HSIL Investments Limited

Registration No: 4430147

Annual Report and Financial Statements for the year ended 31 December 2018

HSBC

Annual Report and Financial Statements for the year ended 31 December 2018

Contents

	Page
Strategic Report	1
Report of the Directors	2
Report of the independent auditors to the members of HSIL Investments Limited	4
Income statement	6
Statement of comprehensive income	7
Balance sheet	8
Statement of cash flows	9
Statement of changes in equity	10
Notes on the financial statements	11

Strategic Report

Principal activities

HSIL Investments Limited ('the Company') is a limited company domiciled and incorporated in England and Wales. Its trading address is 8 Canada Square, London E14 5HQ, United Kingdom.

The Company acts as an investment company and as a holding company for companies established primarily to acquire property and infrastructure investments. No change in the Company's activities is anticipated.

The principal activities of the Company are set out above. In addition, the Company is a subsidiary where its indirect parent, HSBC Specialist Investments Limited ('HSIL'), provides services by seeking new business and managing and divesting the asset portfolio. The Company is limited by shares.

Review of the Company's business

The business is funded by a parent undertaking through equity investment and by an indirect parent undertaking through borrowings.

The Company has no employees and all the related services are provided by an indirect parent company.

The Company's stakeholders are limited to its subsidiaries as listed in Note 16 and its parent and indirect parent companies.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 6 of these financial statements.

The key performance indicator for the Company is net operating profit which comprises gains, income and dividends from investments. The Company's investments are medium/long-term in nature and the level of profits or losses are expected to be determined by the performance and realisation of these investments.

The operating loss for the year was £5,480 (2017: £52,689 operating profit). The operating loss for the year ended 31 December 2018 is mainly due to interest expenses plus negative changes in fair value of financial instruments measured at fair value through profit and loss account.

The Company's investments are made in both sterling and foreign currencies, principally Euro and US Dollar.

Key performance indicators

As the Company is managed as part of the global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Holdings plc. Ongoing review of the performance of the Company is carried out by comparing actual performance against annually set budgets.

Principal risks and uncertainties

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in Note 21 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of leaving the EU commencing on 29 March 2017. The ultimate economic impact of the UK leaving the EU is currently uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates. As described in Note 21, foreign exchange and interest rates are managed by the Company in the ordinary course of business and so any increased volatility as a result of the UK leaving the EU is not expected to have a material effect on the results and net assets of the Company. Additionally, any general adverse consequences for credit risk at a UK or EU macro-economic level that may arise as a consequence of the UK leaving the EU is not expected to translate into a material increase in credit risk for the Company given the nature of the company's transactions, its counterparties and available security.

On behalf of the Board

J P Marlow
Director
24 September 2019

8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Name
C R J Irvin
J Wilkinson
J P Marlow

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. All Directors have the benefit of Directors' and officers' liability insurance.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: nil).

Significant events since the end of the financial year

No significant events affecting the Company have occurred since the end of the financial year.

Future developments

No change in the Company's activities is expected.

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, including future projections of profitability, cash flows and capital resources.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 21 of the Notes on the financial statements.

Capital management

The Company is not subject to externally imposed capital requirements. It is a member of the HSBC Specialist Investments Group ('HSI') and capital management is performed at group level.

The Company defines capital as total shareholders' equity. It is HSBC Group'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.

Independent auditors

PricewaterhouseCoopers LLP ('PwC') is external auditor to the Company. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's auditor.

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities set out in their report on page 5, is made with a view to distinguish the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are responsible for preparing the *Annual Report and Financial Statements*, in accordance with applicable law and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and Financial Statements for each financial year. The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

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

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditors

In accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement, in the case of each Director in office as at the date the Report of the Directors is approved, that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

J.P. Marlow

J P Marlow
Director
24 September 2019

8 Canada Square
London E14 5HQ
United Kingdom

Report of the independent auditors to the members of HSIL Investments Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSIL Investments Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Financial Statements* (the "*Annual Report*"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

  We have nothing to report in respect of the above matters

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the *Annual Report* other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibility statement set out on page 3, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

David Mayland

David Mayland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

29 September 2017

Financial statements

Income statement for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Interest income		–	11
Interest expense		(3,344)	(2,726)
Net interest income		(3,344)	(2,715)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		(15,325)	–
Gains less losses from financial investments		746	57,729
Dividend income		–	754
Other operating income	2	12,630	3,298
Net operating income before loan impairment charges and other credit risk provision		(5,293)	59,066
General and administrative expenses	3	(436)	(2,265)
Impairment reversal/(charge) on investments in subsidiaries		249	(4,112)
Total operating expenses		(187)	(6,377)
Operating (loss)/profit		(5,480)	52,689
(Loss)/profit before tax		(5,480)	52,689
Tax credit/(expense)	7	682	(9,639)
(Loss)/profit for the year		(4,798)	43,050

Statement of comprehensive income for the year ended 31 December 2018

	2018	2017
	£'000	£'000
(Loss)/profit for the year	**(4,798)**	43,050
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit and loss when specific conditions are met:		
Available-for-sale investments		
- fair value gains	**–**	12,870
- fair value gains/(losses) reclassified to the income statement	**–**	(57,729)
- associated current tax taken directly to equity	–	3,364
- associated deferred tax taken directly to equity	–	4,263
Other comprehensive income/(expense) for the year, net of tax	–	(37,232)
Total comprehensive (expense)/income for the year	**(4,798)**	5,818

Balance sheet at 31 December 2018
Registration No: 4430147

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	9	**1,694**	2,345
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	15	**125,486**	–
Trade and other receivables	14	**9,404**	–
Financial investments	13	**–**	131,075
Current tax assets		**2,654**	2,356
Investments in subsidiaries	16	**496**	2,138
Total assets		**139,734**	137,914
Liabilities and equity			
Liabilities			
Loans from other group undertakings	17	**57,235**	52,472
Accruals, deferred income and other liabilities		**664**	316
Deferred tax liabilities	8	**2,632**	1,125
Total liabilities		**60,531**	53,913
Equity			
Called up share capital	19	**35,000**	35,000
Other reserves		**–**	26,510
Retained earnings		**44,203**	22,491
Total equity		**79,203**	84,001
Total liabilities and equity		**139,734**	137,914

The accompanying notes on pages 11 to 23 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24 September 2019 and signed on its behalf by:

J.P. Marlow

J P Marlow
Director

Statement of cash flows for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
(Loss)/profit before tax		**(5,480)**	52,689
Adjustments for:			
Non-cash items included in profit before tax	9	**1,699**	(56,915)
Change in operating assets	9	**(9,404)**	398
Change in operating liabilities	9	**347**	50
Tax credit received/(paid)		**1,892**	(7,634)
Net cash used in operating activities		**(10,946)**	(11,412)
Cash flows from investing activities			
Purchase of financial investments		**(26,988)**	(12,570)
Proceeds from the sale and maturity of financial investments		**19,889**	113,244
Net cash (used in)/generated from investing activities		**(7,099)**	100,674
Cash flows from financing activities			
Repayment of borrowings		**17,394**	(94,373)
Net cash generated from/(used in) financing activities		**17,394**	(94,373)
Net decrease in cash and cash equivalents		**(651)**	(5,111)
Cash and cash equivalents brought forward		**2,345**	7,456
Cash and cash equivalents carried forward	9	**1,694**	2,345

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Retained earnings	Other reserves Financial assets at FVOCI reserve	Total equity
	£'000	£'000	£'000	£'000
As at 31 Dec 2017	**35,000**	**22,491**	**26,510**	**84,001**
Impact on transition to IFRS 9	–	**26,510**	**(26,510)**	–
At 1 Jan 2018	**35,000**	**49,001**	–	**84,001**
(Loss)/profit for the year	–	**(4,798)**	–	**(4,798)**
Total comprehensive income/(expense) for the year	–	**(4,798)**	–	**(4,798)**
At 31 Dec 2018	**35,000**	**44,203**	–	**79,203**

	Called up share capital	Retained earnings	Other reserves Available for sale fair value reserve	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2017	35,000	(20,559)	63,742	78,183
Profit for the year	–	43,050	–	43,050
Other comprehensive losses / income (net of tax)				
- available-for-sale Investments	–	–	(37,232)	(37,232)
Total comprehensive income/(expense) for the year	–	43,050	(37,232)	5,818
At 31 Dec 2017	35,000	22,491	26,510	84,001

Notes on the financial statements

1 Basis of preparation and significant accounting policies

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRSs'). The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2018

The Company has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives. Adoption has had no impact on the net assets of the Company as at 1 Jan 2018 however the available for sale fair value reserves of $26m has been reclassified to retained earnings.

In addition, the Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the financial statements of the Company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2019, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

There are no new IFRSs published by the IASB which are effective from 1 January 2019 that are expected to have an impact on the financial statements of the Company.

(c) Foreign currencies

The functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

The functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company.

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by section 400 of the Companies Act 2006.

All amounts have been rounded to the nearest thousand unless otherwise stated.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Management's selection of the Company's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

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, including future projections of profitability, cash flows and capital resources.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

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.

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.

Non-interest income and expense

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends.

Dividend income is recognised when the right to receive a payment is established. This is the ex-dividend date for listed equity securities and usually the date when the shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis'. This is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the solely payments of principal and interest ('SPPI') test.

(b) Investments in subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. For the purpose of determining this classification, the Company is considered to have control of an entity when it is exposed, or has rights to variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

The Company's investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired. Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment and the rates used to discount these cash flows.

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out and the valuation inputs become observable or the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(d) Financial instruments measured at amortised cost

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectable, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

Financial liabilities

Amounts owed to other group undertakings represent financial liabilities and are included within trade and other payables. *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 provision 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.

Loans from other group undertakings

Loans from other group undertakings are recognised when cash is advanced or contractual arrangements are entered into, which is generally on the trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company 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.

(e) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets, liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contain one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Company enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis', including related derivatives, measured at fair value through profit or loss.

(f) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

(g) Called up share capital

Financial instruments issued are generally 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 the proceeds, net of tax.

(h) Cash and cash equivalents

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.

2 Other operating income

	2018	2017
	£'000	£'000
Foreign exchange gain	12,630	3,298

Non-sterling investments within the HSI group are funded with debt in the same currency, however International Accounting Standards require only the gains or losses on the monetary assets (being debt and loan stock portion of the investment) and not the non-monetary assets (equity portion of the investments) to flow through the income statement causing a gain or loss.

3 General and administrative expenses

Included in general and administrative expenses are £405k (2017: £2,235k) of management fees.

The Directors actively monitor the investments in the Company. For the year ended31 December 2018, no additional provision has been raised against loan stock (2017: £3,863k). Subsidiary provisions released in the current reporting year were £249k (2017: £249k charge).

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2017: nil).

5 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2017: nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

6 Auditors' remuneration

	2018	2017
	£'000	£'000
Audit fees for statutory audit		
- Fees relating to current year	**31**	30

There were no non-audit fees incurred during the year (2017: nil).

7 Tax

Tax (credit)/expense

	2018	2017
	£'000	£'000
Current tax		
UK Corporation tax		
- For this year	**(2,654)**	1,008
- Adjustments in respect of prior years	**464**	8,631
Total current tax	**(2,190)**	9,639
Deferred tax		
- For this year	**1,359**	–
- Adjustments in respect of prior years	**149**	–
Total deferred tax	**1,508**	–
Year ended 31 Dec	**(682)**	9,639

The UK corporation tax rate applying to the Company was 19% (2017: 19.25%).

The UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. A further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned. These reductions in the corporation tax rate were enacted in the Finance (No 2) Act 2016.

Tax reconciliation

	2018		2017	
	£'000	**(%)**	£'000	(%)
Profit before tax	**(5,480)**		52,689	
Tax at 19% (2017: 19.25%)	**(1,041)**	**19.00**	10,141	19.25
Adjustment in respect of prior years	**613**	**(11.19)**	8,631	16.40
Permanent disallowables	**30**	**(0.54)**	1,221	2.30
Impact due to changes in tax rates	**–**	**(0.01)**	–	–
Non-taxable income and gains	**(284)**	**5.18**	(10,425)	(19.80)
Other	**–**	**–**	71	0.10
Year ended 31 Dec	**(682)**	**12.45**	9,639	18.25

8 Deferred tax

The following table shows the gross deferred tax assets and liabilities recognised in the balance sheet and the related amounts recognised in the income statement:

	Other temporary differences	
	2018	2017
	£'000	£'000
At 1 Jan	**(1,125)**	(5,388)
Income statement charge	**(1,358)**	–
Other comprehensive income credit	**–**	4,263
Prior year adjustments	**(149)**	–
At 31 Dec	**(2,632)**	(1,125)

The amount of temporary differences for which no deferred tax asset is recognised in the balance sheet is £68k (2017: £251k). This is in respect of other temporary differences. The deferred tax asset not recognised in the balance sheet is £11k (2017: £42k).

9 Reconciliation of profit before tax to Net cash flow

	2018	2017
	£'000	£'000
(Loss)/profit before tax	**(5,480)**	52,689
Non-cash item included in profit and loss		
Impairment (release)/provision of investment in subsidiaries	**(249)**	249
Provision for impairment - from AFS investment	—	3,863
Fair values gains	**15,324**	—
Elimination for exchange differences	**(12,630)**	(3,298)
Profit on disposal of investments	**(746)**	(57,729)
	1,699	(56,915)
Change in operating assets		
Change in trade and other receivables	**(9,404)**	398
Change in operating liabilities		
Change in accruals, deferred income and other liabilities	**347**	50
Cash and cash equivalents comprise		
Cash at bank with other group undertakings	**1,694**	2,345

10 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

	FVPL	Amortised cost	Total
At 31 Dec 2018	**£'000**	**£'000**	**£'000**
Assets			
Cash and cash equivalents	—	**1,694**	**1,694**
Trade and other receivables	—	**9,404**	**9,404**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**125,486**	—	**125,486**
Total financial assets	**125,486**	**11,098**	**136,584**
Total non-financial assets			**3,150**
Total assets			**139,734**
Liabilities			
Loans from other group undertakings	—	**57,235**	**57,235**
Accruals, deferred income and other liabilities	—	**664**	**664**
Total financial liabilities	—	**57,899**	**57,899**
Total non-financial liabilities			**2,632**
Total liabilities			**60,531**

	Loans and *receivables*	Available-for-sale *securities*	Financial assets and liabilities at amortised *cost*	*Total*
At 31 Dec 2017	£'000	£'000	£'000	£'000
Assets				
Cash and cash equivalents	2,345	—	—	2,345
Financial investments	—	131,075	—	131,075
Total financial assets	2,345	131,075	—	133,420
Total non-financial assets				4,494
Total assets				137,914
Liabilities				
Loans from other group undertakings	—	—	52,472	52,472
Accruals, deferred income and other liabilities	—	—	316	316
Total financial liabilities	—	—	52,788	52,788
Total non-financial liabilities				1,125
Total liabilities				53,913

11 Fair value of financial instruments carried at fair value

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

(a) Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

(b) Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Recurring fair value measurements at 31 Dec				
Assets				
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**–**	**–**	**125,486**	**125,486**

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Recurring fair value measurement at 31 Dec				
Assets				
Financial investments: Available for Sale	–	–	131,075	131,075

Fair valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs - Level 3

	Financial investments	
	2018	2017
	£'000	£'000
Private equity including strategic investment	**125,486**	131,075
At 31 Dec 2018	**125,486**	131,075

Private equity including strategic investments

The Company's investments in equity shares are generally not traded in active markets. The investment's fair value is estimated: *on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors;* by reference to market valuations for similar quoted in an active market, or the price at which similar companies have changed ownership. The key unobservable input for these investments is the Net asset Value ('NAV').

Reconciliation of fair value measurements in Level 3 financial instruments

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value based on unobservable inputs:

	Financial investments	
	2018	2017
	£'000	£'000
At 1 Jan	**131,075**	197,248
- changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(15,325)**	–
- fair value gains reclassified to income statement	–	(57,729)
-fair value changes taken on equity	–	12,870
- exchange differences	**18,798**	–
Purchases	**7,938**	11,256
Sales	**(17,000)**	(28,707)
Provisions for impairment	**–**	(3,863)
At 31 Dec	**125,486**	131,075

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs at 31 December 2018. The core range of inputs is the estimated range within which 90% of the inputs fall.

Quantitative information about significant unobservable inputs in level 3 valuations

	Fair value			
	Assets	**Liabilities**	**Valuation technique**	**Key unobservable inputs**
	£'000	**£'000**		
Private equity including strategic investments	**125,486**	–		**Fund Valuation**
At 31 Dec 2018	**125,486**	–		
Private equity including strategic investments	131,075	–		Fund Valuation
At 31 Dec 2017	131,075	–		

12 Fair value of financial instruments not carried at fair value

Cash and cash equivalents, trade and other receivables, loans from other group undertakings and accruals, deferred income and other liabilities carrying amount as shown in the balance sheet is a reasonable approximation of fair value as they are short term in nature.

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2018 and 31 December 2017.

13 Financial assets designated at fair value

	2018	2017
	£'000	£'000
Equity instruments		
At 1 January	131,075	197,248
Additions	–	11,256
Disposals	–	(28,707)
Transfer to fair value through profit and loss	(131,075)	–
Revaluations	–	(44,859)
Impairment	–	(3,863)
At 31 Dec	–	131,075

Financial assets designated and otherwise mandatorily measured at fair value through profit and loss account

	2018			2017		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Securities						
- Equity instruments	–	125,486	125,486	–	–	–
At 31 Dec	–	125,486	125,486	–	–	–

14 Trade and other receivables

	2018	2017
	£'000	£'000
Trade and other receivables	9,404	–
At 31 Dec	9,404	–

15 Financial investments

	2018			2017		
	Partnership capital	Loan stock	Total	Partnership capital	Loan stock	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 Jan	35	131,040	131,075	35	197,213	197,248
Additions	–	7,938	7,938	–	11,256	11,256
Disposals	–	(17,000)	(17,000)	–	(28,707)	(28,707)
Revaluation	1	(15,326)	(15,325)	–	(44,859)	(44,859)
Impairment	–	–	–	–	(3,863)	(3,863)
FX movement	–	18,798	18,798	–	–	–
At 31 Dec	36	125,450	125,486	35	131,040	131,075

In addition to the Capital investments detailed above, the Company has the following loan commitments outstanding as at 31 December 2018 and 2017 to each fund;

	2018				2017			
	InfraRed Environmental Infrastructure Fund (I) LP	**InfraRed European Active Real Estate Fund (I) L.P**	**InfraRed Principal Book LP**	**InfraRed Infrastructure III (No.1) LP**	InfraRed Environmental Infrastructure Fund (I) LP	InfraRed European Active Real Estate Fund (I) L.P	InfraRed Principal Book LP	InfraRed Infrastructure III (No.1) LP
	€'000	**€'000**	**US$'000**	**US$'000**	€'000	€'000	US$'000	US$'000
Total commitment	**78,505**	**132,500**	**50,000**	**124,995**	78,505	132,500	50,000	124,995
Drawn	**(52,577)**	**(124,115)**	**(43,207)**	**(109,824)**	(52,577)	(124,155)	(43,207)	(98,727)
Remaining at 31 December	**25,928**	**8,385**	**6,793**	**15,171**	25,928	8,345	6,793	26,268
GBP equivalent (£)	**23,257**	**7,521**	**5,321**	**11,882**	23,006	7,440	5,028	19,444

The committed loans are payable in periodic drawdowns determined by the General Partner of each fund. The loans are non-interest bearing and repayable after all payments of appropriate provision for costs, liabilities, tax withheld, expenses and working capital requirements of the funds and the accrued unpaid priority profit share to the respective General Partners. The loans are to be repaid by periodic distribution of returns generated by the funds.

16 Investments in subsidiaries

Movements on investments

	2018	2017
	£'000	£'000
Cost		
At 1 Jan	**2,387**	27,881
Additions	**–**	1,314
Disposals	**(2,142)**	(26,808)
Fx movement	**251**	–
At 31 Dec	**496**	2,387
Provision for impairment		
At 1 Jan	**(249)**	–
Release/(charge)	**249**	(250)
Foreign exchange charge	**–**	1
At 31 Dec	**–**	(249)
Net carrying value at 31st Dec	**496**	2,138

Principal subsidiary undertakings

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out below. The principal countries of operation are the same as the countries of incorporation.

	Country of incorporation	Interest in equity capital (%)	Share class
IRERE Property Investments (French offices) S.A.R.L (in liquidation)	**Luxembourg**	**100**	**Ordinary shares**
Infrared NF China Real Estate Company Limited	**Guernsey**	**71**	**Ordinary shares**

1 6,Rule Adolphe Grand-Duchy of Luxembourg L-1116 Luxembourg
2 2 Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 2HT

In addition to the capital investments in subsidiaries detailed above, the Company has £7,974k of commitments outstanding as at 31 December 2018.

17 Loans from other group undertakings

	2018	2017
	£'000	£'000
Amounts owed to other group undertakings	**57,235**	52,472

18 Maturity analysis of assets and liabilities

The following is an analysis of assets and liabilities by residual contractual maturities at the balance sheet date.

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	1,694	–	–	–	–	1,694
Trade and other receivables	9,404	–	–	–	–	9,404
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	–	–	–	125,486	–	125,486
Non-financial assets	–	–	–	–	3,150	3,150
At 31 Dec 2018	11,098	–	–	125,486	3,150	139,734
Liabilities and Equity						
Loans from other group undertakings	57,235	–	–	–	–	57,235
Accruals and other financial liabilities	101	518	45	–	–	664
Non-financial liabilities	–	–	–	–	2,632	2,632
At 31 Dec 2018	57,336	518	45	–	2,632	60,531

						Restated
	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	2,345	–	–	–	–	2,345
Financial investments	–	–	–	131,075	–	131,075
Non-financial assets	–	–	–	–	4,494	4,494
At 31 Dec 2017	2,345	–	–	131,075	4,494	137,914
Liabilities and Equity						
Loans from other group undertakings	52,472	–	–	–	–	52,472
Accruals, deferred income and other liabilities	20	197	79	20	–	316
Non-financial liabilities	–	–	–	–	1,125	1,125
At 31 Dec 2017	52,492	197	79	20	1,125	53,913

19 Called up share capital

	2018		2017	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £1 each	35,000,001	35,000	35,000,001	35,000
As at 1 Jan and 31 Dec	35,000,001	35,000	35,000,001	35,000

20 Contingent liabilities, contractual commitments and guarantees

There were no contingent liabilities as at 31 December 2018 (2017: nil), other than the loan commitments disclosed in Note 15 and Note 16.

21 Management of financial risk

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The Company's risk management policies are consistent with the HSBC's risk management policies.

The Company participates in transactions to which other HSBC group companies are also party. HSBC Specialist Investments group ('HSI') has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from the HSI's perspective - this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant Company.

As part of that process, the Business' management will review the monthly management accounts of the Company. There were no changes in the Company approach to risk management during the year

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Company fails to meet a payment obligation under a contract.

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and portfolio basis. The Directors are responsible for the quality of credit portfolios and follow 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, including those to individual industry sectors and products. Credit risk is managed at a group level by business sector, rather than in respect of individual undertakings and it is therefore not considered appropriate to disclose quantitative data about exposure to that risk.

The Company's exposure to credit risk in relation to cash held with other group entities relates to group undertakings that are wholly-owned subsidiaries of HSBC Holdings plc, and are part of the Business described above. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet plus contractual commitments disclosed in Note 15.

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings .

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Total
	£'000	£'000	£'000	£'000	£'000
Loans from other group undertakings	**57,235**	**–**	**–**	**–**	**57,235**
Accruals, deferred income and other liabilities	**101**	**518**	**45**	**–**	**664**
At 31 Dec 2018	**57,336**	**518**	**45**	**–**	**57,899**
Loans from other group undertakings	52,472	–	–	–	52,472
Accruals, deferred income and other liabilities	20	197	79	20	316
At 31 Dec 2017	52,492	197	79	20	52,788

Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates and equity prices will impact the Company's income.

The Company's objective is to minimise market risk through managing and controlling the risk to acceptable parameters, while optimising the return on risk.

The Company uses financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

Foreign exchange risk

At 31 Dec 2018	**€'000**	**US$'000**
Trade and other receivables	**3,714**	**7,752**
Financial investments	**33,749**	**89,821**
Loans and advances from other group undertakings	**(36,721)**	**(105,661)**
Net exposure	**742**	**(8,088)**

At 31 Dec 2017	€'000	US$'000
Trade and other receivables	383	422
Financial investments	19,578	84,627
Loans from other group undertakings	(36,635)	(105,844)
Net exposure	(16,674)	(20,795)

The following significant exchange rates applied during the year:

GBP	Average rate		Reporting date spot rate	
	2018	2017	**2018**	2017
EUR	**1.266999**	1.340919	**1.114866**	1.351000
USD	**1.113076**	1.133376	**1.276800**	1.127007

Currency sensitivity

The Company has used a sensitivity analysis technique that measures the estimated change to profit/(loss) and equity of either an instantaneous 10% strengthening or weakening in sterling against Euro and US currency from the rates applicable at year end.

A 10% strengthening of the following currencies against the pound sterling at year end would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the end of the reporting year and had been applied to risk exposures existing at that date.

This analysis also assumes that all other variables, in particular other exchange rates and interest rates remain constant. The analysis is performed on the same basis for the comparative year.

	Equity		Profit or loss	
	2018	2017	**2018**	2017
USD ('000)	**7,035**	6,264	**(7,668)**	(7,803)
EUR ('000)	**3,027**	1,734	**(2,961)**	(3,217)

Interest rate risk

The Company places all funds with fellow group companies. The Company manages its interest rates by placing deposits on call or fixed deposits upto 6 months.

	2018	2017
	£'000	£'000
Fixed rate instruments		
Loans from other group undertakings	57,235	52,472

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would have no effect on the results for the year.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the reporting fate would have (decreased)/increased profit for the year and total equity by the amounts shown below. This analysis assumes that other variables remain constant.

	Profit or loss 50 bps increase	**Profit or loss 50 bps decrease**
	£'000	**£'000**
As at 31 Dec 2018		
Variable rate instruments		
Cash flow sensitivity (net)	**(274)**	**274**
As at 31 Dec 2017		
Variable rate instruments		
Cash flow sensitivity (net)	(507)	507

22 Related party transactions

Transactions with other related parties

	2018		2017	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year	Balance at 31 December
	£'000	**£'000**	£'000	£'000
Assets				
Cash and cash equivalents[1]	**1,694**	**1,694**	95,810	2,345
Trade and other receivables2	**19,455**	**9,404**	–	–
Liabilities				
Loans from other group undertakings[2]	**67,943**	**57,235**	160,390	52,472

1 Amounts are held with HSBC Bank plc
2 Amounts are held with HSBC Specialist Investments Limited

	2018	2017
	£'000	£'000
Income statement		
Interest expense	**3,344**	2,726

23 Effects of reclassification on adoption of IFRS 9

Reclassification of balance sheet as at 31 December 2017 and 1 January 2018

	IAS 39 measurement category	IAS 39 carrying amount at 31 Dec 2017	IFRS 9 reclassification to: Other changes in classification	IFRS 9 reclassification to: Fair value through profit and loss	IFRS 9 reclassification to: Fair value through other comprehensive income	IFRS 9 reclassification to: Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets									
Cash and cash equivalents	Amortised cost	2,345	–	–	–	–	2,345	–	2,345
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	FVPL	–	–	131,075	–	–	131,075	–	131,075
Financial investments	FVOCI (Available for sale equity instruments)	131,075	–	(131,075)	–	–	–	–	–
	Amortised cost	–	–	–	–	–	–	–	–
Current tax assets	N/A	2,356	–	–	–	–	2,356	–	2,356
Investments in subsidiaries	N/A	2,138	–	–	–	–	2,138	–	2,138
Total assets		137,914	–	–	–	–	137,914	–	137,914

	IAS 39 measurement category	IAS 39 carrying amount at 31 Dec 2017	IFRS 9 reclassification to: Other changes in classification	IFRS 9 reclassification to: Fair value through profit and loss	IFRS 9 reclassification to: Fair value through other comprehensive income	IFRS 9 reclassification to: Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities									
Loans from other group undertakings	Amortised cost	52,472	–	–	–	–	52,472	–	52,472
Accruals, deferred income and other liabilities	Amortised cost	316	–	–	–	–	316	–	316
Deferred tax liabilities	N/A	1,125	–	–	–	–	1,125	–	1,125
Total liabilities		53,913	–	–	–	–	53,913	–	53,913

	IAS 39 carrying amount as at 31 Dec 2017	IFRS 9 reclassification	Carrying amount post reclassification	IFRS 9 remeasurement including expected credit losses	Carrying amount at 1 Jan 2018
	£'000	£'000	£'000	£'000	£'000
Equity					
Called up share capital	35,000	–	35,000	–	35,000
Other reserves	26,510	(26,510)	–	–	–
Retained earnings	22,491	26,510	49,001	–	49,001
Total equity	84,001	–	84,001	–	84,001

24 Parent undertakings

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

The immediate parent undertaking is HSBC Property Funds (Holdings) Limited. All companies are registered in England and Wales

The results of the Company is included in the financial statements of HSBC Holdings plc and HSBC Bank plc.

Copies of HSBC Holdings plc's and HSBC Bank plc's consolidated financial statements can be obtained from:

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

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom
www.hsbc.com

25 Events after the balance sheet date

There are no significant events after the balance sheet date.