(1,840)	(2,715)
Administrative expenses		(3,064)	(4,765)
<b>Operating profit</b>		<b>2,217</b>	<b>2,091</b>
Interest receivable and similar income	12	229	199
<b>Profit before income taxes</b>		<b>2,446</b>	<b>2,290</b>
Income tax charge	14	(709)	(938)
<b>Profit for the year</b>		<b>1,737</b>	<b>1,352</b>

*All items dealt with in arriving at the Company's results for the year relate to continuing operations.*

*The accounting policies and notes on pages 11 to 24 form an integral part of these financial statements.*



**Statement of Changes in Equity for the year ended 31 December 2008**

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Other reserves</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Year ended 31 December 2007 (Restated)</b>				
Balance at 1 January 2007	2,940	401	-	3,341
Movement in value of assets available for sale	-	-	(6)	(6)
Shares amortisation transferred from equity	-	-	(4)	(4)
Profit for the year	-	1,352	-	1,352
<b>Balance at 31 December 2007</b>	<b>2,940</b>	<b>1,753</b>	<b>(10)</b>	<b>4,683</b>
<b>Year ended 31 December 2008</b>				
Balance at 1 January 2008	2,940	1,753	(10)	4,683
Movement in value of assets available for sale	-	-	(34)	(34)
Impairment loss on AFS investments	-	-	26	26
Shares amortisation transferred to equity	-	-	20	20
Share option expense recognised in income statement	-	-	2	2
Profit for the year	-	1,737	-	1,737
<b>Balance at 31 December 2008</b>	<b>2,940</b>	<b>3,490</b>	<b>4</b>	<b>6,434</b>

*The accounting policies and notes on pages 11 to 24 form an integral part of these financial statements.*

*An explanation for the restatement is provided in note 11.*

# **Balance Sheet** **As at 31 December 2008**

		2008	2007
			Restated
	Note	£000	£000
<b>Non-current assets</b>			
Available for sale assets	4	193	98
Deferred tax asset	7	25	5
		<u>218</u>	<u>103</u>
<b>Current assets</b>			
Cash and cash equivalents	5	7,494	6,297
Trade and other receivables	6	<u>1,164</u>	<u>1,937</u>
		8,658	8,234
<b>Current liabilities</b>			
Trade and other payables	8	(2,003)	(2,670)
Current income tax liabilities	9	<u>(337)</u>	<u>(950)</u>
		(2,340)	(3,620)
<b>Net current assets</b>		<u>6,318</u>	<u>4,614</u>
<b>Non-current liabilities</b>			
Amount falling due after one year	4	(102)	(34)
<b>Net assets</b>		<u>6,434</u>	<u>4,683</u>
<b>Capital and reserves</b>			
Share capital	10	2,940	2,940
Profit and loss account		3,490	1,753
Other reserves	11	<u>4</u>	<u>(10)</u>
		6,434	4,683

The financial statements were approved by the board of directors on 23 April 2009 and were signed on its behalf by:



Jean-Francois Schmitt  
Chief Executive Officer

*The accounting policies and notes on pages 11 to 24 form an integral part of these financial statements.*

*An explanation for the restatement is provided in note 11.*

**Statement of Cash Flows - indirect method for the year ended 31 December 2008**

	<i>Note</i>	<b>2008</b>	<b>2007</b>
		<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities</b>			
Profit before tax		2,447	2,290
Interest income		(229)	(199)
<b>Profit before interest income</b>		<b>2,218</b>	<b>2,091</b>
<b>Adjustments for:</b>			
Change in other assets		(386)	94
Change in prepayments and accrued income		15	(145)
Change in other liabilities		(980)	1,062
Change in inter-company accounts		1,444	(647)
<b>Cash generated from operations</b>		<b>2,311</b>	<b>2,455</b>
Tax credit – Group relief receivable		(1,343)	(226)
Interest received		229	199
<b>Net cash from operating activities</b>		<b>(1,114)</b>	<b>(27)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,197</b>	<b>2,428</b>
Cash and cash equivalents at 1 January		6,297	3,869
<b>Cash and cash equivalents at 31 December</b>	<b>5</b>	<b>7,494</b>	<b>6,297</b>

*The accounting policies and notes on pages 11 to 24 form an integral part of these financial statements.*

## Notes to the financial statements

### 1 General information

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Sinopia Asset Management (UK) Limited is a company domiciled in England and Wales.

The Company's registered office is 8, Canada Square, London, E14 5HQ. The principal place of business is 78, St James's Street, London, SW1A 1EJ.

### 2 Significant accounting policies

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#### (a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Commission (EC).

#### (b) *Basis of preparation*

The financial statements are presented in Pound Sterling. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

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

The Company has adopted the requirements of International Financial Reporting Interpretations Committee ('IFRIC') 11, "Group and Treasury Share Transactions", which impacts its accounting for deferred share awards to staff. A restatement of 2007 comparatives for Total Equity (see Note 11) has been necessary.

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#### (c) *Revenue*

##### **Rendering of services**

The Company earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party); and
- Income earned on services provided is recognised as revenue as the services are provided (for example, investment management, portfolio and other management advisory and service fees).
- Income earned from exceeding a performance benchmark is only recognised when it can be reliably determined at the end of the period in which the benchmark is measured and the performance fee becomes payable.

## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

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#### (c) Revenue(continued)

##### Interest

- Interest income is recognised on an accruals basis.
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#### (d) Pension and other post-employment benefits

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries and certain other employees of HSBC Holdings plc group. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit scheme ('the principal scheme') which is closed and a defined contribution scheme, which was established on 1 July 1996 for new employees. Individual subsidiaries within the Group, whose employees participate in the principal scheme, are not able to identify their share of the underlying assets and liabilities of the principal scheme and account for the principal scheme as a defined contribution scheme.

The Company has taken advantage of multi-employer plan exemptions and has not disclosed the details of the defined benefit scheme required under IAS 19, "Employee Benefits".

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2008, of which employees of the Company are members, are disclosed in the statutory accounts of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees.

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#### (e) Income taxes

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 equity, in which case the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

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#### (f) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

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#### (g) *Financial assets and liabilities*

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, call deposits and liquidity fund holdings. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### **Available for sale assets**

Assets available for sale comprise shares of HSBC Holdings plc and any movements in fair value are taken to equity. The fair value of assets is determined directly with reference to the published price quotations from the London Stock Exchange as at close of trading on 31 December 2008.

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#### (h) *Other receivables*

Other receivables are stated at their cost less impairment losses (see accounting policy f).

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#### (i) *Provisions*

As a result of the Company's normal business risk, operational losses can arise and these are provided for when identified. A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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#### (j) *Other payables*

Other payables are stated at cost.

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#### (k) *Equity compensation plans*

Shares awarded to an employee to join the Company that are made available immediately, with no vesting period attached to the award, are expensed immediately. When an inducement is awarded to an employee on commencement of employment with the Company, and the employee must complete a specified period of service before the inducement vests, the expense is spread over the period to vesting.

Discretionary bonuses are expensed over the vesting period, which is the period from the date the bonus is announced until the award vests.

Where the market value of the shares awarded is higher or lower than the original cost, the increase or decrease in market value compared to the original cost is taken to the Available-for-sale reserve.

Where employees of the Company have joined a HSBC Holdings plc share option scheme, the fair values of the options are calculated at the start of each scheme and are amortised through the Income statement to the Capital Contribution Reserve over the life of the scheme (see Note 11).

## Notes to the financial statements (continued)

### 3 Critical accounting estimates, and judgements in applying accounting policies

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In preparing the financial statements, the Directors are required to make judgements where uncertainty exists at the balance sheet date.

In the following cases, the balance sheet value at the reporting date is influenced by such judgements:

- Impairment of assets (Note 2f);
- Provisions for liabilities and charges (Note 2i);
- Performance fee recognition (Note 2c).

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4 Equity compensation plans

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The ultimate parent company, HSBC Holdings plc, operates share options schemes and share award schemes, in which the employees of the Company participate.

#### Share options

The share option schemes include The HSBC Share Plan, HSBC Holdings Group Share Option Plan and Savings-Related Share Option Plans which are funded by employee contributions. These schemes are accounted for within the consolidated financial statements of HSBC Holdings plc, and costs relating to these schemes have not been charged to the Company.

The total number of shares outstanding at 31 December 2008 was 3,532 (2007: 1,599) and included 1,933 shares granted in 2008. The weighted average fair value of shares outstanding, which is calculated when transactions are contracted was £2.07 (2007: £1.79)

#### Share awards

Shares are also awarded to employees through the Restricted Share Plan and the Performance Share scheme. These schemes permit for discretionary cash bonus payments to be invested in restricted HSBC Holdings plc shares, with a 3 or 5 year vesting period. Discretionary bonuses are expensed over the vesting period, which is the period from the date the bonus is announced until the award vests. Employer's National Insurance is payable at vest date, and this is accrued at the relevant statutory rate on the market value of outstanding shares and is included in the liability and expenses for the plan given below.

With effect from 1 January 2006 the Restricted Share Plan is accounted for using IFRS 2.

The total number of shares outstanding as at 31 December 2008 was 29,176 which includes 2,378 in relation to scrip dividend income awarded (2007: 11,638) and included 15,609 shares awarded in 2008. The weighted average fair value of shares outstanding, which is based on the closing market price at 31 December 2008, was £6.62 (2007: £8.42).

**Notes to the financial statements** (continued)**4 Equity compensation plans (continued)****Impact of restricted share plan on the financial statements**

	2008	2007
	£000	Restated £000
<b>Available for sale assets</b>		
- Cost of shares awarded to employees	222	104
- Cumulative decrease in fair value	(29)	(6)
Fair value of available for sale assets	<u>193</u>	<u>98</u>
 <b>Employee share scheme liabilities</b>		
- Current liabilities	-	-
- Non-current liabilities	102	34
Liability to employees	<u>102</u>	<u>34</u>
 <b>Expense</b>		
- Expense for the year	<u>78</u>	<u>33</u>

The fair value of assets is determined directly with reference to published price quotations from the London Stock Exchange. The final published bid price of shares in HSBC Holdings plc shares at 31 December 2008 was £6.62 (2007 : £8.42).

**5 Cash and cash equivalents**

	2008	2007
	£000	£000
Cash and cash equivalents held with Group companies	<u>7,494</u>	<u>6,297</u>

**6 Trade and other receivables**

	2008	2007
	£000	£000
Amount due from Group undertakings	703	1,766
Prepayments and accrued income	140	155
Other debtors	321	16
	<u>1,164</u>	<u>1,937</u>

The Company's exposure to credit risk is represented by the carrying amounts of the assets.



**Notes to the financial statements** (continued)**7 Deferred tax****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee benefits	21	-	-	-	21	-
Accelerated capital allowances	4	5	-	-	4	5
	<b>25</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>5</b>

**8 Trade and other payables**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>Restated £000</b>
Amounts due to Group undertakings	1,202	821
Accruals and deferred income	696	729
Other creditors	105	1,120
	<b>2,003</b>	<b>2,670</b>

**9 Current tax liabilities**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Current tax liabilities	<b>337</b>	<b>950</b>

**10 Share capital**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Authorised</b>		
520,000 ordinary shares of £1 each	520	520
2,420,000 non cumulative redeemable preference shares of £1 each	2,420	2,420
	<b>2,940</b>	<b>2,940</b>
<b>Allotted, called up and fully paid</b>		
520,000 ordinary shares of £1 each	520	520
2,420,000 non cumulative redeemable preference shares of £1 each	2,420	2,420
	<b>2,940</b>	<b>2,940</b>

**Notes to the financial statements (continued)****10 Share capital (continued)****Rights of non-equity interests****Non cumulative redeemable preference shares of £1 each**

The non cumulative redeemable preference shares rank pari passu in all respect with the ordinary shares, except for the following:

- (i) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital in priority to the rights of ordinary shareholders.
- (ii) does not carry the right to attend or vote at a general meeting of the Company, except at meetings where a resolution is to be considered, on the varying of rights and restrictions attached to any class of shares, the creation of further shares of any class, or for winding up the Company.
- (iii) are redeemable at the discretion of the Company

No dividend has been accrued or will be paid in respect of the non-cumulative redeemable preference shares for the year ended 31 December 2008 (2007: £nil)

**11 Other Reserves**

	<b>2008</b>	<b>Restated 2007</b>
	<b>£000</b>	<b>£000</b>
Available for sale reserve:		
- Balance at the beginning of the year	(11)	-
- Fair value losses taken to equity	(34)	(11)
- Permanent impairment in AFS investments	26	-
- Balance at the end of the year	(19)	(11)
Capital contribution reserve:		
- Balance at the beginning of the year	1	-
- Compensation expense recognised in Income Statement	2	-
- Share amortisation transferred to equity	20	1
- Balance at the end of the year	23	1
	<b>4</b>	<b>(10)</b>

The available-for-sale reserve contains fair value and associated deferred tax adjustments in respect of Available-for-sale ('AFS') investments, being primarily shares held in respect of equity compensation schemes. When the share awards vest, the reserve is derecognised. These assets are revalued with reference to published price quotations from the London Stock Exchange, amortised over the period to the vesting date.

**Notes to the financial statements** (continued)**11 Other Reserves (continued)**

The capital contribution reserve contains fair value and associated deferred tax adjustments in respect of equity compensation schemes, where employees of the Company participate. Fair value is calculated at the date of the award and taken to the Capital contribution reserve over the period to vesting date.

A restatement of total shareholder's equity previously reported has been necessary following the adoption by the Company of IFRIC 11, "Group and Treasury Share Transactions". The restatement has resulted from the change in treatment from a cash settled to an equity settled transaction, and represents share amortisation transferred between Equity and Other Liabilities. Transfers between separate reserves within Equity have also been necessary.

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Total shareholder's equity as previously reported	4,687	4,687
Share amortisation from other liabilities	(4)	-
Total shareholder's equity restated	<u>4,683</u>	<u>4,687</u>

**12 Net interest income**

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
<b>Interest income</b>		
Cash and short term funds	229	199
	<u>229</u>	<u>199</u>

**13 Administrative expenses**

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
Administrative expenses include the following items:		
Auditors' remuneration for:		
- Audit of financial statements pursuant to legislation	15	14
- Other services pursuant to legislation	7	8
	<u>22</u>	<u>22</u>
Staff costs include:		
- Wages and salaries	938	1,754
- Social security costs	119	222
- Equity compensation plans (Note 4)	78	33
- Pension costs	63	41
	<u>1,198</u>	<u>2,050</u>
	<b>Number</b>	<b>Number</b>
Average staff numbers employed within the various divisions are as follows		
- Fund management	8	8
- Administration	1	1
	<u>9</u>	<u>9</u>

**Notes to the financial statements** (continued)**14 Taxation****a** *Analysis of charge in the year*

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
<i>Current tax:</i>		
UK corporation tax charge	730	942
Adjustments in respect of previous years	-	(6)
<i>Total current tax</i>	<u>730</u>	<u>936</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(14)	2
Adjustments in respect of previous years	(7)	-
<i>Total deferred tax</i>	<u>(21)</u>	<u>2</u>
<i>Tax charge on profit</i>	<u>709</u>	<u>938</u>

**b** *Factors affecting tax charge for the period*

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the UK at 28.5% (2007: 30%). The differences are explained below:

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
Profit on ordinary activities before tax	<u>2,446</u>	<u>2,290</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	697	687
Effects of:		
Expenses not deductible for tax purposes	7	246
Adjustments to tax charge in respect of previous years	(7)	(6)
<i>Overall tax charge on profit on ordinary activities</i>	<u>697</u>	<u>927</u>
Timing differences subject to deferred tax:		
Accelerated capital allowances	12	11
<i>Tax charge on profit</i>	<u>709</u>	<u>938</u>

**c** *Factors affecting future tax charges*

A change in the rate of Corporation tax from 30% to 28% was from 1 April 2008. It is not anticipated that this will have a material impact on current or deferred tax.

**Notes to the financial statements (continued)****15 Directors' remuneration**

	2008	2007
	£000	£000
Directors' emoluments	1,150	505
Amounts receivable under long-term incentive schemes	154	200
Company contributions to money purchase pension plans	104	7
	<u>1,408</u>	<u>712</u>

Not all Directors are paid remuneration by the Company.

**Highest paid Director:**

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £470,000 (2007:£491,468), and Company pension contributions of £nil (2007: £2,601) were made to a money purchase scheme on his behalf. All other Directors' emoluments are disclosed in the accounts of the immediate parent company.

During the year, the highest paid director received shares under a long term incentive scheme.

**Retirement benefits:**

	Number	Number
Retirement benefits are accruing to the following number of Directors under		
Money purchase schemes	1	1
Defined benefit schemes	1	1
 The number of Directors in respect of whose qualifying services shares were received/receivable under long term incentive schemes	 3	 3
The number of Directors who exercised share options over HSBC Holdings plc ordinary shares	1	2

Retirement benefits are accruing to 1 Director under defined benefit schemes at 31 December 2008 (2007: 1 Director). The Directors are members of retirement benefit schemes operated by HSBC Bank plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the Directors and staff. It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

**16 Financial risk management**

The Company's risk management framework and processes for identifying risks, including strategic and operational risks, are described in the Director's Report on Risk Management on pages 2 to 3. These processes include identification and control of financial risks.

As an asset management business, the Directors consider it appropriate to differentiate between those financial risks which directly impact the Company and those which indirectly impact the Company due to risks borne by our clients and the subsequent impact on the Company's revenues.

The Company is responsible for managing assets in accordance with the mandates specified by our clients and these assets are subject to varying financial risks (market, credit and liquidity). While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by or fall to the benefit of our clients.

However, as the majority of the Company's revenue is quantified as a percentage of assets under distribution (generally on a quarterly or monthly basis), the Company's income is impacted by movements in client assets which are caused by the exposure to financial risks. As a result of the direct link of revenues to the value of client assets, our interests are aligned to those of our clients.

## Notes to the financial statements (continued)

### 16 Financial risk management (continued)

A key risk to our business is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the Investment Committee is to monitor the performance of investment managers..

The Company does not hedge its revenue exposure to market risks arising from movements in the value of client assets.

The Company has direct exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The financial instruments of the Company (excluding short-term debtors and creditors) comprise cash and equity shares.

Exposure to credit, market rate and liquidity risk arises in the normal course of the Company's business. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year ended 31 December 2008.

#### Credit risk

Credit risk is the risk that a customer or counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. It is managed within limits approved by the Board and delegated to individuals as appropriate.

HSBC Holdings plc is responsible for the formulation of high-level credit policies. It also reviews the application of the HSBC Group's universal facility grading system. Within the overall framework of the HSBC Group policy, the Company has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Company is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The Company's only credit exposure is to debtors, which are frequently monitored for size and age. Balances with other companies within the HSBC Group have minimal credit risk. The nature of the Company's business and counterparties means that it is not exposed to significant credit risk. This is because its receivables are mainly short-term trading items or inter-company balances.

The Company's exposure to credit risk is represented by the carrying amount of the assets.

#### Market risk

Market risk is the risk that interest rates, foreign exchange rates or equity and commodity prices will move and result in profits or losses to the Company. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis).

The Company manages market risk through risk limits approved by the HSBC Group Executive Committee. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

The Company is exposed to currency risk in respect of income and cash balances denominated in a currency other than Sterling. The Company's exposure is kept to an acceptable level by managing the level of non-sterling cash balances on a regular basis.

Bank interest on deposits held at HSBC Bank is the only source of interest exposure. The effective interest during 2008 was 3.4% (2007: 4.7%) and all balances mature within 1 year.

**Notes to the financial statements** (continued)**16 Financial risk management** (continued)**Liquidity risk**

The Company's policy throughout the year has been to maintain sufficient liquidity in line with FSA regulations.

The classification of the Company's financial assets and liabilities, and their fair values (excluding accrued interest) is as follows;

	Effective interest rate	<u>2008</u> <u>£000</u>	<u>2007</u> <u>£000</u>
<b>Financial Assets</b>			
Cash and cash equivalents at cost	3.4 %	7,494	6,297
<b>Cash and cash equivalents at fair value</b>		<b>7,494</b>	<b>6,297</b>
Available for sale assets at cost		222	104
<b>Available for sale assets at fair value</b>		<b>193</b>	<b>98</b>
		<u><b>7,687</b></u>	<u><b>6,395</b></u>

**Capital management**

The Board's policy is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Board of Directors monitors the level of dividends to the ordinary shareholders. There has been no change to the Company's approach to capital management during the year.

The Company is regulated by the UK Financial Services Authority ('FSA'). The FSA's General Prudential sourcebook ('GENPRU2') provides rules for calculating the actual capital and minimum capital resources requirements of the Company. The Company is expected to maintain capital at above the minimum requirement at all times.

The calculation of actual capital is shown below:

	<u>2008</u> <u>£000</u>	<u>2007</u> <u>Restated</u> <u>£000</u>
Total equity	6,434	4,683
Less:		
Capital contribution reserve (Note 11)	(23)	(1)
Available for sale assets (Note 4)	<u>(193)</u>	<u>(98)</u>
Adjusted capital base	6,218	4,584
Minimum capital requirement	<u>(1,368)</u>	<u>(1,005)</u>
Surplus	<u><b>4,850</b></u>	<u><b>3,579</b></u>

At 31 December 2008, the Company held surplus capital of £4,850,000 (2007: £3,579,000) and held capital resources above the minimum requirement throughout the year.

**Notes to the financial statements** (continued)**17 Related-party transactions**

Transactions with related parties are undertaken on an arms length basis, and summarised as follows:

**a) Net income**

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
Interest receivable:		
-Group companies	229	199
Fees receivable		
-Group companies	5,282	6,856

Net income from related party transactions arises from:

- interest receivable on cash balances deposited with Group companies.
- annual management charges rebated to the Company in respect of its holdings in collective investment schemes managed by the Group companies.
- commission receivable for the referral of business to Group companies.

**b) Expenditure**

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
Administrative expenses:		
-Group companies	1,325	1,800
	<u>1,325</u>	<u>1,800</u>

Expenditure from related party transactions arises from:

- costs charged to the Company for the provision of management services. These include property services, compliance, finance, human resources, general management and IT. The Company is recharged for the actual costs incurred in undertaking these activities.
- costs recoverable from subsidiary undertakings in respect of management services.
- costs charged to the Company for the provision of investment recommendations and related trading support.
- Commission payable to the Company's associates in relation to sales of Company's products. The Company's products are marketed and sold primarily by HSBC Bank plc through its sales channels. The commission rates are set at either a percentage of fund sales or a percentage of the initial charge.

**c) Year-end balances with related parties**

	<u>2008</u>	<u>2007</u>
	<u>£000</u>	<u>£000</u>
<b>Assets</b>		
Cash and cash equivalents		
-Group companies	7,494	6,297
Trade and other receivables		
-Group companies	1,008	1,766
	<u>8,502</u>	<u>8,063</u>
<b>Liabilities</b>		
Trade and other payable:		
-Group companies	1,202	821
	<u>1,202</u>	<u>821</u>



## Notes to the financial statements (continued)

### 18 Immediate and ultimate parent company

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The Company is controlled by Sinopia Asset Management S.A., a company incorporated in France, as the immediate parent company and whose address is Immeuble Ile-de-France, 4 Place de la Pyramide, La Defense 9, 92800 Paris-La-Defense.

#### Ultimate controlling company

HSBC Holdings plc, a company incorporated in the United Kingdom, is the ultimate controlling company and whose address is 8 Canada Square, London, E14 5HQ. Copies of the ultimate parent's consolidated financial statements may be obtained by writing to that address.