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HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT AND NON-STATUTORY FINANCIAL STATEMENTS

FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007

Registered Number: WK-151961

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HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007

Principal activities

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

Business review

The Company changed its accounting reference date to 31 December 2007. On 28 September 2007 £825m "B" preference shares issued by the Company that had been sold by the Company's parent to an external investor under a repo transaction were acquired at par value by a fellow subsidiary. The Company advanced funds of £825m to its fellow subsidiary to acquire these shares. This was funded by liquidating the investment portfolio for £327m and recalling deposits with parent entities and fellow subsidiaries of £270m and £240m respectively.

On 19 October 2007 the remaining loans to fellow subsidiaries of £228.4m plus accrued interest were repaid and the funds lent to the parent entity.

The Company has no employees. Services required are provided by fellow HSBC Group companies.

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 15 of the financial statements.

Performance

The Company prepares its non-statutory financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

The key performance indicator used by management in assessing the performance of the Company is the monitoring of the net return on each individual underlying transaction the Company enters into. Monthly management accounts are prepared and reviewed by the management of the HSBC business in which this company resides.

Future developments

As regards the future, the Company will continue to be used to obtain funding for fellow group companies, as and when required.

Dividends

The Directors declared and paid dividends of £22,618,142, being £0.027 per share, in respect of the period ended 31 December 2007 (period ended 27 September 2007: £nil).

HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007
(continued)

Directors

The Directors who served during the period were as follows

Resigned

G Owen-Conway
R L H Bencard
K A Singleton
M P J Molloy

5 October 2007

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 1985 and the Companies Act 2006, as if those requirements were to apply. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors

Supplier payment policy

The Company 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 are available from BERR Publications Orderline, Admail 528, London, SW1W 8YT

During the period, the Company received goods and services from group undertakings only.

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

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

The Directors have accepted responsibility for preparing the Directors' Report and the non-statutory financial statements in accordance with applicable law and regulations, as if those requirements were to apply.

The Directors have elected to prepare the non-statutory financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU

The Directors have elected to prepare the non-statutory financial statements in accordance with the UK Companies Act 1985, as if those requirements were to apply

In preparing these non-statutory financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently,
- made judgements 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

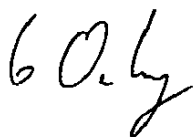
HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007
(continued)

Statement of Directors' responsibilities in relation to non-statutory financial statements (continued)

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. The Directors have also accepted 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.

By order of the Board



G Owen-Conway
Director
Date 3 June 2008

Registered Office
Walker House, Mary Street
George Town, Grand Cayman
Cayman Islands

HSBC LION FUNDING (UK) LIMITED

INDEPENDENT AUDITOR'S REPORT TO HSBC LION FUNDING (UK) LIMITED

We have audited the non-statutory financial statements of HSBC Lion Funding (UK) Limited ('the Company') for the period 28 September 2007 to 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, 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.

Our report has been prepared for the Company, in accordance with the terms of our engagement. 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.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Directors' Report and the non-statutory Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on pages 2 and 3.

Our responsibility is to audit the non-statutory financial statements in accordance with the terms of our engagement letter dated 31 March 2005 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the non-statutory financial statements give a true and fair view and whether the non-statutory financial statements have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the non-statutory financial statements. In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

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 2007 and of its profit for the period then ended,
- the non-statutory statements have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply, and
- the information given in the Directors' Report is consistent with the non-statutory financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

3 June 2008

HISBC LION FUNDING (UK) LIMITED

INCOME STATEMENT FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007

	Notes	28.9 2007 to 31 12 2007 £	31.8 2007 to 27 9 2007 £
Interest income	3	15,959,549	5,486,501
Other operating expenses	4	<u>-</u>	<u>(5,121,069)</u>
PROFIT BEFORE TAX		15,959,549	365,432
Income tax expense	6	<u>(4,787,865)</u>	<u>(109,630)</u>
PROFIT FOR THE YEAR		<u><u>11,171,684</u></u>	<u><u>255,802</u></u>

The notes on pages 9 to 21 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD 28 SEPTEMBER
2007 TO 31 DECEMBER 2007

		28 9 2007 to 31 12.2007	31.8 2007 to 27 9.2007
	Notes	£	£
Change in fair value of debt securities available for sale in the period net of amounts recycled to the income statement		-	1,380,580
Less associated tax		-	(414,174)
Net income recognised directly in equity		-	966,406
Profit for the year		11,171,684	255,802
Total recognised income and expense for the year	12	11,171,684	1,222 208

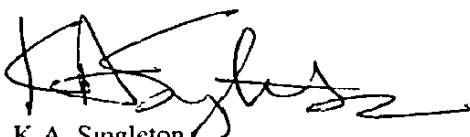
The notes on pages 9 to 21 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

BALANCE SHEET AT 31 DECEMBER 2007

	Notes	31 12 2007 £	27 9 2007 £
ASSETS			
CURRENT ASSETS			
Financial investments	8	-	-
Receivables	9	1,070,460,930	1,084,661,407
Cash and cash equivalents	10	1,461	593
TOTAL CURRENT ASSETS		<u>1,070,462,391</u>	<u>1,084,662,000</u>
TOTAL ASSETS		<u>1,070,462,391</u>	<u>1,084,662,000</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11,12	8,501	8,501
Share premium account	12	1,065,568,629	1,066,091,499
Retained earnings	12	-	10,923,588
TOTAL EQUITY	12	<u>1,065,577,130</u>	<u>1,077,023,588</u>
CURRENT LIABILITIES			
Current taxation		4,885,261	7,638,412
TOTAL CURRENT LIABILITIES		<u>4,885,261</u>	<u>7,638,412</u>
TOTAL LIABILITIES		<u>4,885,261</u>	<u>7,638,412</u>
TOTAL EQUITY AND LIABILITIES		<u>1,070,462,391</u>	<u>1,084,662,000</u>

Approved by the board and signed on its behalf on 3 June 2008


K A Singleton
Director

The notes on pages 9 to 21 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

STATEMENT OF CASH FLOWS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007

	Notes	28.9 2007 to 31 12 2007 £	31.8 2007 to 27 9 2007 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		15,959,549	365,432
<i>Adjustments for</i>			
Interest income		(15,959,549)	(5,503,094)
Losses from financial investments	4	-	149,003
Losses from cross currency swaps	4	-	4,972,066
Amortisation of premiums	8	-	16,593
Operating profit before changes in working capital and provisions		-	-
Increase in receivables		(2,367)	-
Cash generated from operations		(2,367)	-
Income tax paid		(7,541,016)	-
NET CASH FROM OPERATING ACTIVITIES		(7,543,383)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		18,491,263	14,631,489
Decrease/(increase) in amounts owed by group undertakings		11,671,130	(342,371,726)
Decrease in amounts owed to group undertakings		-	(6,964,085)
Proceeds from sale of financial investments		-	334,704,509
NET CASH FROM INVESTING ACTIVITIES		30,162,393	187
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(22,618,142)	-
NET CASH FROM FINANCING ACTIVITIES		(22,618,142)	-
Net increase in cash and cash equivalents		868	187
Opening cash and cash equivalents		593	406
CASH AND CASH EQUIVALENTS AT PERIOD END	10	1,461	593

The notes on pages 9 to 21 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007

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 endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB') if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2007, there were no unendorsed standards effective for 31 December 2007 affecting these non-statutory financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company.

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

Standards and Interpretations issued by the IASB and endorsed by the EU

- IFRS 8 'Operating segments' was issued on 30 November 2006 and is effective for periods commencing on or after 1 January 2009. This standard will have no impact on the Company when adopted with effect from 1 January 2009.

At 31 December 2007, the Company had adopted all IFRSs and Interpretations that had been issued by the IASB and IFRIC, and endorsed by the EU. Except as stated above, there are currently no IFRSs or Interpretations that have been issued by the IASB and endorsed by the EU which become effective after 31 December 2007 that have not already been adopted by the Company.

The principal currency in which the Company's business is conducted (which is its functional currency) is Sterling. These accounts are therefore presented in that currency.

The accounting policies set out below have 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.

Comparative period

The comparative period information is for the period 31 August 2007 to 27 September 2007, whilst the current period information is for the period 28 September 2007 to 31 December 2007.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28
SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

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

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(c) Financial investments

Debt securities held as available for sale are disclosed as 'financial 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 '(Losses) less gains from financial investments'. Purchases and sales are accounted for at trade date.

At each balance sheet date an assessment is made 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.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28
SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

2 Principal accounting policies (continued)

(c) Financial investments (continued)

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

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. 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.

(e) Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained using valuation techniques, including discounted cashflow models.

Derivatives are classed as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset 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.

All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement within 'other operating expenses'.

(f) 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.

(g) Cash flow statement

The cash flow statement has been prepared on the basis that movements in balances with group undertakings are shown under the heading of 'Investing activities'. Such movements arise ultimately from the Company's investing activities, through which the Company will acquire resources intended to generate future income and cash flows.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28
SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

2 Principal accounting policies (continued)

(h) Income tax

Income tax on the profit 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.

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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when a legal right to set off exists in the entity.

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

(i) Loans and receivables

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

(j) Financial liabilities (excluding derivatives)

Financial liabilities are initially valued at fair value plus any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised if the Company becomes party to the contractual provisions of the liability instrument. The Company derecognises the financial liability if 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.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28
SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

2 Principal accounting policies (continued)

(k) Share capital

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

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

(l) Impairment of financial assets

Financial assets, other than those at fair value through the profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the asset the estimated future cash flows of the asset have been impacted.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or receivable by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter into bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as economic conditions that correlate with defaults in the group.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

3 Interest income

	28 9 2007 to 31 12 2007	31 8 2007 to 27 9 2007
	£	£
Interest income from parent entities	3,243,029	1,492,590
Interest income from fellow subsidiaries	12,709,959	2,412,542
Interest income from financial investments	-	1,505,160
Interest income from cross currency swaps - parent entities	-	76,209
Interest income from third parties	6,561	-
	<u>15,959,549</u>	<u>5,486,501</u>

4 Other operating expenses

	28 9 2007 to 31.12.2007	31 8 2007 to 27 9 2007
	£	£
(Losses) less gains from financial investments	-	(149,003)
(Losses) less gains from cross currency swaps with parent entities	-	(4,972,066)
	<u>-</u>	<u>(5,121,069)</u>

5 Profit before tax

Certain expenses, including auditor's remuneration, have been borne by a fellow group undertaking and are therefore not charged in arriving at the profit before tax

The amount of auditor's remuneration borne by fellow group undertakings on behalf of HSBC Lion Funding (UK) Limited for the period was £4,300 (period to 27 September 2007 £7,750). There were no non audit fees incurred during the period (period to 27 September 2007 nil).

The Company had no employees during the period (period to 27 September 2007 nil).

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

6 Income tax expense

(a) Analysis of tax charge for the period

	28 9 2007 to 31 12 2007	31 8 2007 to 27 9 2007
	£	£
<i>Current tax expense</i>		
Corporation tax payable	4,787,865	109,630
Total income tax expense for the period	4,787,865	109,630

The effective tax rate is 30% (27 September 2007 30%) which is also the standard rate of corporation tax. Therefore, no reconciliation required

7 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 (period to 27 September 2007 £nil)

8 Financial investments

	28.9.2007 to 31 12.2007	31.8 2007 to 27 9 2007
	£	£
Opening balance	-	341,418,352
Additions	-	-
Disposals and redemptions	-	(340,554,998)
Fair value adjustment through equity	-	1,380,580
Movement in net coupons receivable	-	(2,227,341)
Amortisation of premiums	-	(16,593)
Closing balance	-	-

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

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

9 Receivables

	31 12 2007	27 9 2007
	£	£
<i>Current</i>		
Amounts owed by group undertakings		
- parent entities	244,085,143	612,371,726
- fellow subsidiaries	825,000,000	468,384,547
Interest receivable on loans to group undertakings		
- parent entities	1,209,550	1,492,593
- fellow subsidiaries	163,870	2,412,541
Other debtors	2,367	-
	<u>1,070,460,930</u>	<u>1,084,661,407</u>

10 Cash and cash equivalents

	31 12.2007	27 9 2007
	£	£
Amounts held with parent entities	<u>1,461</u>	<u>593</u>

11 Share capital

	Authorised		Issued and fully paid up	
	31 12 2007	27 9 2007	31.12 2007	27 9.2007
	£	£	£	£
240,000 "A" Ordinary shares of £0.0001 each	240	240	240	240
826,100 "B" Preference shares of £0.01 each	<u>8,261</u>	<u>8,261</u>	<u>8,261</u>	<u>8,261</u>
	<u>8,501</u>	<u>8,501</u>	<u>8,501</u>	<u>8,501</u>

There are no shares issued and not fully paid

During 2005, 240,000 "A" Ordinary shares of £0.0001 each were authorised and 240,000 issued and fully paid up. "A" Ordinary shareholders have voting rights and are entitled to a discretionary dividend.

During 2005, 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 do not have a fixed redemption date and are redeemable at the discretion of the Company. Dividends are declared at the discretion of the Company.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

12 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £	Share premium £	Fair value reserve £	Retained earnings £	Total equity £
At 30 August 2007	8,501	1,066,091,499	(966,406)	10,667,786	1,075,801,380
Total recognised income and expense			966,406	255,802	1,222,208
Balance at 27 September 2007	8,501	1,066,091,499	-	10,923,588	1,077,023,588
Total recognised income and expense	-	-	-	11,171,684	11,171,684
Dividends	-	(522,870)	-	(22,095,272)	(22,618,142)
Balance at 31 December 2007	8,501	1,065,568,629	-	-	1,065,577,130

The fair value reserve includes the cumulative net change in the fair value of available for sale investments (excluding any change attributable to foreign exchange) until the investment is derecognised, net of attributable taxation

Capital management

The Company defines capital as total shareholders' equity, excluding the fair value reserve. The Company's capital resource policy is to maintain a strong capital base. It seeks to maintain at all times a prudent relationship between total capital and the varied risks of its business. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

Dividends

For the period ended 31 December 2007 a total dividend of £22,618,142 was declared and paid, being £0.027 per share (period ended 27 September 2007: £nil). Subsequent to period end a dividend of £10,831,125 was declared on 31 March 2008, being £0.013 per share, of which £119,023 related to the period ended 31 December 2007.

13 Segmental analysis

The Company operates in one business segment being the raising and provision of funding and one geographical segment, United Kingdom.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

14 Analysis of financial assets and financial liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis. There are no financial liabilities at 31 December 2007 (27 September 2007 £nil).

As at 31 December 2007.	Loans and receivables	Financial assets at amortised cost	Total
Assets	£	£	£
Amounts owed by group undertakings	1,069,085,143	-	1,069,085,143
Interest receivable on loans to group undertakings	1,373,420	-	1,373,420
Cash and cash equivalents	-	1,461	1,461
Total financial assets	<u>1,070,458,563</u>	<u>1,461</u>	<u>1,070,460,024</u>
Total non-financial assets			<u>2,367</u>
Total assets			<u>1,070,462,391</u>

As at 27 September 2007:	Loans and receivables	Financial assets at amortised cost	Total
Assets	£	£	£
Amounts owed by group undertakings	1,080,756,273	-	1,080,756,273
Accrued interest on loans to group undertakings	3,905,134	-	3,905,134
Cash and cash equivalents	-	593	593
Total financial assets	<u>1,084,661,407</u>	<u>593</u>	<u>1,084,662,000</u>
Total non-financial assets			<u>-</u>
Total assets			<u>1,084,662,000</u>

15 Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments, credit risk, liquidity risk and market risk. Market risk includes foreign exchange and interest rate 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.

The Company participates in transactions to which other HSBC group companies are also party. The HSBC business in which these companies reside (the "Business") has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

15 Risk management (continued)

each transaction from the Business' 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 Business. There were no changes in the Company's approach to risk management during the period.

Credit risk management

Credit risk is the risk that financial loss arises from the failure of a counterparty to meet its obligations under a contract, and arises principally from amounts owed by group undertakings.

The Business manages credit risk for this entity as described above for risks generally.

The Company's exposure to credit risk is minimised because amounts receivable from fellow group undertakings form all of the Company's financial assets. Such group undertakings 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. The Company considers the amounts due to be fully recoverable.

There has been no significant change in the credit quality of financial assets during the period.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial 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 parent entities. Interest is calculated with reference to LIBOR.

The Business manages liquidity risk for this entity as described above for risks generally.

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial investments. The company is not exposed to foreign exchange rate risk.

Interest on the amounts owed by group undertakings is receivable at both fixed and floating rates with reference to 3 month LIBOR. Amounts with group undertakings have a maturity of less than one year. Management keep the interest rate exposure under review and, where deemed appropriate, will eliminate this wholly or partly through interest rate swaps.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

15 Risk management (continued)

Sensitivity analysis interest rate risk

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis for 27 September 2007.

	Profit or loss	
	100 bps increase	100 bps decrease
As at 31 December 2007:	£	£
Financial assets		
Loans and receivables	502,799	(502,799)
Total increase / (decrease)	502,799	(502,799)

	Profit or loss	
	100 bps increase	100 bps decrease
As at 27 September 2007:	£	£
Financial assets		
Loans and receivables	584,075	(584,075)
Total increase / (decrease)	584,075	(584,075)

16 Fair value of financial assets and liabilities

For all financial instruments their fair value is equal to their carrying value in the balance sheet at reporting date.

Short-term receivables and payables are excluded from these disclosures because the carrying amount is a reasonable approximation of fair value.

The methods used to determine fair values for financial instruments for the purpose of measurement and disclosure are set out in Note 2. All financial instruments measured at fair value are valued using quoted market prices or valuation techniques based on assumptions that are supported by observable market data.

17 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, its immediate parent company, is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE PERIOD 28 SEPTEMBER 2007 TO 31 DECEMBER 2007 (continued)

17 Related party transactions (continued)

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 not otherwise disclosed elsewhere in the financial statements are as follows

Parent

At 31 December 2007 £1,100,000 (27 September 2007 £826,100,000) of "B" Preference shares were owned by the parent company. Dividends paid during the period were £10,864,921 (period to 27 September 2007: £nil)

Fellow subsidiary

At 31 December 2007 £825,000,000 (27 September 2007 £nil) of "B" Preference shares were owned by a fellow subsidiary. Dividends paid during the period were £11,753,223 (period to 27 September 2007 £nil)

18 Contingent liabilities

There were no contingent liabilities at 31 December 2007 (27 September 2007 £nil)

19 Subsequent events

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

20. Accounting estimates and judgements

The results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies used in the preparation of the financial statements are as described in detail in Note 2.

The fair value of debt securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Cross currency swaps are fair valued to period end market rates.

Where market prices are not available a discounted cash flow technique is used. Estimated 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.