SINOPIA ASSET MANAGEMENT (UK) LIMITED

Financial Statements
31 December 2010

Registered No 3492595

[redacted]

Financial Statements

Contents

Director's report for the year ended 31 December 2010

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 principal activities of the Company are set out above In addition, continued recovery in the financial markets during 2010 delivered increased assets under management by £1 4bn when compared to the previous year Additionally, growth in sales of the newly launched range of Exchange Trade Funds ("ETFs") has contributed to this increase in AUM The Company expects to earn significant revenues from such equity indexation initiatives combined with the further recovery of equity markets

Performance

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	2010	2009	Change
Profit before tax (£000)	(830)	204	(507%)
Operating profit (£000)	(847)	208	(507%)
Net assets(£000)	6,261	6,955	(10%)
Assets under management ('AUM') (£'m)	7,916	6,493	22%
Return on capital employed (excl dividend received) (%)	(20%)	17%	(219%)
Return on capital employed (incl dividend received) (%)	(20%)	17%	(219%)
Annualised cost/income ratio (%)	120%	95%	27%

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 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 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

Director's report for the year ended 31 December 2010

basis At 31 December 2010, surplus regulatory capital, as reflected within the Company's regulatory returns, amounted to £5,946,000 (2009 £5,155,000)

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 31 March 2010, HSBC Holdings plc published summary qualitative pillar 3 disclosures for 31 December 2009 on the investor relations section of its website, www hsbc com HSBC Holdings plc expects to publish the full set of pillar 3 disclosures for 31 December 2010, including quantitative tables, during the first half of 2011

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

Subject to board and regulatory approval, it is intended that in 2011, Sinopia Asset Management S A will sell Sinopia Asset Management (UK) Limited and its ongoing business to HSBC Global Asset Management (UK) Limited

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2010 (2009 £nil)

Going concern basis

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future In making this assessment, the Directors have considered a wide range of information relating to present and future conditions

Director's report for the year ended (continued) 31 December 2010

Directors

The Directors who served during the year were as follows

Name	Appointed	Resigned
C Brousse		31/08/2010
S T Brown		
J F Schmitt		
P Sequier		07/06/2010

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006 Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors

Supplier payment policy

The Company does not currently subscribe to any code or standard on payment practice It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment

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

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC group to provide necessary capital resources which are therefore managed on a group basis

The Company defines capital as total shareholders' equity It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times There were no changes to the Company's approach to capital management during the year

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith

Auditors

KPMG Audit Plc are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006

Director's report for the year ended (continued) 31 December 2010

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

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 6, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the Auditor in relation to the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU

The financial statements are required by law to present fairly the financial position and the performance of the Company, the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, 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 are responsible for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

On behalf of the Board

Jean-Francois Schmitt
Director

Registered Office
8 Canada Square
London
E14 5HQ

Schmitt

Date 25 February 2011

Independent Auditor's 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 2010 set out on pages 7 to 10 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

M Davies

M Davies (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
15 Canada Square

London E14 5GL

28 **February 2011**

Financial Statements (continued)

Income statement for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue			
Fee income	3	4,214	3,924
		4,214	3,924
Finance income/(costs)			
Interest income	4	17	(4)
Administrative expenses	5	(5,061)	(3,716)
Profit before tax		(830)	204
Tax credit	8	254	282
Profit for the year		(576)	486

There were no acquisitions, discontinued or discontinuing operations during the year

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

Statement of comprehensive income for the year ended 31 December 2010

There has been no comprehensive income or expense other than the profit/(loss) for the year as shown above (2009 £Nil)

Financial Statements (continued)

Statement of financial position as at 31 December 2010

	Notes	2010 £000	2009 £000
ASSETS			
Non-current assets			
Financial investments	9	**123**	227
Deferred tax assets	11	**24**	50
		147	277
Current assets			
Cash and cash equivalents held with other group undertakings		**6,288**	6,569
Receivables	10	**1,342**	923
Current tax assets		**290**	218
Prepayments		**22**	82
		7,942	7,792
Total assets		**8,089**	8,069
LIABILITIES AND EQUITY			
Current liabilities			
Other financial liabilities	12	**1,784**	1,035
		1,784	1,035
Non-current liabilities			
Other financial liabilities	13	**44**	79
		44	79
Total liabilities		**1,828**	1,114
Equity			
Called up share capital	17	**2,940**	2,940
Available-for-sale fair value reserve		**11**	28
Capital contribution reserve		**2**	11
Retained earnings		**3,308**	3,976
Total shareholders' equity		**6,261**	6,955
Total equity and liabilities		**8,089**	8,069

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

These financial statements were approved by the Board of Directors on 25 February 2011 and were signed on its behalf by

Schmitt

J F Schmitt
Director

Company Registered Number 3492595

Financial Statements (continued)

Statement of cash flows for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Profit for the year		**(830)**	204
Adjustments for			
– Interest income		**(17)**	4
– Change in operating assets		**644**	(77)
– Change in operating liabilities		**(303)**	(754)
– Tax (paid)/received		**208**	(298)
Net cash generated from operating activities		**(298)**	(921)
Cash flows from investing activities			
Interest received		**17**	(4)
Net cash from investing activities		**17**	(4)
Cash flows from financing activities			
Net increase in cash and cash equivalents		**(281)**	(925)
Cash and cash equivalents brought forward		**6,569**	7,494
Cash and cash equivalents carried forward		**6,288**	6,569

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 2010

	Called up share capital £000	Retained earnings £000	Revaluation reserve £000	Capital contribution reserve £000	Available-for-sale fair value reserve £000	Total shareholders' equity £000
Year ended 31 December 2010						
At 1 January 2010	2,940	3,976	-	11	28	6,955
Profit/(loss) for the year	-	(576)	-	-	-	(576)
Other comprehensive income (net of tax)	-	(92)	-	(9)	(17)	(118)
Available-for-sale investments	-	(92)	-	(9)	(17)	(118)
Exchange differences	-	-	-	-	-	-
Total comprehensive income/(expense) for the year	-	(668)	-	(9)	(17)	(694)
At 31 December 2010	2,940	3,308	-	2	11	6,261

	Called up share capital £000	Retained earnings £000	Revaluation reserve £000	Capital contribution reserve £000	Available-for-sale fair value reserve £000	Total shareholders' equity £000
Year ended 31 December 2009						
At 1 January 2009	2,940	3,490	-	23	(19)	6,434
Profit/(loss) for the year	-	486	-	-	-	486
Other comprehensive income (net of tax)	-	-	-	(12)	47	35
Available-for-sale investments	-	-	-	(12)	47	35
Exchange differences	-	-	-	-	-	-
Total comprehensive income/(expense) for the year	-	486	-	(12)	47	521
At 31 December 2009	2,940	3,976	-	11	28	6,955

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

Shareholders' equity is wholly attributable to equity shareholders

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements are presented in sterling and have been prepared on the historical cost basis

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company Accordingly, the Company's financial statements for the year ended 31 December 2010 are prepared in accordance with IFRSs as issued by the IASB

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body

During 2010, the Company adopted the following amendments to standards and interpretations

- IFRS 8 'Operating Segments' ('IFRS 8'), which replaced IAS 14 'Segment Reporting' has had no impact on the financial statements
- IAS 1 'Presentation of Financial Statements' ('IAS 1') (Revised 2007) aims to improve users' ability to analyse and compare information given in financial statements The adoption of the revised standard had no effect on the results reported in the Company's financial statements It did, however, result in certain presentational changes in the Company's financial statements, including
  - the presentation of all items of income and expenditure in two financial statements, the 'Income statement' and the 'Statement of comprehensive income',
  - the re-naming of the 'Balance Sheet' as 'Statement of Financial Position', and
  - the presentation of the 'Statement of changes in equity' as a financial statement replaces the previous 'Equity' note on the financial statements
- An amendment to IFRS 7 'Financial Instruments Disclosures – Improving Disclosures about Financial Instruments' The most significant additional disclosures required by this amendment in the Company's financial statements include tables of fair value measurements disclosing the source of inputs using a three level fair value hierarchy, and reconciliations of the movements between opening and closing balances of Level 3 financial instruments, being those measured at fair value using a valuation technique with significant unobservable inputs
- A revised IFRS 3 'Business Combinations' and amendments to IAS 27 'Consolidated and Separate Financial Statements' were issued on 10 January 2008 The revisions and amendments to the standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual financial reporting period beginning on or after 1 July 2009 The main changes under the standards are that
  - acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred,
  - all consideration transferred, including contingent consideration, is recognised and measured at fair value at the acquisition date,
  - equity interests held prior to control being obtained are re-measured to fair value at the date of obtaining control, and any gain or loss is recognised in the income statement,
  - changes in a parent's ownership interest in a subsidiary that do not result in a change of control are treated as transactions between equity holders and are reported in equity, and
  - an option is available, on a transaction-by-transaction basis, to measure any non-controlling (previously referred to as minority) interests in the entity acquired either at fair value, or at the non-controlling interests' proportionate share of the net identifiable assets of the entity acquired

The changes will have no impact on the financial statements

Financial Statements (continued)

During 2010, in addition to the above, the Company adopted a number of standards, interpretations and amendments thereto which had an insignificant effect on the financial statements

(b) Future accounting developments

At 31 December 2010 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2010 Those which are expected to have a significant effect on the Company's financial statements are discussed below

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

IFRS 9 'Financial Instruments' introduces new requirements for the classification and measurement of financial assets The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted IFRS 9 is required to be applied retrospectively If the standard is adopted prior to 1 January 2012, an entity will be exempt from the requirement to restate prior period comparative information IFRS 9 is subject to EU endorsement, the timing of which is uncertain Accordingly, the Company is unable to provide a date by which it plans to apply IFRS 9

The main changes to the requirements of IAS 39 are summarised below

- All financial assets that are currently in the scope of IAS 39 will be classified as either amortised cost or fair value The available-for-sale and held-to-maturity categories will no longer exist
- Classification is based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets Reclassifications between the two categories are prohibited unless there is a change in the entity's business model
- A financial asset is measured at amortised cost if two criteria are met i) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and ii) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding All other financial assets are measured at fair value Movements in the fair value of financial assets classified at fair value are recognised in profit or loss, except for equity investments where an entity takes the option to designate an equity instrument that is not held for trading at fair value through other comprehensive income If this option is taken, all subsequent changes in fair value are recognised in other comprehensive income with no recycling of gains or losses to the income statement Dividend income would continue to be recognised in the income statement
- An entity is only permitted to designate a financial asset otherwise meeting the amortised cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch This designation is made on initial recognition and is irrevocable
- Financial instruments which contain embedded derivatives are to be classified in their entirety either at fair value or amortised cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9

IFRS 9 is the first instalment in the IASB's planned phased replacement of IAS 39 with a less complex and improved standard for financial instruments The next steps in the IASB's project will address the classification and measurement requirements for financial liabilities, the impairment of financial assets measured at amortised cost and hedge accounting The IASB has indicated that it aims to finalise the replacement of IAS 39 by the end of 2010 In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements

No other standards or interpretations available for early adoption are expected to have a significant effect on the results or net assets of the Company when adopted.

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

(c) General information

Sinopia Asset Mangement (UK) Limited is a company domiciled and incorporated in England and Wales

2 Summary of significant accounting policies

(a) Fee Income

Income earned on the execution of a significant act is recognised as revenue when the act is completed Income earned from the provision of services is recognised as revenue as the services are provided and 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 Fund management charges are netted against fee income

(b) Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

(c) Income Tax

Income tax comprises current and deferred tax and is recognised in the income statement

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period 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 offset exists

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset

Deferred tax relating to fair value remeasurement of available-for-sale investments which is charged or credited directly to other other reserves, is also credited or charged to other reserves and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement

Financial Statements (continued)

(d) Foreign currencies

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 end of the reporting period Any resulting exchange differences are included in the income statement

Non-monetary assets and liabilities that are measured at 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 Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement

(e) Dividend income

Dividend income from investments is recognised in the income statement when the right to receive payment is established

(f) Subsidiaries

The Company classifies investments in entities in which it controls as subsidiaries For the purpose of the Company's investments in subsidiaries are stated at cost less any impairment losses Any impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised

(g) Financial assets and liabilities

(i) Loans and receivables

Loans and receivables include loans and receivables originated by the Company which are not classified either as held for trading or designated at fair value Loans and receivables are recognised when cash is advanced to borrowers They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses

(ii) Available-for-sale

The Company's available-for-sale investments at 31 December 2010 comprise restricted shares purchased for funding Employee Benefit Trusts for the purpose of delivering share awards to employees

(iii) Financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company current account

(iv) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value

Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash

(h) Impairment of loans and receivables

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred Impairment losses are calculated on individual loans and on groups of loans assessed collectively Impairment losses are recorded as charges to the income statement The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts Losses expected from future events are not recognised

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified

Financial assets are written off to the extent that there is no realistic prospect of recovery

(i) Pension and other post employment benefits

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries (including the Company) and certain other employees of the 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 the end of the reporting period, of which employees of the Company are members, are disclosed in the financial statements 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

(j) Share-based payments

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the 'Capital contribution reserve' for share option awards and a credit to the inter-company account with HSBC Holdings plc for share awards The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted Market performance conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition is satisfied, provided all other conditions are satisfied

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions

Financial Statements (continued)

Share awards to employees that are recharged from HSBC Holdings plc to the Company are recognised as an inter-company creditor, not as a capital contribution Savings-related share option awards are charged over the vesting period and are recognised as a capital contribution reserve

(k) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared

(l) Determination of fair value

All financial instruments are recognised initially at fair value In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received)

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates

(m) Use of assumptions and estimates

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent

There are no accounting policies that are deemed critical to the Company's IFRS results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation

3 Fee income

	2010 £000	2009 £000
Fund management fees	3,885	3,679
Fund advisory fees	445	245
Fund management charges	(116)	-
	4,214	3,924

4 Finance income/(costs)

	2010 £000	2009 £000
Interest receivable on cash and short term funds held with other group undertakings	17	(4)
Interest income	17	(4)

5 Administrative expenses

	2010 £000	2009 £000
Staff costs		
– Wages and salaries	646	674
– Social security costs	91	95
– Discretionary bonus	408	423
– Equity compensation plans	71	107
– Pension costs	72	77
– Other staff costs	125	251
Computer costs	1,175	118
Property costs	123	116
Contracted out services	800	698
Other administrative expenses	1,550	1,157
	5,061	3,716

	Number	Number
The average number of persons employed by the Company during the year was as follows		
– Fund management	7	6
– Administration	1	1
	8	7

Other administrative expenses include		
Auditor's remuneration for		
– Audit fees	25	25
– Other services pursuant to legislation	-	1
	25	26

6 Share-based payments

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 These schemes are accounted for within the consolidated financial statements of HSBC Holdings plc and costs relating to these schemes have been included in the Income statement A capital contribution from the parent has been recognised in the capital contribution reserve

The total number of shares outstanding at 31 December 2010 was 12,989 (2009 12,926) and included 1,662 shares granted in 2010 The weighted average fair value of shares outstanding, which is calculated when transactions are contracted was £2 35 (2009 £1 90)

Share awards

Shares are also awarded to employees through the Restricted Share Plan and the Performance Share schemes 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 awarded in respect of service in the past are expensed over the vesting period which in this case is the period from the date the bonus is announced until the award vests Employer's National Insurance is payable at the vest date, and this is accrued at the relevant statutory rate on the market value of the outstanding shares and is included in the liability and expenses for the plan given below

The total number of shares outstanding as at 31 December 2010 was 18,759 which includes 1,411 in relation to scrip dividend income awarded (2009 32,014) The weighted average fair value of shares outstanding, which is based on the closing market price at 31 December 2010, was £6 51 (2009 £7 09)

Financial Statements (continued)

Impact of restricted share plan on the financial statements

	2010 £000	2009 £000
Available-for-sale assets		
Cost of shares awarded to employees	102	202
Cumulative (decrease)/increase in fair value	21	25
Fair value of available-for-sale assets	123	227
Employee share scheme liabilities		
Current liabilities	41	106
Non-current liabilities	44	79
Total liability to employees	85	185
Expense		
Expense for the year	71	107

7 Directors' emoluments

	2010 £000	2009 £000
Directors' emoluments for services to the Company	979	1,608
Amounts receivable under long-term incentive schemes	311	631
	1,290	2,239

Not all directors are paid remuneration by the Company

The aggregate of emoluments and amounts received under long term incentive schemes of the highest paid director was £536,516 (2009 £758,968), and company pension contributions of £nil were made to the money purchase scheme on his behalf (2009 £nil)

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

Retirement Benefits

	2010 No	2009 No
Retirement benefits are accruing to the following number of directors under		
– Money purchase schemes	0	1
– Defined benefit schemes	1	1
The number of directors in respect of whose qualifying service shares were received/receivable under long term incentive schemes	3	4
The number of directors who exercised share options over HSBC Holdings plc ordinary shares	0	1

Retirement benefits are accruing to 1 director under defined benefit schemes at 31 December 2010 (2009 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

8 Tax expense

	Notes	2010 £000	2009 £000
Current tax			
UK Corporation tax			
– on current year profit/(loss)		**(260)**	(55)
– adjustments in respect of prior years		**(20)**	(202)
Total current tax		**(280)**	(257)
Deferred tax			
Origination and reversal of temporary differences		**25**	112
Effect of changes in tax rates		**1**	-
Adjustment in respect of prior years		**-**	(137)
Total deferred tax	*15*	**26**	(25)
Tax expense/(credit)		**(254)**	(282)

The UK corporation tax rate applying to the Company was 28 per cent (2009 28 per cent)

The following table reconciles the tax expense

	2010 £000	Percentage of overall profit before tax %	2009 £000	Percentage of overall profit before tax %
Taxation at UK corporation tax rate of 28% (2009 28%)	**(232)**	**28 0%**	57	28 0%
Adjustments in respect of prior years	**(20)**	**2 4%**	(339)	(166 2%)
Changes in tax rates	**1**	**(0 1%)**	-	-%
Other items	**(3)**	**0.3%**	-	-%
Overall tax expense	**(254)**	**30 6%**	(282)	(138 2%)

9 Financial investments

	2010 £000	2009 £000
Available-for sale		
At 1 January	**227**	218
Additions - acquisitions	**-**	-
Provisions for impairment	**-**	-
Disposal	**(125)**	(16)
Revaluation	**21**	25
At 31 December	**123**	227

The fair value of assets is determined with reference to published price quotations from the London Stock Exchange Where an illiquid or distressed market exists which has artificially depressed prices and these securities are to be held to maturity then a model approach has been used to mark these investments to market

The increase / (decrease) in fair value relates to the movement in valuation of the underlying investments Any price movements are taken to other comprehensive income unless the investment is deemed to be impaired

The fair value of assets is determined with reference to published share price quotations from the London Stock exchange The final published bid price of shares in HSBC Holdings plc shares at 31 December 2010 was £6 51 (2009 £7 09)

Financial Statements (continued)

10 Receivables

	2010 £000	2009 £000
Related parties	**1,340**	466
Amounts due from parent undertakings	**-**	-
Amounts due from other group undertakings	**1,340**	466
Trade receivables	**22**	82
Other receivables	**2**	457
Value added tax	**-**	-
	1,364	1,005

11 Deferred tax assets/liabilities

	2010 £000	2009 £000
At 1 January	**50**	26
Income statement credit/(charge)	**(26)**	24
At 31 December	**24**	50

	2010 £	2009 £
Deferred tax assets		
Property, plant and equipment	**2**	3
Share-based payments	**22**	47
	24	50

12 Other financial liabilities

	2010 £000	2009 £000
Current liabilities		
Related parties	**1,068**	395
Amounts due to parent undertakings	**-**	-
Amounts due to other group undertakings	**1,068**	395
Other creditors	**115**	106
Accruals and deferred income	**601**	534
	1,784	1,035
Non-current liabilities		
Employee share scheme liability	**44**	79
	44	79

13 Share capital

	2010 £000	2009 £000
Allotted, called up and fully paid		
520,000 Ordinary shares of £1 each	**520**	520
2,420,000 Preference shares of £1 each	**2,420**	2,420
	2,940	2,490

Financial Statements (continued)

14 Dividends

For the year ended 31 December 2010 no dividend has been paid or declared (2009 £nil)

15 Analysis of financial assets and liabilities by measurement basis

The following tables analyse the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by heading in the statement of financial position

At 31 December 2010	Available-for-sale securities	Loans and receivables	Financial assets and liabilities at amortised cost	Total
	£000	£000	£000	£000
Assets				
Financial investments	123	-	-	123
Cash and cash equivalents	-	6,288	-	6,288
Amounts due from other group undertakings	-	1,340	-	1,340
Other receivables	-	2	-	2
Prepayments and accrued income	-	22	-	22
Total financial assets	123	7,652	-	7,775
Total non financial assets				314
Total assets				8,089
Liabilities				
Amounts owed to other group undertakings	-	1,068	-	1,068
Other creditors	-	115	-	115
Accruals and deferred income	-	601	-	601
Total financial liabilities	-	1,784	-	1,784
Total non financial liabilities				44
Total liabilities				1,828

At 31 December 2009	Available-for-sale securities	Loans and receivables	Financial assets and liabilities at amortised cost	Total
	£000	£000	£000	£000
Assets				
Financial investments	227	-	-	227
Cash and cash equivalents	-	6,569	-	6,569
Amounts due from other group undertakings	-	466	-	466
Other receivables	-	457	-	457
Prepayments and accrued income	-	82	-	82
Total financial assets	227	7 574	-	7,801
Total non financial assets				268
Total assets				8,069
Liabilities				
Amounts owed to other group undertakings	-	395	-	395
Other creditors	-	106	-	106
Accruals and deferred income	-	534	-	534
Total financial liabilities	-	1,035	-	1,035
Total non financial liabilities				79
Total liabilities				1,114

Financial Statements (continued)

16 Risk Management

The Company's risk management framework and processes for identifying risks, including strategic and operational risks, are described in the Directors' Report on Risk Management on page 2 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 the Company's clients and the subsequent impact on the Company's revenues

The Company is responsible for managing assets in accordance with the mandates specified by the Company's 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 the Company's 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, the Company's interests are aligned to those of its clients

A key risk to the 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, liquidity funds 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 reporting period ending 31 December 2010

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract 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

Financial Statements (continued)

Market risk management

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 2010 was 0 25 % (2009 -0 07%) and all balances mature within 1 year

Liquidity risk management

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

Financial assets	2010 £000	2009 £000
Cash and cash equivalents at cost	6,288	6,569
Cash and cash equivalents at fair value	6,288	6,569
Available-for-sale assets at cost	102	202
Available-for-sale assets at fair value	123	227
	6,411	6,796

17 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

	2010 £000	2009 £000
Total equity	6,261	6,955
Less		
Available for sale reserves	(11)	(28)
Financial investments (Notes 9)	(123)	(227)
Capital contribution reserve	(2)	(11)
Adjusted capital base	6,125	6,689
Minimum capital requirement	(751)	(1,099)
Surplus	5,374	5,590

At 31 December 2010, the Company held surplus capital of £5,374,000 (2009 £5,590,000) and held capital resources above the minimum requirement throughout the year

18 Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2010 and 31 December 2009

19 Related party transactions

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

Related party 2010	Amount of transaction £000	Balance at 31 December 2010 £000	Details of transactions
HSBC Bank Plc	(923)	(1,054)	Payroll, tax, Group recharges
HSBC Bank Plc	17	6,288	Bank balance/interest
HSBC Global Investment Funds	445	98	Fund management fee
Sinopia Asset Management	(366)	49	Fund management fee
HSBC Global Asset Management (UK) Ltd	2,318	955	Fund management fee
HSBC Global Asset Management (HK) Ltd	904	225	Fund management fee

Related party 2009	Amount of transaction £000	Balance at 31 December 2009 £000	Details of transactions
HSBC Bank Plc	(813)	(363)	Payroll, tax, Group recharges
HSBC Bank Plc	(4)	6,569	Bank balance/interest
HSBC Global Investment Funds	245	35	Fund management fee
Sinopia Asset Management	1	456	Fund management fee
HSBC Global Asset Management (UK) Ltd	2,350	233	Fund management fee
HSBC Global Asset Management (HK) Ltd	630	165	Fund management fee

The ultimate parent undertaking (which is the ultimate controlling party) and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc

Sinopia Asset Management its immediate parent company is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party

The result of the Company is included in the group financial statements of HSBC Holdings plc

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

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

20 Contingent liabilities

There were no contingent liabilities at 31 December 2010 (2009 £Nil)

21 Subsequent events

There are no subsequent events requiring disclosure in the financial statements