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HSBC LION FUNDING (UK) LIMITED
DIRECTORS' REPORT AND NON-STATUTORY FINANCIAL STATEMENTS
FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005

Registered Number: WK-151961

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HSBC LION FUNDING (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005

Principal activities

The Company was incorporated on 2 August 2005 and commenced business on 9 August 2005. The Company's principal activity is to obtain funding for fellow group companies. No change in the Company's activities is anticipated.

Results and dividends

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

The directors do not recommend a dividend in respect of the period ended 31 December 2005.

Business review

During the period the Company issued share capital and preference shares to raise funds to fund group companies and invested surplus funds in third party debt securities.

Subsequent events and future developments

No major changes are envisaged over the next 12 months.

Directors

The directors who served during the period were as follows.

G Owen-Conway	Appointed 9 August 2005
S F Purves	Appointed 9 August 2005
P H B Sykes	Appointed 9 August 2005

Directors' interests

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

	HSBC Holdings plc	
	Ordinary shares of US\$0.50 each	
	31 December 2005	9 August 2005
G Owen-Conway	169	100
S F Purves	14,555	14,364
P H B Sykes	12,651	12,576

HSBC LION FUNDING (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

Directors' interests (continued)

During the year options over HSBC Holdings plc ordinary shares of US\$0.50 each were granted/exercised as follows

	Granted	Exercised
P H B Sykes	2,474	2,798

None of the directors at 31 December 2005 had any other interests in the shares of the Company or in the securities of any other Company in the group of which it is a member, required to be disclosed under the Companies Act 1985

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

Financial Instruments

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 16 of the notes to the non-statutory financial statements

Supplier payment policy

The Company subscribes to the Better Payment Practice Code, the four principles of which are: to agree payment terms at the outset and stick to them, to explain payment procedures to suppliers, to pay bills in accordance with any contract agreed with the supplier or as required by law, and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about, the Code is available from The Department of Trade and Industry, No. 1 Victoria Street, London SW1H 0ET

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

HSBC LION FUNDING (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

Statement of directors' responsibilities in relation to non-statutory financial statements

The directors of HSBC Lion Funding (UK) Limited ('the directors') have accepted responsibility for the preparation of these non-statutory financial statements on the basis set out in Note 1 of the notes to the non-statutory financial statements. In preparing these non-statutory financial statements, the directors have

- selected suitable accounting policies and then applied them consistently,
- made judgments and estimates that are reasonable and prudent,
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepared the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors have accepted general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors have also accepted responsibility for preparing a Directors' Report that complies with United Kingdom company law as if it were applicable

By order of the Board



S F Purves
Director

3 May 2006

Registered Office
2nd Floor, Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands

HSBC LION FUNDING (UK) LIMITED

REPORT OF KPMG AUDIT PLC TO HSBC LION FUNDING (UK) LIMITED

We have audited the non-statutory financial statements of HSBC Lion Funding (UK) Limited for the period ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and the related notes. These non-statutory financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we are required to state to it in our auditors' 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities set out on page 3 the Company's directors have accepted responsibility for the preparation of these non-statutory financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and United Kingdom company law and, as if those requirements were to apply. Our responsibility, is to audit the non-statutory financial statements in accordance with the terms of our engagement letter dated 31 March 2005, including subsequent variations and International Standards on Auditing (UK and Ireland).

Under the terms of our engagement we are required to report to you our opinion as to whether these non-statutory financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply. We also report to you if, in our opinion, the Directors' Report is not consistent with the non-statutory financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Our report has been prepared for the Company solely in connection with the audit of the non-statutory financial statements. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

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

Basis of audit opinion

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

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

Opinion

In our opinion the non-statutory financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2005 and of its profit for the period then ended, and,
- have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants

3 May 2006

HSBC LION FUNDING (UK) LIMITED

INCOME STATEMENT FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005

	Notes	09.08.2005 to 31.12.05 £
Investment income		4,125,116
Interest receivable from group undertakings		9,655,010
Interest payable to group undertakings	3	<u>(9,216,106)</u>
		4,564,020
Other operating income and (expense)	4	<u>(181,615)</u>
PROFIT BEFORE TAX		4,382,405
Income tax expense	5	<u>(4,079,554)</u>
PROFIT FOR THE PERIOD		<u>302,851</u>

The notes on pages 9 to 19 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD FROM 9 AUGUST
2005 TO 31 DECEMBER 2005

	Notes	09.08.2005 to 31.12.05 £
Change in fair value of debt securities available for sale in the period net of amounts recycled to the income statement		42,578
Less associated tax		<u>(12,773)</u>
Net income recognised directly in equity	12	<u>29,805</u>
Profit for the period	12	<u>302,851</u>
Total recognised income and (expense) for the period	12	<u>332,656</u>

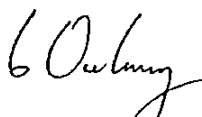
The notes on pages 9 to 19 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 £
ASSETS		
NON-CURRENT ASSETS		
Financial investments	7	323,355,648
Debtors	8	<u>698,384,547</u>
TOTAL NON-CURRENT ASSETS		<u>1,021,740,195</u>
CURRENT ASSETS		
Debtors	9	51,644,729
Cash and cash equivalents	10	<u>6,887</u>
TOTAL CURRENT ASSETS		<u>51,651,616</u>
TOTAL ASSETS		<u><u>1,073,391,811</u></u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	11	240
Share premium account	12	239,999,760
Fair value reserve	12	29,805
Retained Earnings	12	<u>302,851</u>
TOTAL EQUITY		<u>240,332,656</u>
NON-CURRENT LIABILITIES		
Creditors	13	<u>826,100,000</u>
TOTAL NON-CURRENT LIABILITIES		<u>826,100,000</u>
CURRENT LIABILITIES		
Creditors	14	<u>6,959,155</u>
TOTAL LIABILITIES		<u>833,059,155</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,073,391,811</u></u>

Approved by the board and signed on its behalf on 3 May 2006


G Owen-Conway
Director

The notes on pages 9 to 19 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005

	Notes	09.08.2005 to 31.12.05 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation		4,382,405
Adjustments for		
Gains from financial investments		(52,372)
Investment income prepaid	7	(1,446,882)
Amortisation of premiums	7	69,815
Fair value of debt securities attributable to changes in foreign exchange	7	(2,209,495)
Operating profit before changes in working capital and provisions		743,471
Increase in creditors		2,682,762
Cash generated from operations		3,426,233
Income taxes paid		-
NET CASH FROM OPERATING ACTIVITIES		3,426,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial investments		147,198,903
Acquisition of financial investments		(466,873,039)
Increase in amounts owed by group undertakings		(750,029,276)
Increase in amounts owed to group undertakings		184,066
NET CASH FROM INVESTING ACTIVITIES		(1,069,519,346)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital		240,000,000
Proceeds from issue of "B" Preference shares		826,100,000
NET CASH FROM FINANCING ACTIVITIES		1,066,100,000
Net increase in cash and cash equivalents	10	6,887
Cash and cash equivalents at 9 August		-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		6,887

The notes on pages 9 to 19 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005

1 Basis of preparation

HSBC Lion Funding (UK) Limited ('the Company'), a company incorporated in the Cayman Islands, has prepared its non-statutory financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU ('Adopted IFRSs') and United Kingdom company law as effective for the Company's reporting for the period ended 31 December 2005 as if those requirements were to apply. IFRSs comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

IFRS 7 'Financial Instruments Disclosure' applicable for periods commencing on or after 1 January 2007 has not been applied. Its application would not have affected the balance sheet or income statement as the standard is only concerned with disclosure.

The accounting policies set out below have, unless otherwise stated, been applied consistently in the period presented in these non-statutory financial statements.

General information

HSBC Lion Funding (UK) Limited is a company domiciled and incorporated in the Cayman Islands.

2 Principal accounting policies

(a) Accounting for foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Cross currency contracts are accounted for as derivative contracts at fair value through profit or loss.

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

(b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest receivable from group undertakings' and 'Interest payable to group undertakings' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Such cash payments will include any incremental costs, such as structuring and legal fees, that are directly attributable to the acquisition or issue of a financial instrument.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)

2 Principal accounting policies (continued)

(c) Financial investments

Debt securities held as available for sale are disclosed as non-current investments and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. The change in fair value attributable to foreign exchange is recognised in the income statement, other changes in fair value are recognised in equity in the 'Fair value reserve' (see Note 12) until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in the income statement as 'Gains less losses from financial investments'.

Interest income is recognised on such securities using the effective interest rate method, calculated over the asset's expected life and is included in 'investment income' in the income statement. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are included in the calculation of the effective interest rate. Purchases and sales are accounted for at trade date.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated.

If a security is considered to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(d) Determination of fair value

For trading instruments and available-for-sale securities that are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price. Where independent prices are not available, fair values may be determined using valuation techniques with reference to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)

2 Principal accounting policies (continued)

(e) Derivatives

Derivatives are recognised initially, and are subsequently re-measured at the period end, at fair value. Fair values are obtained using valuation techniques, including discounted cashflow models.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or until it is extinguished.

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis.

(f) Income tax

Income tax on the profit or loss for the period comprises current tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, and any adjustment to tax payable in respect of previous periods.

(g) 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.

(h) 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.

(i) Cash flow statement

The cash flow statement has been prepared on the basis that acquisitions and disposals of investments are shown under the heading of "Investing activities" whilst income generated by such assets is presented as part of the cash flows from operating activities.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)

3 Interest payable and similar charges

09.08.2005 to
31.12.05
£

Interest on "B" Preference shares

9,216,106

4 Other operating income and (expenses)

09.08.2005 to
31.12.05
£

Gains from financial investments

52,372

Fair value of debt securities attributable to changes in
foreign exchange

2,209,495

Fair value of currency swaps

(2,443,482)

(181,615)

5 Income tax expense

(a) Analysis of tax charge in period

09.08.2005 to
31.12.05
£

Corporation tax payable at 30%

4,079,554

(b) Factors affecting tax charge for period

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below

09.08.2005 to
31.12.05
£

Profit before tax

4,382,405

Profit multiplied by standard rate of corporation
tax in the UK of 30%

1,314,722

Effects of
Preference share dividend expense

2,764,832

Current tax charge for period (note 5(a))

4,079,554

The effective tax rate is 93 1%

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

6 Directors' emoluments

No emoluments were received or are receivable by any of the directors in respect of their services to the Company during the period

7 Financial investments

	2005 £
At 9 August	-
Additions	466,873,039
Disposals	(147,146,531)
Fair value adjustment through equity	42,578
Fair value adjustment to debt securities attributable to changes in foreign exchange	2,209,495
Movement in net coupons receivable	1,446,882
Amortisation of premium	(69,815)
	<hr/>
At 31 December	<u>323,355,648</u>

All of the above investments are listed and are available for sale.

8 Debtors amounts falling due after more than one year

	2005 £
Amounts owed by group undertakings due between two and five years	140,000,000
Amounts owed by group undertakings due after more than five years	<u>558,384,547</u>
	<u>698,384,547</u>

9 Debtors amounts falling due within one year

	2005 £
Amounts owed by group undertakings	<u>51,644,729</u>

10 Cash and cash equivalents

	2005 £
Amounts held with group undertakings	<u>6,887</u>

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

11 Share capital

	<u>Authorised</u>		<u>Issued and fully paid up</u>	
	2005	2005	2005	2005
	No.	£	No.	£
"A" Ordinary shares of £0.001 each	240,000	240	240,000	240

During the period 240,000 "A" Ordinary shares of £0.001 each were authorised and 240,000 issued and fully paid up

"A" Ordinary shareholders have voting rights and are entitled to a discretionary dividend.

12 Capital and reserves

Reconciliation of movement in capital and reserves

	Notes	Share capital £	Share premium £	Fair value reserve £	Retained earnings £	Total equity £
Shares issued	11	240	239,999,760	-	-	240,000,000
Total recognised income and expenses		-	-	29,805	302,851	332,656
Balance at 31 December 2005		240	239,999,760	29,805	302,851	240,332,656

The fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised, net of attributable taxation

13 Creditors: amounts falling due after more than one year

	2005 £
"B" Preference shares	826,100,000

During the period 826,100 "B" Preference shares of £0.01 were issued at a premium of £999.99 per share. The "B" Preference shareholders do not have voting rights and are paid a floating cumulative preferential dividend at 88.1% of Libor less 1.87 basis points. The "B" preference shares are not redeemable without the agreement of the shareholders.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

14 Creditors amounts falling due within one year

	2005 £
Amounts owed to group undertakings	184,066
Corporation tax payable	4,092,327
Other creditors	<u>2,682,762</u>
	<u>6,959,155</u>

15 Segmental analysis

The Company's principal activity is to obtain funding for fellow group companies

16 Financial risks

The Company is exposed to foreign exchange risk in relation to its financial investment securities which may be denominated in currencies other than pounds Sterling. This is managed by entering into cross currency swaps to hedge that risk. They have been marked to market through the income statement. At 31 December 2005 the notional amount of the cross currency swaps was £152,802,906, whilst the change in fair value of currency swaps was a debit to the income statement of £2,443,482. Hedge accounting has not been adopted.

The Company's other significant financial risks and their management are described below.

As disclosed in Note 13, the Company has issued "B" Preference shares. These "B" Preference shares have been issued in accordance with the principal activity of the Company, which is to raise funds for fellow group companies. The funds so raised have been used to loan to fellow group companies and to purchase third party securities. The risks associated with the financial assets and liabilities are as follows:

(a) Interest rate risk

Interest payable on the amounts owed to group undertakings and on the "B" preference shares are payable at floating rates with reference to 3 month Libor. The "B" preference shares have no fixed maturity date. Amounts owed to group undertakings have a maturity of less than 1 year. Interest receivable on the amounts owed by group undertakings is payable at a floating rate with reference to 3 month Libor and the loans have maturities ranging from less than 1 year to 10 years. Interest receivable from third party debt securities is at floating rates. Management keep the interest rate exposure under review and, where deemed appropriate, will eliminate wholly or partly through interest swaps.

(b) Foreign exchange risk

There is no foreign exchange risk on the financial assets and liabilities (other than in respect of its financial investment securities as described above), all of which are denominated and dealt with in pounds Sterling.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9 AUGUST 2005 TO 31 DECEMBER 2005 (continued)

16 Financial risks (continued)

(c) Credit risk

Management keep the credit risk exposure under review and will take appropriate action, if there is deterioration in credit quality. This risk is minimised because amounts receivable from fellow group undertakings form all of the Company's financial assets. The Company has acquired certain third party securities. The Company retains the risks associated with these securities, however, such securities are subject to specific ratings criteria. At the balance sheet date there were no significant concentrations of credit risk external to group undertakings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

17 Interest rate analysis of financial instruments

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the years in which they reprice.

	Reprices in not more than one year £	Total £	Weighted average effective interest rate £
Financial assets			
Financial investments	323,355,64	323,355,648	4.86%
Amounts owed by group undertakings due after more than one year	698,384,547	698,384,547	4.62%
Amounts owed by group undertakings due within one year	51,644,729	51,644,729	4.58%
Cash and cash equivalents	6,887	6,887	0.00%
Total financial assets	<u>1,073,391,811</u>	<u>1,073,391,811</u>	
Financial liabilities			
"B" Preference shares	826,100,000	826,100,000	4.07%
Amounts owed to group undertakings	184,066	184,066	4.07%
Total financial liabilities	<u>826,284,066</u>	<u>826,284,066</u>	

Interest payments for the floating rate financial liabilities are made with reference to 3 month Libor.

Other non interest bearing debtors and creditors are excluded from these disclosures.

HSBC LION FUNDING (UK) LIMITED

**NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)**

18 Fair value of financial assets and liabilities

	Carrying amount 2005 £	Fair value 2005 £
Financial assets		
Financial investments	323,355,648	323,355,648
Amounts owed by group undertakings due after more than one year	698,384,547	698,384,547
Amounts owed by group undertakings due within one year	51,644,729	51,644,729
Cash and cash equivalents	6,887	6,887
Total financial assets	1,073,391,811	1,073,391,811
Financial liabilities		
"B" Preference shares	826,100,000	826,100,000
Amounts owed to group undertakings	184,066	184,066
Total financial liabilities	826,284,066	826,284,066

Short-term debtors and creditors are excluded from these disclosures because their carrying amount is a reasonable approximation to fair value. All financial instruments measured at fair values that are determined using a valuation technique based on assumptions that are supported by observable market prices.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)

19 Related party transactions

The ultimate parent company, and the parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the Company is a member, is HSBC Holdings plc

HSBC Rose Funding (UK) Holdings, (formerly Tawnyport Estates), its immediate parent company, is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party

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

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

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

a Parent

At 31 December 2005, the Company had loans due from parent entities of £278,657,820 Interest receivable at 31 December 2005 was £1,081,793 During the period ended 31 December 2005, interest income arising from these loans amounted to £3,472,456 All loan balances are unsecured See Note 17 for further information on the maturity profile and the interest rate achieved on these balances

The Company entered into cross currency swaps with its parent At 31 December 2005 the notional amount of the cross currency swaps was £152,802,906, whilst the change in fair value of currency swaps was a debit to the income statement of £2,443,482 During the year the net amount receivable from the cross currency swaps was £184,469 and is included within "Interest receivable from group undertakings".

The company maintains a bank account with its parent entity At 31 December 2005 the cash balance in this account was £6,887 Interest received from this account during the year ended 31 December 2005 was £nil

At 31 December 2005 the £826,100,000 of "B" Preference shares were owned by the parent company. Accrued dividends payable at 31 December 2005 were £184,066 Preference share dividends payable of £9,216,106 have been incurred during the period, which is disclosed in the income statement

b Fellow Subsidiaries

At 31 December 2005, the company had loans due from fellow subsidiary undertakings of £468,384,547 Interest receivable at 31 December 2005 was £1,905,116 During the period ended 31 December 2005, interest income arising from these loans amounted to £5,998,085 All loan balances are unsecured See Note 17 for further information on the maturity profile and the interest rate achieved on these balances

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD FROM 9
AUGUST 2005 TO 31 DECEMBER 2005 (continued)

20 Contingent liabilities

There were no contingent liabilities at 31 December 2005.

21 Subsequent events

There are no subsequent events requiring disclosure in the non-statutory financial statements

22. Accounting estimates and judgements

Management discussed the development, selection and disclosure of the Company's critical accounting policies (Note 2) and estimates and the application of these policies and estimates

The fair value of debt securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs

Where market prices are not available a discounted cash flow technique is used, estimate future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date